SureCost

# How Pharmacies Can Maximize Profit Margins on Prescription Drugs

A pharmacy's top priority will always be having the right products for patients. But in addition to ensuring accurate and adequate supply, you need to ensure the profitability of those products. That's not just a business need. It's how you sustain your pharmacy so you can continue to serve those patients.

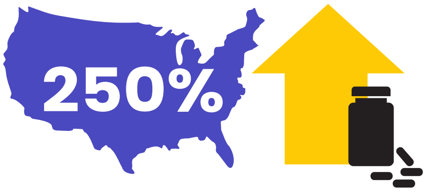
This white paper will identify opportunities to overcome these challenges using strategies for enhanced procurement and inventory. But first, let's examine the issues pharmacies face when it comes to the profitability of prescription products.

# Meeting the Demands of Pharmacy Purchasing

## Obstacles to Profitability

70 to 80 percent of a pharmacy's revenue costs come from their Cost of Goods Sold (COGS). That makes COGS one of the most effective "levers" for pharmacies to drive profits. Unfortunately, several factors drastically increase a pharmacy's COGS.

**It starts with US drug prices being some of the highest in the world: 250% higher than 32 other countries, with prices for half the drugs covered by Medicare in 2020 rising faster than inflation.**




There used to be double-digit increases year-over-year, but over the last three years, increases have stabilized around the single digits. Still, price increases remain constant—even for generic drugs. With generics moving to single sources, in some cases, the prices are even higher than brand names. Industry price flux is a huge challenge to controlling costs and buying at a rate that can give you the best margin.

Supply chain issues have only compounded the difficulty. It's not a new problem, but post–COVID-19 challenges and overseas volatility have exacerbated raw material shortages and plant closings. That's on top of inflation, rising operational expenses, costs to recruit and train new pharmacists and technicians (especially in light of staffing shortages), and other factors chipping away at your pharmacy's profitability.

Pharmacy purchasing is a constantly evolving and always challenging ecosystem. But the strategies below can keep your pharmacy competitive and ready to serve your patients well into the future.

## Understand Your Current Purchasing Structure

First, to establish a solid understanding of your current purchasing process, take a good look at your primary vendor agreement.

All pharmacies need a primary vendor. They're integral to your operation. Beyond providing most of your products, primaries set compliance requirements for purchasing from them. All these variables impact your underlying profitability, which is why it's so important to understand the structure of your primary vendor contract.

**Here's a few items to consider when evaluating your primary vendor agreement:**

- Discounts on COGS
- Reimbursements based on rebate tiers
- Additional/hidden fees
- Flexibility to incorporate secondaries
- Requirements for compliance on generics

Note that last point. Within the terms of your agreement, what are your rights to purchase outside generic compliance? Can you effectively incorporate secondaries?

No wholesaler can provide all the products you potentially need all the time at the best price. They may encounter failure-to-supply issues. There may simply be cases where their pricing is not competitive. You need the flexibility to buy outside, so make sure there's "room" in your agreements.

> **"We can actually shop more aggressively among the top 500, and we use SureCost for everything. I can compare prices in SureCost in my sleep!"**
>
> — Wolf Kraus, Director of Purchasing at Specialty Rx

## Harness Tools for Visibility and Accountability

There's nothing simple about your purchasing process and relationships. You need a solution to help you analyze and then optimize procurement at every step. It will enable you to maximize your cost of goods, discover more savings for you and your patients and boost profitability for your pharmacy.

What does that solution look like? Above all, it gives you visibility into the various contracts that you have in place—whether it's just a primary vendor, a wholesaler and multiple secondaries, a group purchasing organization (GPO) or any indirect contracts.

Without a tool to factor everything in—contracts, rebates, compliance, returns—you're going to miss opportunities and pay more for those products in the long run. You should have the ability to compare multiple items across all of your contracts down to the NDC level.

Greater visibility into the structure of your contracts unlocks all of the purchasing opportunities available from your entire vendor portfolio. A purchasing tool should simultaneously check compliance with all existing agreements even as you expand your purchasing portfolio. Once you know you're meeting your requirements, you can see what's available for you to maximize your profits by modeling rebates and comparing sales.

Here's one example: an NDC listed on both the primary vendor's source program and the GPO contract. In one case, the primary vendor's catalog price for their source program was $1.90. But the GPO's contracted price was $1.59.

A purchasing solution can identify this discrepancy before you even make the purchase. It will then track the entire ordering and invoicing process (what is actually filled, shipped and invoiced) to ensure you get that lower price. If the item is invoiced at the higher price, it'll capture these variances and summarize the information in a report, which you can provide to your primary vendor.

The right solution will also build accountability into your system. That means codifying your process, recording purchasing decisions, showing your pricing logic and tracking exceptions.

In other words, you'll always know:

- What exactly did we purchase, when and from whom?
- Why did we buy that item at that amountfor that price?
- How much did it actually cost us?

There may be good reasons for all of these questions. Maybe it's a certain manufacturer due to a patient's comfort with a pill color. Whatever the reasons, you'll have that information and accountability for those purchasing decisions.

And accountability extends beyond your pharmacy. As just one example, calculating the potential reimbursement from rebates at the time of purchase will show you the actual cost after reimbursement (rather than simply going by the upfront price).

**ACTION ITEM**

**CALCULATE YOUR SAVINGS**

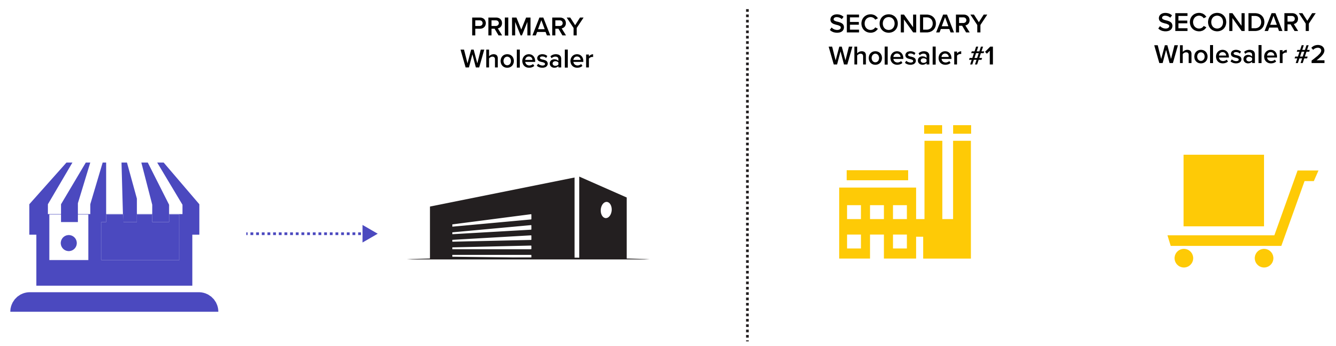
**What would 0.18% in losses due to incorrect invoicing add up to for your pharmacy? Is that an acceptable loss?**

But you also need to actually receive accurate, timely reimbursements. That means the capacity to track rebates. You may trust that you're going to get the right amount, but you need a solution to verify you received it.

> **"Our retail stores reduced their purchasing costs over $175,000 over seven stores in the first year. We were purchasing one generic product alone at $40,000 per year more than we should have been...Those savings continue year after year."**
>
> —Steve W. Preston, President of Falk's Nursing Service

## Expand Your Purchasing Options

Your primary wholesaler will always be integral to your business. Most pharmacies buy 90% or more through them. But adding even two secondary vendors (depending on the size and needs of your pharmacy) will empower you to find the most competitive pricing and ensure adequate supply. And with the right purchasing solution, you'll gain transparency into the full range of options.




When considering which secondaires to partner with, start by researching an obvious question: Do they have drugs to meet your patients' needs? More specifically, are they offering comparable products that you would use at competitive rates? You might not find the exact same product, but similar medications may meet your patients' needs while saving you money or just providing a backup option in case your vendor has supply issues.

Next, review how purchasing from a secondary may affect compliance with your primary. There are substantial opportunities from secondary vendors. But if you're purchasing through a secondary vendor, it's important to understand the impact to your primary vendor agreement. How much can you buy from a secondary vendor while meeting compliance and still gain that advantage?

**0.18%**

Invoices higher than goods received

**$5,400**

Yearly losses for pharmacies with $3M annual purchasing

Data from SureCost customers shows that these issues can have a major impact on a pharmacy's bottom line. 0.18% of invoices were higher than the actual amount of goods received. That apparently low percentage resulted in $5,400 in yearly losses for a pharmacy with an average annual purchasing volume of $3M.

For example, if you have a market share rebate through your primary vendor, you typically get a higher percentage rebate. COGS discounts on branded products may also be tied to the generic compliance ratio (GCR) for source items that you have to buy as part of your agreement. You need to see how changes to your purchases for those items would impact GCR. You'll need a system to understand your contracts and the impact across all of them.

**"I usually check SureCost's "pricing discrepancy" tab before I even submit the order, so I can report the discrepancy to the wholesaler for them to correct everything…I also run a "missed opportunity" report in SureCost daily to see if I bought something that I could have gotten cheaper."**

— Wolf Kraus, Director of Purchasing at Specialty Rx

## Stop Chasing the Lowest Price

All of these strategies around visibility, accountability and transparency add up to an enhanced purchasing process that lets you do more than simply find the cheapest item.

The pharmacy purchasing ecosystem is not designed for transparency. To ensure profitability, pharmacy professionals have to get inside the wall of data and go deeper. Sometimes, that means spotting the lowest price amidst thousands of listings, which is an ideal job for a purchasing solution.

Yet the best-priced product is not always the best purchasing option. To look at both sides of your coin, you have to factor in potential reimbursement through rebates. There may be a huge difference between what you pay when you make a purchase and what that item actually costs you.

To maximize profitability when you make a purchase, build in awareness of the debt net cost on every purchase that accounts for all available rebates. The difference between your cost and two metrics is key:


**The bigger the "spread" between the item's price and the AWP or WAC, the better impact on your COGS.**

There's simply too many options to leave up to manual processes. The right solution will provide your dead net costs—including your rebates—analyze AWP and WAC and then determine the true best purchasing option based on the reimbursement to your pharmacy.

I've seen cases where a 500-count bottle has a lower reimbursement than a 90-count! Pharmacies can utilize those insights to increase profitability for those prescriptions.

In addition to highlighting the right options, implement a system that automatically drives to those purchases. For example, if another member of your purchasing team buys a different product, have a tool in place that will purchase the correct item. This will also allow for formulary overrides in case of exceptions where you don't want to buy that product.

Finally, your system should be updated in real time (or as close to it as possible). Sound pricing logic is useless if it's using outdated prices or other information. Cross-functionality needs to be in place to make sure any changes are factual and timely. Ultimately, you need a validator for that information so you don't miss any type of margin.
You don't want to dispense something with an AWP or WAC increase while the system says otherwise.

**“The beauty of using SureCost is that I know fairly quickly if something is not coming in, and I can then make a conscious decision as to what I'm going to do. Do I want to get this product? Do I have enough on hand to hold off?  Can I get that same product from another wholesaler? It's my choice.”**

— Charles J. Fanaras, President and Owner of The Prescription Center

## Optimize Your Purchasing

After laying the groundwork to get the best purchasing options—whether that's through your primary, a GPO or negotiations with a particular vendor—you want to confirm that arrangement is being consistently honored. So make sure that you have a system to confirm that you’re always getting the right product at the agreed-upon price when you need it.

This may sound intuitive, but suppliers can make mistakes in their billing or may substitute products without always informing you. For example, you may order a specific drug, but a wholesaler may have a sub program and give you an equivalent (even if you have the ability to submit a “non-sub”). You need the ability to spot that substitution, assess the cost against what you originally purchased and, most importantly, determine whether that drug still meets the needs of your patients.

That visibility is critical to your bottom line. It means validation at each step—purchasing, invoice and receipt—in real time. The sooner you can catch a discrepancy, the quicker you can correct it.

All of this oversight will also provide a strategic overview of your utilization and purchasing. Ordering too much of a product means having too much on hand and risking overstock returns and outdated products, all of which can impact your margins. But if you're not buying enough, then you might not have that medication for your patients or will need to do a partial fill. That affects both their medical care and level of satisfaction as a customer.

Having a system that helps you analyze your usage against your purchases will help you understand what you're purchasing in terms of quantity. And it’s going to be more precise than just shaking the bottle or relying on habit.

For example, maybe you’re buying bottles of 500 when you should be buying bottles of 100. Or price points for generic equivalents mean you should move to a bigger package size. A purchasing solution can analyze all those variables, allowing you to lock items down while maximizing your spread and checking vendor compliance.

Unfortunately, with many of these products being valuable outside of authorized vendors, you want to make sure you have a process to evaluate potential shrinkage. Blind spot checks of inventory are helpful. But you should also review utilization. If you're buying things that you're actually not dispensing, that’s a red flag that’ll flow through to your P&L. You’ll see your gross profit shrinking even while your purchasing process or reimbursement doesn’t change.


That’s why it’s so important to make sure accurate COGS are being reported to your P&L on a regular basis.
It’s a critical piece for profitability, but more importantly, none of us want substances escaping the chain of custody and falling outside responsible parties

There are more sophisticated ways to track returns and ensure you're getting what is actually due back to you based on what you paid for that product. Knowing what credits to expect and which are outstanding should inform your monthly P&L—and will also assist your accounting department.

**"SRX is NDC-specific on everything, so we don't allow vendor substitutions, and SureCost helps ensure we don't get any substitutions."**

— Wolf Kraus, Director of Purchasing at Specialty Rx

## Streamline Your Procurement

In addition to increasing profitability, these strategies can empower your team. Staff have an even wider range of responsibilities to patients. A complicated purchasing process doesn't just mean losing money; it also means less time with patients, leading to dissatisfied patients and burnt-out staff.

When we look at how to increase profitability, it's crucial to find ways to save more but also work smarter. Everyone's time is valuable. That's why you need a system that drives profitability and efficiency.

Many of the checks and balances outlined above are repetitive tasks. Leaving them to individuals doing manual processes is a poor use of their time. It's also not very gratifying and leaves room for manual errors and exhaustion. A system to automate those checks and balances is important for your bottom line and team morale.

With staff shortages rising, the more efficiently that people can do their job, the more they can focus on more interesting work or caring for patients. And that means they'll be more satisfied and more likely to stay with your pharmacy.

**A unified solution for purchasing, receiving and accounting provides a single source for you and your team to:**

- Create purchase orders from all sources
- Scan a product upon receipt
- Verify product, quantity and price

Making sure you receive what you need at the agreed-upon price is a crucial but time-consuming task. For many pharmacies, there are a lot of touchpoints in handling physical invoices or importing/exporting data across multiple systems. Staff might need to find a supervisor for approval and then maybe scan documents into the accounts payable system. Pharmacies also have many different methods to receive products. Sometimes it's as simple as just sending invoices to the accounting department for payment. Other pharmacies might literally check things off against the invoice as they receive items. Some even use the "sticker method": if they have extra stickers, then they know they've been shorted a product!

**Save your staff the time and tedium with a system that searches catalogs for you and flags cost discrepancies when you receive them. Minimizing physical touchpoints also reduces the chance for errors. The best case scenario is having the ability to quickly scan and validate the received product against what the vendor says they shipped you based on the price you expected at the time of purchase. Some wholesalers offer this function, but it's just for their products. You're left to manual processes for other items.**

You want the same integrated system to handle paperless purchasing and receiving for all of your vendors. Instead of handling paper invoices with multiple physical touchpoints and separate imports into multiple systems, you have a workflow to quickly confirm receipt that only sends invoices to Accounts Payable when they're complete.

In light of changes to the Drug Supply Chain Security Act (DSCSA), pharmacies will need the capability to integrate, record and track all of this data. DSCSA protects against product diversion of product, and as of November 2023, pharmacies are responsible for making sure that every product they receive matches what the vendor actually shipped.

Pharmacies must make sure they're receiving the right drug corresponding to the correct serial number, lot number and expiration date, and they have to report any mismatches back to the vendor. Between the volume of purchases, the sophistication of the data and the potential penalties, the ability to do all that using one solution is no longer just a convenience.

> **“We can actually shop more aggressively among the top 500, and we use SureCost for everything. I can compare prices in SureCost in my sleep!”**
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> — Wolf Kraus, Director of Purchasing at Specialty Rx

## Combine Inventory and Purchasing

In addition to purchasing, a solution that manages inventory at a product group level will allow you to understand your actual use, calculate the value of your stock and avoid unnecessary orders.

As one example, if you have a shortage of an item, managing inventory purely by NDC may not show you substitutable products on hand. Maybe you actually have another product that's interchangeable that you could actually use and you wouldn't necessarily have to buy that product. Having a solution to provide that notification at the time of procurement and cross-references with your inventory will save you money on unnecessary purchases and ensure you're using current stock effectively.

Pharmacies with more than one location should also be able to easily see and transfer from other branches. By moving products that can be utilized, you’re reducing excess, which reduces your returns. The longer that product sits on your shelves, the less amount on a return you'll get. If you can utilize it, you're going to receive a higher margin on that product. You’ll also reach higher turnover rates, which leads to better margins. 18 to 22 turns per year is a great target for pharmacies (though some are still around 10 to 12).

If you're managing both purchasing and inventory, you can also couple procurement and receiving. So, as you receive products, you're matching to make sure you're getting the right product and quantity. That data would then update your inventory system and costs so you have accurate COGS. With that information, you can set allocations and determine “days on inventory.” Instead of being fixed on mins/maxes, you’ll have a dynamic inventory solution that actually looks at your utilization.

For high-cost items, you want visibility and control over how much is ordered. Having a system that places those rules—for example setting allocations or restricting orders—is critical.

Depending on the size of your operation, physical inventories are critical because they provide a starting point. You also want a system that makes that physical inventory process easy and calculates its value based on what you actually paid. You’ll know your COGS is accurate and your purchases are making it to shelves.

While you’re validating through physical inventory checks, perpetual inventory from cycle counts provide another check to connect all those pieces within your P&L. That will help you manage your business because you’ll clearly see changes and understand how they impact your gross profit.

## GPOs

It may sound like a cliche, but you don’t have to do this alone. A group purchasing organization (GPO) uses its collective power to negotiate competitive contracts that you may not be able to get through your primary vendor or even with a manufacturer. These can cover brands, generics, medical supplies and various business products and services they may provide to pharmacies. That’s in addition to savings through market share percentage rebates and flat rebates.

GPOs also provide account management around solutions for prior authorization, patient engagement solutions and consulting. Several of them offer innovative solutions and services adjacent to their pharmaceutical contracting, but they also delve into data analytics and provide benchmarking. GPOs also lobby for legislation and advocacy in various classes of trade, such as long-term care.

But, to make the most of your GPO, transparency is important. Use a purchasing solution to make sure you’re finding the true best purchasing option from your entire purchasing portfolio, including that GPO. You’ll also gain visibility into your purchases and their impact, such as rebate tier trends, and the accountability check so you receive the right benefits on time while ensuring you're complying with both your primary vendor agreement and your own targets for market share rebates.

**"My team would spend about two or three hours a day to do purchasing with all stores. We started seeing ROI immediately with SureCost. The time savings alone were worth it… You will save time, which is money, and make everyone more happy, productive and efficient."**

— Charles J. Fanaras, President and Owner of The Prescription Center

## Conclusion

There are plenty of factors negatively impacting the profitability of prescription drugs. But your pharmacy isn't stuck.

This white paper covered a few strategies to raise prescription drug profitability:

- Structuring contracts to expand your vendor portfolio
- Finding comparable products for patients at competitive rates
- Understanding how each purchase impacts compliance
- Reviewing debt net cost on purchases, including rebates
- Verifying receipt of the right product at the expected price
- Integrating electronic procurement across all vendors

All of these strategies point to the need for flexibility, visibility, accountability and transparency when it comes to purchasing. It might seem like a lot. But as we've also seen, the right solution combines these capabilities (especially with the right team behind it). Your pharmacy can compensate for and (yes!) even flourish in the face of these challenges.

### Save More

Find the right product at the best price from your entire vendor and wholesaler catalog while reducing out-of-stock items.

### Work Smarter

Automate selected decisions and streamline workflows to save time, drive productivity and avoid staff burnout.

### Stay Compliant

Confirm delivery of items at the prices you expected and reduce rogue spending through a single solution.

SureCost is designed and managed by a team of industry experts with over a century of collective experience in the pharmacy industry. We understand the complex purchasing environment pharmacies navigate. For us, these challenges are opportunities to empower pharmacy teams to accomplish even more for their patients and their business.

## Next Steps

Want to learn more about what smarter purchasing can do for your pharmacy?
Let's discuss how your pharmacy can harness smarter purchasing without disrupting your existing process.

**Get a Demo**

**See how you'll save more, stay compliant and work smarter.**

SureCost