

entities, we analyzed data from several sources. We examined data from the U.S. Census Bureau's 1997 Economic Census (Table 4 on Retail Trade—Subject Series), which provides data on the number of pharmacies and drug stores by level of revenue. To identify small pharmacies and drug stores, we looked at firms with less than \$5 million in revenues. Although SBA's revenue standard for small pharmacies and drug stores was increased to \$6 million in 2002 to account for inflation, we use \$5 million as the standard in our analysis because we are working with 1997 data so an inflation adjustment is not needed. According to the Census Bureau data, there were a total of 20,815 business firms that were pharmacies and drug stores that operated for the entire year in 1997. Those 20,815 firms operated 41,228 establishments (some entities selling prescription drug products are not included in this count, including supermarkets and mass merchants). Of the total firms, 20,126 (or 96.7 percent) were firms that had sales of less than \$5 million, and these same firms operated 21,226 establishments or 51.5 percent of the pharmacies and drug store class of trade in the Census Bureau data.

In addition to traditional pharmacies and drug stores, prescription drugs are sold through supermarkets and mass merchants. The National Association of Chain Drug Stores (NACDS) offers data that include these outlets, so we examined this data source as well. The NACDS analyzes industry data from a variety of sources, including IMS Health, the National Council of Prescription Drug Programs, and American Business Information, and reports industry statistics on their Web site (<http://www.nacds.org>). For 1997, NACDS reports a total of 51,170 community retail pharmacy outlets, of which 20,844 were independent and 19,119 were chain drug stores (for a total of 39,963)—a number very similar to the Census Bureau's 1997 count of 41,228 pharmacy and drug store establishments. We assume that there is a great deal of overlap between the 21,226 establishments that the Census Bureau identifies as those with sales of less than \$5 million and the NACDS report of 20,844 independent pharmacies in 1997. For 2002, NACDS reports 55,200 community retail pharmacy outlets, of which 19,749 are identified as independent drug stores.

In addition to the number of outlets, we examined revenues. The Census Bureau data indicate that, in 1997, total pharmacy and drug store sales for firms operating the entire year were \$97.47 billion, of which firms with \$5 million

or less in sales accounted for 25.5 percent (\$24.82 billion). However, these sales include more than just prescription drugs, as most pharmacies and drug stores sell other products. Since firms may differ in the proportion of revenues obtained from prescription drugs, we think that the analysis should focus, to the extent possible, on revenues from prescription drugs, rather than the broader set of sales occurring through pharmacies and drug stores, so we also examined IMS' National Prescription Audit data obtained by our Office of the Actuary (OACT). It is important to note that focusing only on prescription drug sales, rather than all sales through this class of trade, yields an estimated impact that is larger than the actual impact on total sales.

From the data obtained by OACT, it is possible to estimate the portion of sales occurring through independent and chain pharmacies. The data do not permit analysis by firm size. However, these data are specific to prescription drug sales for a more recent time period. Furthermore, we believe that there is a great deal of overlap between the firms identified as independent pharmacies and the small pharmacy and drug store firms identified in the Census data. Consequently, we think that the data from the Prescription Drug Audit are an appropriate source for analysis.

For 1997, those data indicate that 29.2 percent of sales were through independent drug stores—a figure slightly higher than the share (25.5 percent) indicated by the Census data. For 2002, the data indicate that 23.5 percent of sales were through independent pharmacies. For purposes of calculating the share of revenues from prescription drug sales through small firms, we think it is reasonable to use the more recent estimate of prescription drug sales through independent pharmacies obtained from analysis of the Prescription Drug Audit for 2002.

The Census Bureau data contain information on supermarkets (NAICS code 445110) and mass merchants (discount or mass merchandising department stores—NAICS code 4521102, and warehouse clubs and superstores—NAICS code 45291). We assume that for both supermarkets and the mass merchants, prescription drug sales comprise a small share of sales, and consequently have not included them in this small business analysis. This assumption is supported by data from the Census Bureau, Prescription Drug Audit, and NACDS Web site. The 1997 Census data indicate that total supermarket product sales were \$351.4 billion. Analysis of 1997 data from the Prescription Drug Audit indicates that

\$8.8 billion in prescription drug sales occurred through food stores, or 2.5 percent of total product sales. Similarly, the 1997 Census data indicate that total product sales for the two categories of mass merchants, as defined by NAICS, were \$208 billion. Since data from the Prescription Drug Audit include mass merchants with other chain stores, we used prescription drug sales data from the NACDS Web site. The NACDS Web site indicates that prescription drug sales through the mass merchant category were \$9.6 billion in 1997, or 4.6 percent of total product sales. Furthermore, the fact that businesses are identified as supermarkets and mass merchandisers seems to indicate that prescription drugs are not their major line of trade.

3. Average Estimated Economic Impact on Small Pharmacies

As indicated previously, HHS uses as its measure of significant economic impact on a substantial number of small entities a change in revenues of more than 3 to 5 percent. To develop an estimate of the impact of the program on prescription drug retail sales associated with small pharmacies and drug stores, we take our national estimates in Table 7 and make assumptions about the percent of total retail prescription drug sales through small pharmacies. In addition, we make assumptions about the distribution across large and small pharmacies and drug stores of prescription drug sales to endorsed discount card program enrollees.

Assuming that 23.5 percent of total retail pharmacy sales are through small pharmacies (based on analysis of data from IMS' Prescription Drug Audit on the share of total retail sales through independent pharmacies in 2002), the share of total national prescription drug sales through small pharmacies and drug stores will be \$36.1 billion in the last nine months of 2004, \$53.7 billion in 2005, and \$22.4 billion in the first four and one-half months of 2006. If we assume that the population most likely to enroll in the Medicare prescription drug discount card program splits its purchases between large and small pharmacies in the same proportion as the total population, then the estimated sales involved in the Medicare prescription drug discount card program through small pharmacies and drug stores will be \$2.8 billion in the last nine months of 2004, \$4.2 billion in 2005, and \$0.9 billion in the first four and one-half months of 2006, accounting for less than 8 percent of prescription drug sales through small pharmacies. Consequently, the portion of the estimated beneficiary savings