

A large decorative graphic on the left side of the page, consisting of three overlapping chevrons pointing to the right. The top chevron is yellow, the middle one is teal, and the bottom one is a darker teal. They are set against a solid teal background.

Executive Summary

Integrated Delivery Networks (IDNs) have been built with the intention to achieve efficiencies of scale, reduce duplication of services, and gain market share, while reducing costs and improving quality and balancing on razor-thin margins. A key area for scrutiny and opportunity is the pharmacy, because medications—the primary intervention for hospitalized patients—are central drivers of healthcare costs and quality. Medication use decisions directly impact both patient care and profitability.

Visante, Inc and Pharmacy Stars, LLC created the Business of Pharmacy Forum, a gathering of health system pharmacy leaders from large IDNs. Collectively, the drug spend among the participants was estimated at \$12 billion, with individual annual budgets as high as \$1 billion. These substantial pharmacy operations have a profound influence on the profitability of the IDN. The objective of the meeting was to explore how pharmacy leaders could leverage their expertise, provide leadership and insights to their IDNs, and advance the profession of pharmacy to help it be perceived and run as “a business within a business,” --a highly complex undertaking. Three specific areas were explored: ambulatory integrated services, financial/risk management, and Consolidated Services Centers.

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Pharmacy: More than a Cost Center

Pharmacy's role is to optimize medication utilization to produce better patient health outcomes and better financial outcomes. Care delivery from a highly reliable, high-performing, high-value pharmacy program requires that pharmacy optimize the medication use process across the whole continuum of care. This presents significant challenges as sites of care become more distributed, and new units are acquired through mergers and acquisitions. Importantly, new medication management strategies and pharmacy services can contribute significant margin to the IDN.

As such, the pharmacy program in a health system or IDN is really two business lines, which require different perspectives about the management of the products and services. Since the introduction of DRGs and other forms of capitated payment systems, pharmaceuticals used in the Inpatient setting have been and still are today managed as an expense line, which is appropriate. However, the fastest growing line item in almost all health systems and IDNs are pharmaceuticals used on an outpatient basis. Whether provided through outpatient clinics, retail, mail order, specialty, infusion or homecare pharmacies, drugs used in an outpatient setting are a margin-based business, which has the potential to provide significant dollars to the organization's actual net revenue. Thus, unless these two related but discrete business lines within the health system / IDN pharmacy are recognized for their differences and managed accordingly, typical cost reduction efforts will adversely affect the potential and actual bottom line of the organization.

Multi-Million-Dollar Business Units

IDN Pharmacies have budgets comparable to those of some mid-sized corporations, with some as high as \$1 billion. Today's pharmacy must function as a "business within a business," using the same financial tools and expertise that keep corporations on a profitable path.

Most IDN pharmacies have some business management tools, for example, most have three-year plans that include three key initiatives: quality and safety, regulatory compliance, and financial objectives, and they produce Annual Reports. However, very few share those Annual Reports with the C-suite management. Given its expanding role, pharmacy requires a stronger voice in the IDN's strategic decision-making. Successful IDNs have looked to Pharmacy leadership for insight into decisions that have far-reaching effects on the entire enterprise.

New Responsibilities for Pharmacy

As IDN pharmacists take on medication management roles for patients in different care settings, new services are being delivered by pharmacists, and new opportunities for revenue-generating services or cost-saving activities are available to the pharmacy.

Ambulatory Pharmacy Integrated Strategy

The opportunity to meet patient demands for convenience and quality care while also contributing to organizational margin are factors driving interest in integrated ambulatory pharmacy programs. An integrated, cohesive strategy for ambulatory pharmacy services across all patient care sites should be developed for the health system.

Executive leadership discussions should include pharmacy to assess the operational, clinical and financial impact of medications and services in an ambulatory care program. Pharmacy must be involved in designing and implementing a cohesive strategy across a continuum of services for ambulatory care, including population health, employee health, retail, mail order, and specialty pharmacies, pharmacy benefit management (PBM) programs, and pharmacist clinical practice models.

Many of these services can be revenue-generating, for example, generating profit through retail/specialty operations, leveraging telehealth for adherence, and help with Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) and Merit Based Incentive Payments System (MIPS) for physician offices. Ambulatory care pharmacists also play important roles in transitions of care, tracking medication history, performing medication reconciliation, and overseeing discharge prescription services may improve patient adherence, satisfaction and outcomes, reduce re-admissions, and produce savings by meeting contracted requirements. All of these services can have a positive impact on the bottom line.

Pharmacy Risk/Financial Management

There is a new value equation for pharmacy today. No longer is pharmacy simply a “cost center,” dispensing drugs. Instead, pharmacy today is a multimillion-dollar business within the larger business of the IDN, delivering sophisticated services that can drive system profitability. Pharmacy, the C-suite, and financial departments need shared goals with shared governance in regard to transparency and functionality in financial management in order to maximize the enhanced revenue opportunities available to pharmacy today.

Like any large corporate entity, IDN pharmacies need access to key data to operate their multi-million dollar businesses successfully. Pharmacy leaders must manage cost and margin. Operating as a business requires some new roles in pharmacy management, such as personnel with business acumen and data analytics capabilities who can play an active role in contracting, finance, and in the C-suite to maximize the revenue-generating opportunities available to today’s pharmacies. Successful IDN pharmacies have implemented a Chief Financial Officer for their business of pharmacy. This is a business person who interfaces

The Value of Pharmacy Equation

Better care + Better health + Lower overall cost + Enhanced revenue

VALUE =

—————
Cost of medication + Cost of medication optimization service

with finance and creates a formal connection to Revenue Cycle. Additional best practice infrastructure includes a Chief Data Analytics Officer and Analytics Team who produce actionable analytics reports.

Pharmacy experts should also be embedded in the contracting process to maximize revenue opportunities, in the prior authorization program to support specialty/retail/infusion pharmacy programs and in revenue integrity and formulary management to enhance available reimbursement and avoid write-offs.

Consolidated Services Centers

Pharmacy is one of the most regulated IDN functions, with accountability to more than 55 external regulatory or accrediting entities. In order to create a highly reliable, high-performing, high-value pharmacy program, pharmacies must gain accreditation and demonstrate compliance with myriad agencies and programs. Consolidation of operational pharmacy functions and related medication management services in Consolidated Pharmacy Service Centers (CSC) is a key strategy to meet accreditation and compliance challenges and minimize risk, while leveraging new opportunities for cost reduction and revenue-generating services.

CSCs are a more efficient business model for IDN pharmacies. CSCs provide system-wide visibility and control of medication, including control of non-sterile and sterile compounding, controlled substances, and drug manufacturing services. CSCs can enhance efficiency and quality through automation and provide substantial cost savings through streamlined management of pharmacy and medical/surgical supply chains, inventory management and standardization.

Pharmacy's willingness to test new services in a CSC is balanced against organizational hesitation to venture into service lines that invite greater scrutiny from the FDA (i.e. 503B) or DEA (distributing controlled substances). However, new services also present an opportunity to reduce existing costs and/

or expand revenue generation. Building a successful CSC strategy requires a combination of intelligence, expertise, and skills that are not pharmacy-centric. There is a critical role for a Chief Strategy Officer or Innovation Officer to drive and support the new types of ventures health systems are exploring. All stakeholders must participate in the discussion, including manufacturing, insurance, regulatory, liability, and supply chain stakeholders.

Summary

These are disruptive times in healthcare, and this is a window of opportunity that IDNs must exploit, because pharmacy plays a role in outcomes at almost every point in the care continuum. IDN pharmacies face significant common challenges, and there is a strong advocacy for collaboration among the IDN pharmacies to share best practices, even if their systems are in competition. The Business of Pharmacy Forum is a community that enables pharmacy leaders to share best practices and solve real problems facing IDN pharmacies today.