

Maximizing your profits with pharmacy control strategies

Bob Phelan¹ and Maggy Pons²

¹Integrated Community Oncology Network, Jacksonville, FL, and ²Advanced Medical Specialties, Miami, FL

Pharmacy managers face ever increasing challenges in obtaining reimbursement and maximizing profits. Several strategies can help managers to achieve these goals. Business controls include reports such as reverse drug audits to verify correct billing and the calculation of drug costs as a percentage of gross drug revenue. Operational controls may include automated dispensing machines, staff auditors, and various techniques to manage inventory. Clinical controls might include manual tracking of drugs dispensed. Pricing controls include strategic use of utilization reports, weekly tracking of drug prices, listing of preferred vendors, and pursuit and tracking of rebates. Together, these strategies can maximize purchasing power and pharmaceutical profits.

As government agencies continue to modify how they pay for intravenous (IV) medications (both chemotherapy and non-chemotherapy drugs) administered in your office, it is increasingly important to implement effective pharmacy controls. In the past, when a vial of product was wasted, it may have taken the use of four or five vials to replace the lost cost of this medicine. In today's environment, with reimbursement based on average selling price plus 6% or average wholesale price minus 15%, it may take 30 or more vials to recoup the loss of a broken or wasted vial.

If you have a pharmacy and are mixing IV medications in your office, **what can you do to make**

sure that you have captured all of your revenue and maximized your profit? This article addresses this issue from several viewpoints: business, operational, clinical, and pricing.

Business controls

Several tasks can be performed at the business office to monitor the activity of the pharmacy. Our office manager and controller can run various reports so that we do not need to go to the pharmacy or the practice to obtain the relevant data.

The first report we review is the reverse drug audit. We run reports on about 10 different high-price drugs to determine whether they have been billed correctly. An example is Procrit (epoetin alfa), which is billed in 1,000-unit increments. At the end of each month, we run a report that lists the patients' names and the numbers of Procrit units billed. We then look for patients who have an "unusual" number of units billed, such as 4 units of Procrit. We check whether this billing corresponds with the dose ordered. Patients with renal disease can receive these unusual doses, but we have discovered that many of these doses are the result of keystroke errors. In the Procrit example, the patient may have been charged for 4 units when he or she should have been billed for 40.

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Correspondence to: Bob Phelan, 9143 Philips Highway, Suite 560, Jacksonville, FL 32256; telephone: 904-363-7442; e-mail: bob.phelan@foa.cc; Maggy Pons, 8940 N. Kendall Drive, Suite 300 E, Miami, FL 33176; telephone: 305-728-1901; e-mail: maggyp@ohgsf.com.

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KEY POINTS

Pharmacy managers must be increasingly vigilant to capture revenues and maximize profits.

Several strategies for business practices, operational procedures, clinical tracking, and pricing analyses can help achieve these goals.

Drug audits help verify the accuracy of billing.

Automated dispensing and manual tracking systems ensure that all medications used are properly recorded and billed.

Inventory must be kept at an optimal level to maintain costs while ensuring the ability to treat patients.

Effective purchasing decisions depend on accurate analyses of utilization, vendors' pricing, rebates, and market conditions.

Each month, we look at the drug cost as a percentage of gross drug revenue. This number will vary for each practice depending on how you have set your charges. For our practice, this number is approximately 30%, not including any rebates or incentives. If this number is significantly off target, we investigate the reasons for the discrepancy:

- First we examine our inventory counts for both the beginning and end of the month.
- Next we determine the number of units purchased during the last month. The purchase number is adjusted based on the inventory counts to determine the exact number of units used.
- After this, we run another report that tells us how many units were billed to patients during the past month. We compare these numbers, and if we find a large discrepancy, we try to find where the missing charges occurred.

Operational controls

Tracking systems

In our practices, we use a Pyxis machine to achieve operational control. This unit limits access to unauthorized personnel and minimizes the risk that a dose of medication is taken from the pharmacy without capturing the charge. We also print out a ticket with the drugs that were removed from the Pyxis unit. This ticket is attached to the superbill and forwarded to the nursing unit to verify usage and to make sure that the drugs used match the orders and are included on the superbill. During the billing process, the staff member entering the charges double-checks to make sure that no doses were missed.

In one of our practices, we hired an auditor to review each chart before entering the charges. This individual receives all of the charts from the previous day. She reviews each superbill against the charted information to

determine whether any charges have been missed. The savings from this process have more than paid for this staff position.

Inventory management

Inventory turnover is an important factor to consider when managing costs and profits. The amount of inventory you carry can have a significant impact on your bottom line, so your inventory should be managed. Inventory turnovers are easy to define and quantify. From an accounting perspective, inventory turnovers are defined as the number of times on average the inventory is sold during a specific period of time.

However, inventory management is a double-edged sword. You want to keep a large inventory on hand so that you can treat your patients in a timely fashion; small inventories may result in an inability to treat patients, leading to unhappy customers. However, maintaining a large inventory may incur excessive carrying costs (eg, storage, obsolescence, investment, and damage). A helpful phrase to remember while managing your pharmacy inventory is to "order just in time and not just in case." Various financial ratios can be tracked to assist in obtaining a happy medium. Inventory turnover ratio is one such measure.

The par level is an important concept that influences your inventory turnovers. Par level refers to the number of items needed on the shelf at any given time. Par levels can be determined in several ways. The most common way is to calculate par levels based on a defined period of utilization. For example, you can take a monthly utilization period and divide by four to get weekly par levels. Our experience, however, is that weekly levels are too short. We try to keep on hand in our pharmacies about 1.5 weeks' supply of any agent. Par levels will vary among practices depending on physicians' prescribing habits and size of the practice.

Setting inventory par levels is tricky. In our practices, we try to stock 1–2 weeks' worth of pharmaceuticals. A number in this range will produce a highly beneficial turn of about 24–30 for your practice.

Shipping costs are an important issue in purchasing decisions. If your vendor charges for shipping, you should evaluate what you are ordering in relation to delivery costs. If you are ordering generic drugs from a vendor that charges \$20–\$50 for delivery, buying the generic product won't yield any savings.

Rebates may alter how much you can buy. Rebates for pharmaceuticals can be based on several factors, such as breakpoints (dollar amounts) or percentage of market share. These rebates are usually paid quarterly. To maximize rebates, you may need to make single large purchases. These purchases will alter your inventory turns and must be considered when calculating your turns.

Finally, the pharmacy technician, nurse, or whoever is mixing the medications must communicate effectively with the physicians in the office. In oncology, several specialty drugs are used infrequently. The medical staff must discuss upcoming patient needs to make sure that the necessary products are obtained in time.

Clinical controls

A clinical operation that is useful in managing your pharmacy inventory is the strict monitoring of a specific drug. This method is useful when you have a particular medication where vials or units of the medication are consistently missing. In this case, you could use a system common to hospital pharmacies for tracking narcotics: a sign-out sheet. At the beginning of each shift, you record at the top of the page the number of doses you have on hand. Each time a dose is removed, you log in the patient's name, the time the dose was given, the staff member who removed the dose, and the num-

ber of doses remaining. At the end of each shift, the actual count is compared with the count on the sheet. If the numbers do not agree, then a dose was missed, and an investigation is begun to determine who removed a dose without charging for it.

Pricing controls

One way to maximize your pharmaceutical profits is to maximize your purchasing power and your rebates. We accomplish this in our practices by tracking the prices of all of our drugs with the major vendors and by

must set up a spreadsheet that calculates the rebate according to the rebate agreement. To set up the spreadsheet, you must understand the entire agreement, including how dollar goals are calculated. Be aware that vendors may calculate these goals based on actual dollars purchased, wholesale acquisition price, or list price, to name a few. You must also carefully analyze the contract periods and how they relate to your goals.

Most rebates can be easily tracked by setting up a spreadsheet that tracks the number of vials by month times

cess in maximizing your profits. In many cases, specials are offered that allow you to buy drugs at lower prices, or payment terms are offered for new drugs. Be aware of the market and the relationships between the GPOs and pharmaceutical vendors so that you know where to purchase at the best prices.

Once your spreadsheets are set up, enter the data (eg, number of vials, dollars spent) monthly and update them weekly in the last month of the rebate period. A few days before the end of the rebate period, estimate your purchases and make your buying decision. In some instances, purchasing 10 additional vials of a product will let you reach the next tier of rebates, which will pay for the cost of carrying the extra vials.

After the close of the rebate period, calculate your actual rebate and follow up with the manufacturer to make sure that you receive the correct rebate in a timely fashion.

Conclusion

In this world of shrinking reimbursement, pharmacy controls are critical for maintaining profits. Pharmacy controls can involve several different activities, including the use of utilization reports, automated dispensing machines, calculation of inventory turns, weekly tracking of drug prices, listing of preferred vendors, and pursuit and tracking of rebates. These strategies will provide the greatest dividend if you keep good records, review any problems promptly, and decide how best to look for a solution.

How to track the pricing of pharmaceuticals

Following are the steps you can take to track the pricing of pharmaceuticals:

- Obtain a utilization report from your current vendors. These data should cover 3–6 months. If you use several vendors, combine all the data into one spreadsheet.
- Sort the drugs based on the amount spent. You will find that 15–20 drugs make up approximately 90% of your purchases. These drugs should be labeled as the “top” drugs.
- On a weekly basis, obtain prices for each of the top drugs from each of your leading vendors and enter them in the spreadsheet. Be sure to compare pricing after any discounts so you are comparing “apples to apples.”
- The spreadsheet should include the following columns: Healthcare Common Procedure Coding System (HCPCS), National Drug Code (NDC), manufacturer, brand name, generic name, vial size, and a column for each vendor you use.
- By setting a “MIN” formula in the last column, calculate the “preferred vendor” based upon the prices you enter (eg, ‘=IF(MIN(L15,I15)=0,“”, MIN(L15,I15,)) where L and I are vendor columns with pricing).
- Give the preferred-vendor list to the pharmacy technician, nurse, or other staff member who orders drugs.
- If you use a Pyxis machine in your practice, enter the pricing information to keep your inventory costs accurate.
- Each month, obtain prices for all of your drugs and follow the same procedure as you did for the “top” drugs.

pursuing rebates whenever possible. Pharmaceutical vendors set prices based on payment terms. **Your practice must find a balance between its cash flow and the best payment terms it can obtain.** For example, don’t commit to 30-day payment terms if your accounts-receivable department has 60 days outstanding.

To track rebates and your ability to achieve purchasing goals, you

the measurement price (ie, cost, wholesale acquisition cost, etc.) and comparing the cumulative total for the rebate period to the contract goal. The key is understanding the contract and using the correct measurements.

Good relationships and communication with your pharmaceutical vendors, group purchasing organizations (GPOs), and pharmaceutical representatives are key to your suc-

ABOUT THE AUTHORS

Affiliations: Bob Phelan is Executive Director for Integrated Community Oncology Network and Maggy Pons, CPA, is Chief Financial Officer of Advanced Medical Specialties, Miami, FL.

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