Express Scripts CEO's Take on the Drug Market

By Timothy W. Martin

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ST. LOUIS— George Paz says his job is "to be the guy that creates change."

The chief executive of [Express Scripts Holding](http://quotes.wsj.com/ESRX) Inc. [ESRX +0.06%](http://quotes.wsj.com/ESRX) [**ESRX**](http://quotes.wsj.com/ESRX) **in** Your Value Your Change Short position seemed to live up to that job description last year, when he pulled the trigger on the pharmacy benefit manager's $29.1 billion purchase of its biggest rival, Medco Health Solutions Inc. The combined company—which determines for big insurers and employers which medications are covered and where members can pick up their drugs—controls nearly a third of U.S. prescription drug sales.

Mr. Paz also allowed a contract to expire with [Walgreen](http://quotes.wsj.com/WAG) Co. [WAG +0.34%**WAG**](http://quotes.wsj.com/WAG) **in** Your Value Your Change Short position , the nation's largest drugstore, after the two sides failed to reach an agreement over reimbursement rates for dispensing prescriptions. Since January, millions of Express Scripts members who had used Walgreen have had to get their prescriptions filled elsewhere.

Mr. Paz, 56, recently sat down to discuss integrating Medco and his views on a potential Walgreen resolution. Edited excerpts:

WSJ: How has the integration with Medco gone so far?

Mr. Paz: [Medco] had a different culture with respect to spending money. I believe health care demands that we be as frugal as possible and pay money for things that matter. We're pretty frugal. Everybody has the same size offices. Everybody has the same size cube. There are no perks.

We've done a lot of deals over our history. To make a deal work, it really is about integrating cultures, although you have to get the best and brightest of both systems, you also have to let your culture evolve as well.

WSJ: How might the company's size help drive down health-care costs for individuals?

Mr. Paz: Medicare and Medicaid costs are skyrocketing. The cost of compliance with some pretty tough rules has become very costly. If I'm small, I have to spend the same amount of money to comply with Medicare, whether I'm 10 members or if I'm 10 million.

By creating size and scale, I can spread those covers over more and more people, and therefore lower the costs per person.

WSJ: How does the merger help position Express Scripts, as the industry evolves beyond processing prescription drugs claims?

Mr. Paz: We should be able to significantly improve health-care outcomes. The government is needing that. When you look at ACOs [accountable care organizations] and look at what the Obama administration is talking about, in trying to improve quality, that's exactly what Express Scripts does.

WSJ: How so?

Mr. Paz: The beauty of this deal is bringing a clinical expertise. Medco had developed therapeutic resource centers, where they got their pharmacist to have specialties in things like diabetes, heart problems and asthma. Express Scripts took a different approach. We tried to understand why people do what they do with behavioral economics, which is: What drives human behaviors? What drives people to do what they did? By combining those two pieces, we get that much stronger.

WSJ: Talk about the role pharmacists should play in health care.

Mr. Paz: I said one time that it shouldn't matter who counts to 30 for filling up retail prescriptions, and I caught a lot of grief for that, and probably rightfully so. But that wasn't the point. The point is that putting pills in a bottle doesn't change health outcomes. It doesn't matter whether you get your pills at Walgreen or CVS or Kroger. The reality is: What happens with that process? Who is taking care of that patient? It's not counting pills and sticking them in bottles. That doesn't add any value.

WSJ: How does Express Scripts use its pharmacists?

Mr. Paz: I've taken those pharmacists and asked them to reach out to doctors. Doctors still misprescribe very often. They leave gaps with care. People with asthma, they don't take their inhalers, they wait until they're sick, and by then, it's too late. Now we're already running up the bills and going to emergency rooms. We're using our pharmacist to do the things they were educated to do, not to count pills. That's not where the value is.

WSJ: What were the biggest disagreements with Walgreen?

Mr. Paz: I should be only paying for things that matter. I shouldn't be paying for things that don't matter. And, if Walgreen wants a premium, and they're not doing anything different, why should I pay them more?

One of the bigger issues was the way Walgreen defined generic drugs. That would have been a billion-dollar effect on my book of business. That would've been a huge windfall back to Walgreen that doesn't exist in any of my other [pharmacy] contracts.

[Regarding paying a premium, a Walgreen spokesman said "virtually all other payers see that we are in line with the market and have us in their networks." On generics, the spokesman said that "Express Scripts insisted on being able to unilaterally define contract terms, including what does and does not constitute a brand and generic drug."]

WSJ: What would it take to get a Walgreen deal done?

Mr. Paz: I would love to do a deal with Walgreen. If they're willing to come to the table, and offer rates in line with everybody else, then I'm happy to entertain those conversations.

["We are working with nearly all other PBMs, health plans and other payers who recognize our competitive rates," the Walgreen spokesman said.]

WSJ: How has your job changed since the merger?

Mr. Paz: The quality of our integration will be judged, not by the ultimate costs in hitting our targets, but instead by the level of service we give to our clients throughout the process. That's kind of my 8-to-5 job. My 5-to-8 job is what's the next move? Where else in health care do we see inefficiencies, that we see a splintered system with tremendous cost overruns?

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