



# The Business of Pharmacy: Are You Maximizing Yours?

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NYSCHP Annual Assembly

April 2021

- › CEO & Board Chair for Visante Inc.



# Objectives

- › Discuss the opportunity to “think differently” and drive transformational change in the pharmacy business
- › Examine the applicability of a new business paradigm “the business within a business” for pharmacy
- › Review options and strategies for programs that reduce expense and improve quality.
- › Explore methods to optimize current and identify new pharmacy revenue sources.
- › Highlight the pharmacy “value proposition”

# Hospitals in financial distress

TECH

**U.S. hospitals are losing millions of dollars per day in the midst of the Covid-19 pandemic — and recovery may take years**

PUBLISHED TUE, MAY 5 2020-6:02 PM EDT | UPDATED TUE, MAY 5 2020-7:15 PM EDT

**HFMA SURVEY: TWO-THIRDS OF HOSPITAL EXECS PREDICT FULL YEAR REVENUES SLIDE 15% BECAUSE OF PANDEMIC**

BY JACK O'BRIEN | MAY 21, 2020

*Hospitals Knew How to Make Money. Then Coronavirus Happened.*

Surgeries are canceled. Business models are shifting. Some of the hardest-hit hospitals may close, leaving patients with fewer options for care.

**Data Shows U.S. Hospitals Are Losing \$1.4B in Daily Revenue, Due to Patient Volume Decline**

**Hospital ED Visits in California, Five Other States Bounce Back but Remain Well Below Pre-Pandemic Levels**



# Every Problem is an Opportunity in Disguise

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John Adams

**As we know, there are known knowns; these are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know.**

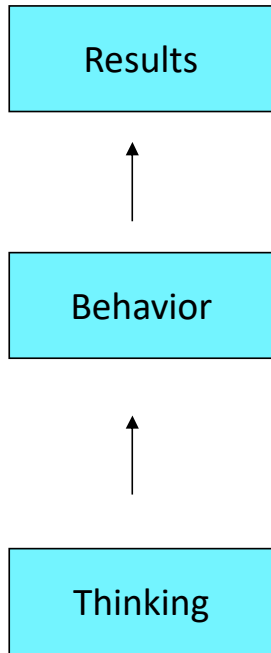
**Donald Rumsfeld**

Value in healthcare can be defined as the product of the quality of care plus the patient experience at a given cost.

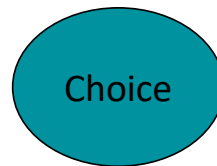
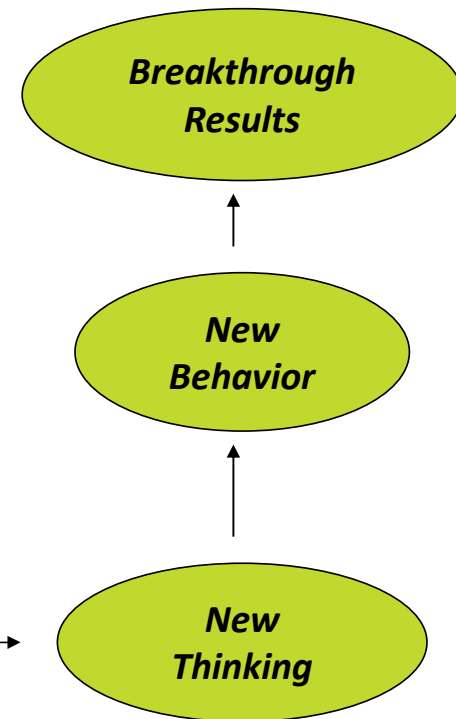
$$V = \frac{Q + S}{C}$$

# Will the thinking that exists today in the area where you want to drive a new level of results serve you in the future?

Current



Future





# Major Trends in Healthcare

- › Escalating overall demand
- › COVID specific challenges
- › Increasing cost
- › Decreasing reimbursement
- › Improved quality and safety imperatives



“The Perfect Storm”

# Business Equivalent

## Bear Market

- › A prolonged period in which investment prices fall accompanied by widespread pessimism. Usually occurs when the economy is in a recession and unemployment is high or when inflation is rising



## Warren Buffet Bear Market Strategy

- › Warren Buffet believes in *long term value investing* because he understands the power of exponential growth.
- › Companies with sustainable profits can pay and grow their dividends.
- › Regards down markets as an opportunity to buy good companies at reasonable prices.
- › Instead of selling or holding in a bear market, Buffet uses the opportunity to invest to drive more long term value



# The Business of Pharmacy is a “Value Buy”

- Quality = Medications are the primary treatment modality for over 85% of patients in any hospital or health system
- Safety = Medications are the number one source of medical error
- Revenue = Medications represent a primary source of revenue for all hospitals and health systems and in the outpatient area represent one of the only “dollar for dollar” revenue opportunities in healthcare
- Expense = Medications are the fastest rising healthcare expense
- Compliance = Major element of virtually all regulatory bodies

Given the potential impact that pharmacy can have on the larger business of healthcare, now is a perfect time to invest in the business of pharmacy to drive long term value.

# Optimizing Medication Use

## Maximize Outcomes/Minimize Risk

### Medications Are Important



Medications are the primary treatment modality for **80% of patients**

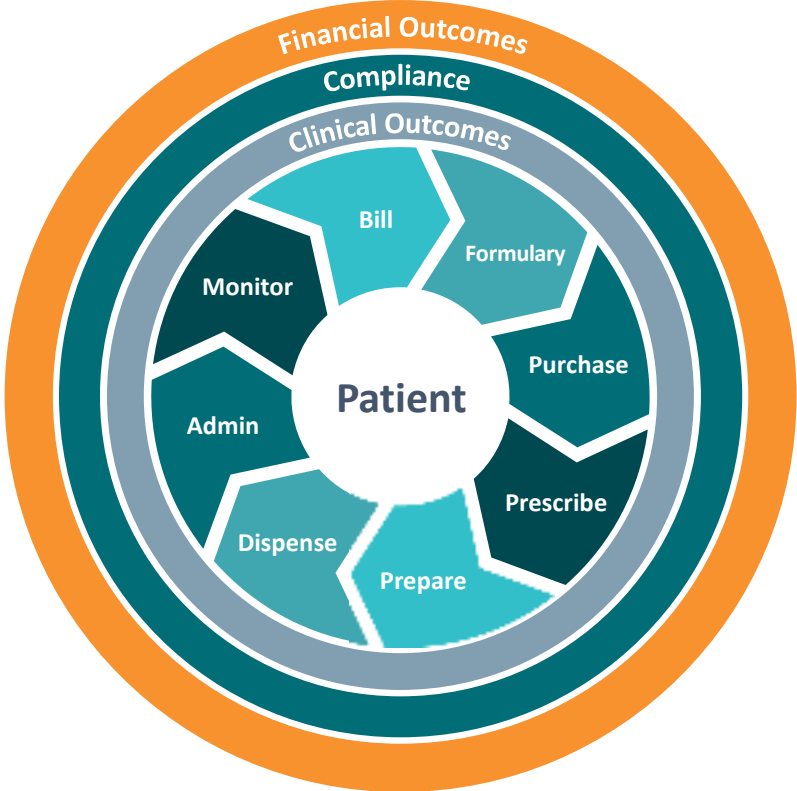


Medications are the **fastest growing component of healthcare costs**

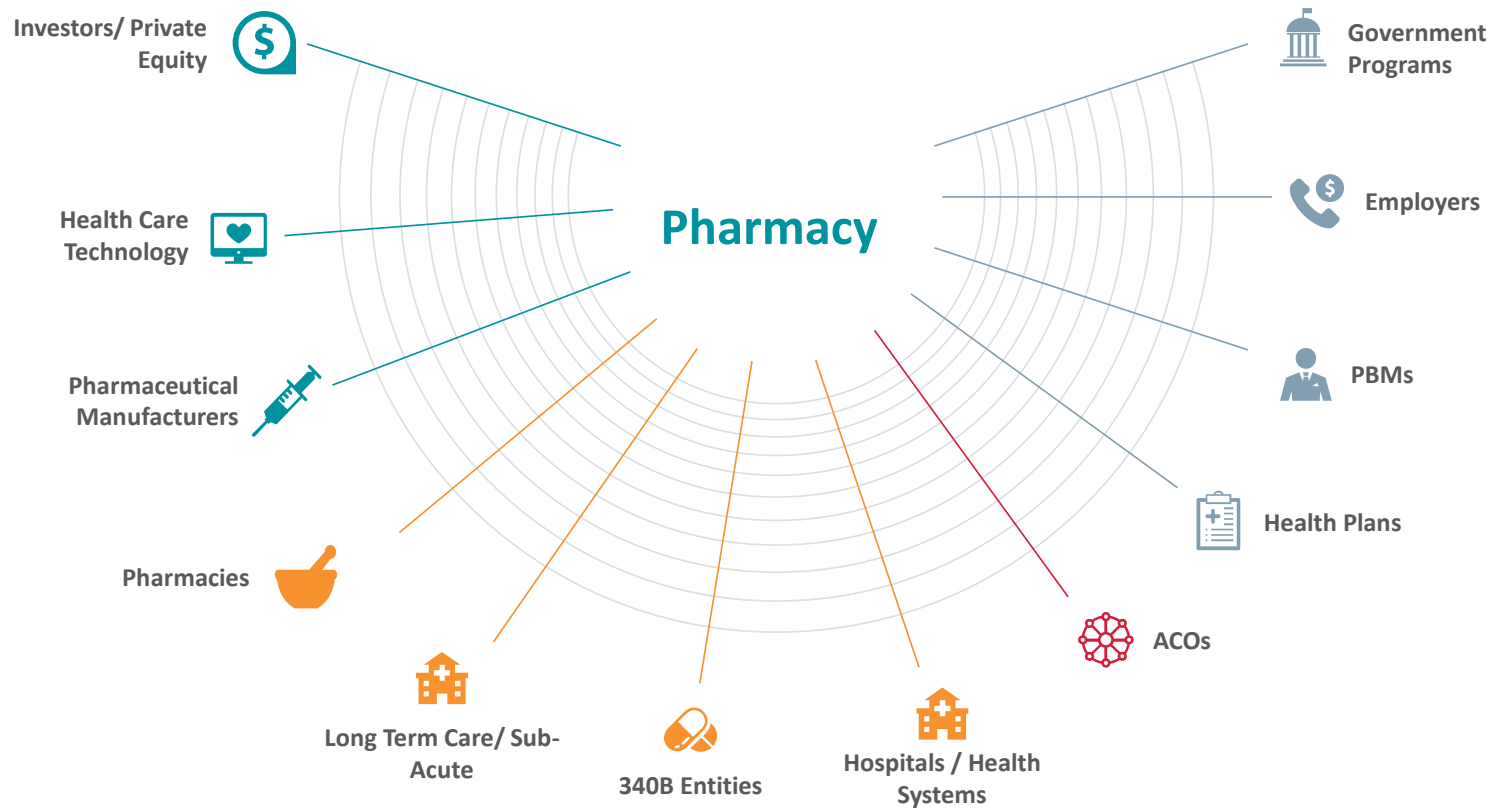


**Medication errors** are the primary type of medical errors

### But Med Use Processes Are Complex



# The Business of Pharmacy Works with All Stakeholders



# The Business of Pharmacy Extends Across the Entire Continuum of Care.



# Business Within a Business

- › Running internal service functions in an entrepreneurial fashion
- › Aligning the interests of everyone in the pharmacy to create “ownership” for the business
- › Respecting clients rights as internal customers
- › Organizing like an “arms length business”
  - Leadership structure CEO, COO, CFO
  - Clear understanding of the services provided by the business
  - Diversity of types of specialists
  - Coordination
  - Internal account liaisons to facilitate effective relationships with internal customers



# Value Opportunities

Are you **confident** you are buying drugs at the **best possible advantage**?

Are **sound business principles and practices** being applied to all pharmacy operations? (i.e., Is the pharmacy business being approached as the large business enterprise it has become?)

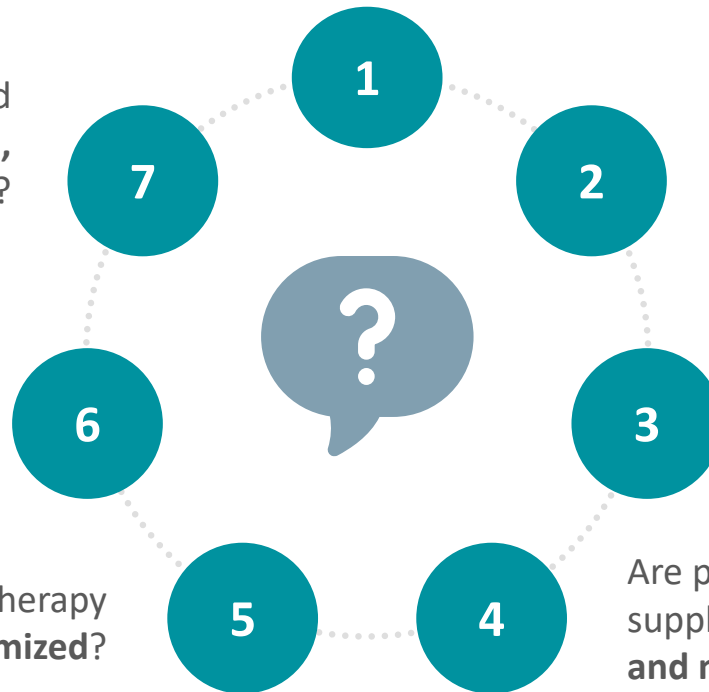
Are patient billing and revenue processes for pharmacy **sound, standardized, and optimized**?

Are pharmacy resources, including drugs, supplies and manpower, **properly controlled and managed**?

Are medication therapy **outcomes optimized**?

Are significant entrepreneurial and system-level opportunities **identified, explored, and optimized**?

Are patient outcomes and medication safety concerns **properly balanced** with financial considerations in the pharmacy department.



# Realizing pharmacy's full value – A time for action!



## 01 | Revenue enhancement

- » Revenue cycle improvement
- » Retail/specialty pharmacy growth
- » Site of care strategies
- » Direct to employer contracting

## 02 | Non-labor cost savings

- » 340B program performance
- » Supply chain opportunities
- » Drug utilization management
- » Insource sterile compounding
- » Employee drug benefit redesign
- » Consolidated services

## 03 | Workforce/labor savings

- » Labor efficiency improvement
- » Technology and remote services

# Revenue enhancement



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# Revenue cycle improvement



Medical and pharmacy benefit opportunities



Enhance collections



Minimize denials and write-offs

# Pharmacy Revenue Cycle

- › Elements for pharmacy support:
  - Charge Data Master
  - J Codes
  - Quantity Bill Calculators
  - Charge transmissions
  - Charge errors
  - LCD/NCD requirements
  - Appeal submissions on rejected claims
  - Drug replacement by PhRMA for rejected claims

# Retail/specialty pharmacy growth



E-Prescribing data analytics to prioritize opportunities



Prior authorization programs



Convenient filling solutions



Align with managed care contracting

# Business within a Business Case Study

## Major Midwestern Academic Med Center

### Situation

Pharmacy had plans to improve contribution to hospital operating margin around retail pharmacy, specialty pharmacy, infusion services and 340B. Plans required ~ \$6M investment and this was proving difficult to convince senior leadership of the value proposition.

### Visante's Approach

- > Visante Pharmacy Assessment & Review of plans
- > Validated and enhanced ROI associated with the plans
- > Plans involved enhanced space for retail/specialty, improved automation, expanded infusion approach, 340B optimization, enhanced discharge Rx capture service in the ambulatory clinics, and enhanced Rx service options for employees

### Results

- > Improved continuity of care for pharmacy outpatients
- > Increased Rx capture
- > Increased patient satisfaction
- > Improved net margin contribution by \$68M significantly exceeding plans
- > Improved pharmacy contribution to hospital EBITDA from 40% to > 70%

# Site of care strategies



Align with managed care contracting



Shift care from medical to pharmacy benefit



Non-hospital infusion suites



Home infusion strategy is a must



## Direct to employer contracting



Pharmacy partnership with health plans and other health systems



LLC strategy to improve cost of goods, expand payer contracts and external business structure

# Non-labor cost savings



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# 340B program performance



Clinic conversion strategy



WAC spend optimization



Contract pharmacy network optimization



Eligibility strategies



Telepharmacy services and referrals

# Pharmacy supply chain opportunities

01

Wholesaler contract  
renegotiations

02

Secondary  
wholesaler strategy

03

Class of trade  
optimization

04

Innovative contracting

05

Low unit of measure  
distribution

06

Innovative therapy and  
biosimilar “stewardship”

# Drug utilization management



Value-based payment models will elevate in importance

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Focus on basic formulary management principles is still necessary

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Must have line of sight on Innovative therapies including gene therapies and biologics

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Med surg and other non-drug supply expense is ripe for pharmacy to help lead

## Insource/Partner approach for sterile compounding



Minimize reliance on outsourced compounders



Opportunity to establish 503A and/or 503B compounding facility



Batch preparation to balance timely availability and preparation efficiency with waste minimization

# Employee drug benefit redesign



Analyze pharmacy benefit spend, program performance, and savings opportunities



Optimize employee specialty prescription capture in owned retail/outpatient pharmacies

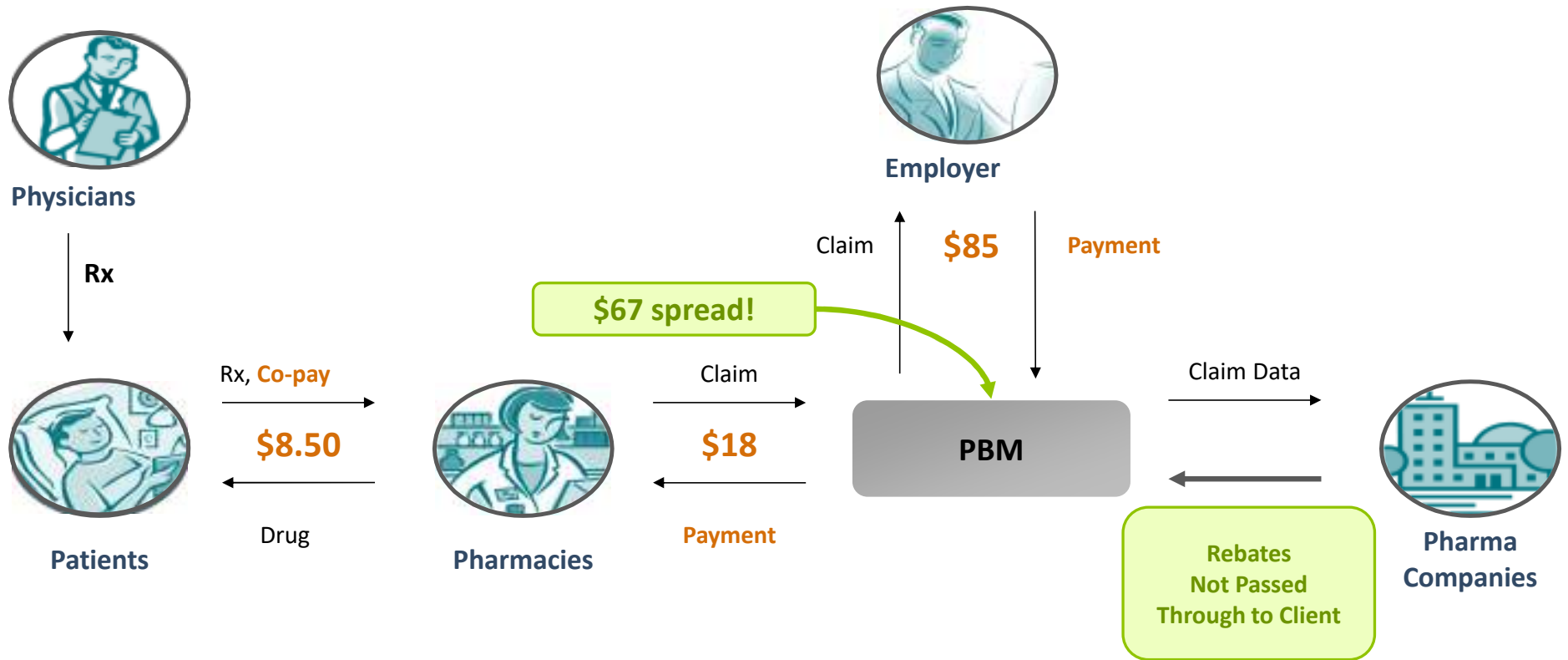


Re-negotiate existing PBM agreements with the employee health plan, leveraging new fully-transparent models



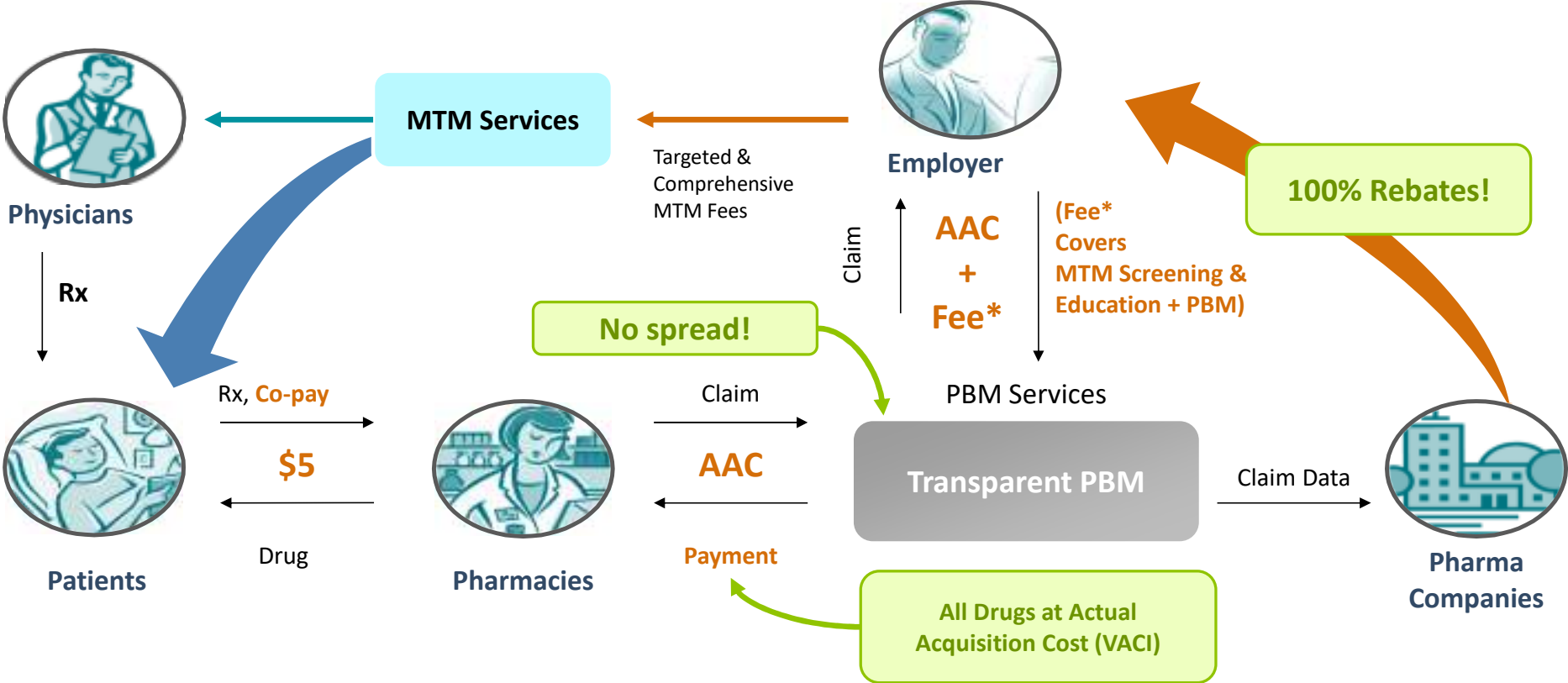
Design, plan and implement strategies to internalize select aspects of PBM services

# Traditional PBM Model





# Transparent PBM Model



\*Fee = Fully disclosed PMPM/PBU fees

# Consolidated services



# Workforce/labor savings



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# Run Your Pharmacy Operations like a Business to Realize Excellent ROI

A pharmacy operation may be equivalent to a mid-size US corporation

1,000 employees

\$500M Annual Drug Spend

Billion Dollar Enterprise



Run internal service functions in an **entrepreneurial** fashion



**Aligning the interests** of everyone in the pharmacy to create “ownership” for the business



**Understanding human capital** investment needs to drive the business

**Organize like an “arms length business”**

Leadership structure  
CEO, COO, CFO

**Clear understanding** of the services provided by the business – no “one size fits all” approach to pharmacy

# Business within a Business Case Study

## Integrated Health Delivery Network

### Situation

IHDN needed to significantly expand pharmacy services to include:

- › Retail/specialty pharmacy programs
- › System formulary and drug utilization management
- › Enhanced clinical pharmacist services

### Approach

- › Develop innovative financial and operational model
- › Create external partner relationship as an at-risk financial strategy with \$12 million guarantee over 36 months
  - All dollars “real” and quantified on the operating statements of balance sheet
  - No ‘cost avoidance’ dollars included
- › Leveraged the business expertise of partner
- › Linked inpatient and outpatient care

### Results

- › Reduced readmissions in target populations by 15-17%
- › Increased patient satisfaction by 12%, due primarily to improvements in discharge processes
- › A \$34 million net operating margin gain in 36 months

# Business within a Business Case Study

## Western Academic Medical Center

### Situation

Pharmacy was struggling operationally and financially and senior leadership needed more from the service line.

### Visante's Approach

- › Visante Pharmacy Assessment & Review
- › Created and supported plan of action around 11 SOWs
  - Leadership structure and recruitment
  - Central service center
  - 340B optimization
  - Specialty pharmacy
  - Revenue cycle
  - Business services
  - Infusion services
  - Investigational drug services

### Results

- › Innovative new org and leadership structure
- › Greatly expanded scope of pharmacy services
- › \$80M net margin contribution

## Summary



Hospitals & Health Systems face **major challenges** in patient access, quality of care and cost of care



The pace of change for Hospitals & Health Systems is **faster than ever before and accelerating**



The Business of Pharmacy is an **undervalued and underutilized** resource that is capable of addressing many of the challenges



We need to think about our Business of Pharmacy differently and **run it more like a business** within the larger business of healthcare

The opportunities for pharmacy are better than ever before

**Thank You!**

**Discussion/Q&A**

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