

Capturing New Sources of Revenue with a Hospital-Owned Outpatient Pharmacy:

A White Paper Providing Three Best Practices

By Tracy W. Becker, PharmD, and Robert Ketchum, RPh, MS

ABSTRACT

Faced with another year of anemic revenue growth projected for 2014, hospital executives need to create a true hospital-owned retail pharmacy that will capture new sources of revenue, increase quality and improve the patient experience to curb readmissions, and reduce medication costs for hospital employees. In this white paper, hospital executives get a checklist of best practices for realizing found revenue, savings and quality improvements.

February 26, 2014



Comprehensive
Pharmacy
Services

Copyright © 2014 Comprehensive Pharmacy Services (CPS).
All Rights reserved.

CPS believes the information in this publication is accurate as of its publication date. The information is subject to change without notice.

The information in this publication is provided “as is.” CPS makes no representations or warranties of any kind with respect to the information in this publication, and specifically disclaims implied warranties of merchantability or fitness for a particular purpose.

Use, copying, and distribution of any CPS materials described in this publication requires an applicable copyright license.





Capturing New Sources of Revenue with a Hospital-Owned Outpatient Pharmacy:

A White Paper Providing Three Best Practices

Faced with another year of anemic revenue growth projected for 2014¹, hospital executives need to create a hospital-owned ambulatory outpatient pharmacy that will capture new sources of revenue, increase quality and improve the patient experience, curb readmissions, and reduce medication costs for hospital employees. In this white paper, hospital executives get a checklist of the best practices for realizing additional revenue, savings and quality improvements.

Hospitals throughout the United States are leaving savings and revenues on the table because they do not operate their own outpatient pharmacy or they have one that is not reaching its maximum potential.

Hospitals also need to consider the significant costs to cover their own employees' medications, and the gaping hole left by a missing or underutilized hospital-owned ambulatory outpatient pharmacy. A hospital can spend as much as 12% more on medications for its own employee health plan members without its own in-house ambulatory outpatient pharmacy.

There also are substantial quality issues at stake, which result in a lack of control over care and outcomes, driving higher readmission rates and costly penalties. With patients being discharged from a hospital without medications in hand from a hospital ambulatory outpatient pharmacy, an average of 20% of prescriptions written go unfilled.² Of those that get filled, only about 50 percent of patients typically take their medicines as prescribed, resulting in approximately \$177 billion annually in direct and indirect costs to the U.S. economy.³

Problems Point to Outpatient Pharmacy Solution

- Projected anemic growth for 2014
- Escalating hospital employee medication costs
- Losing revenue and savings opportunities

¹ Moody's: Global Credit Research, November 25, 2013

² AHRQ Medical Expenditure Panel Survey (1997-2005) and analysis of that data by the NACDS Economics Department

³ National Council on Patient Information and Education (NCPPIE)

These daunting challenges represent real opportunities that are casting a fresh light on hospital-owned ambulatory outpatient pharmacies. It is an often overlooked segment of a hospital’s daily operation, but in a time when every dollar counts and quality is more linked to cost and reimbursements than ever before, hospital outpatient pharmacies could generate millions to the bottom line across a number of fronts by leveraging three proven best practice techniques, and avoiding the pitfalls that can negatively impact such pharmacies. .

THREE BEST PRACTICES FOR SUCCESS

Best Practice #1: Generate new revenue and savings

If patients are leaving the hospital empty-handed without their prescriptions, revenue is walking away with them. With a well-positioned and well-run hospital-owned ambulatory outpatient pharmacy, prescription revenue is captured before patients ever leave the hospital. It is not only good clinical practice but it is good financial practice as well.

It would be hard to find another business model where a company was satisfied with providing part of a vital service to its customers, but sent the rest of the business out for a third party to fulfill. It would be especially concerning if the business was being held accountable and compensated based on the results of the service provided.

The lost patient revenue is significant. Each discharged patient, outpatient visit and ED patient gets an average of 2 prescriptions⁴ with a typical cost of \$56 per prescription⁵.

To demonstrate the magnitude of lost revenue, we applied these figures to a sample 300-bed hospital system with 14,000 discharges, 50,000 emergency department visits and 161,000 outpatient visits. With 225,000 annual patient encounters requiring 450,000 prescriptions⁶. this example system sends more than \$25 million of revenue and \$750,000 (3%) in EBITDA out the door to offsite retail pharmacies. A thorough evaluation of all key variables, including but not limited to hours of operation, pharmacy proximity to the emergency department, staffing skills and model, tangible and intangible benefits, by a team of experienced advisors needs to be done before making any financial estimates or projections.

**Generate Revenue and Savings:
300-Bed Sample Hospital**

- **\$25.2 MILLION** in new revenue potential
- **\$756,000** in new EBITDA potential

⁴ AHRQ MEPS Statistical brief #245, May 2009

⁵ National Community Pharmacist Association Digest, 2013

⁶ Billian’s HealthDATA 2013- 2014

Reduce Hospital Employee Medication Costs: 300-Bed Sample Hospital System

- Using GPO:
\$130K TO \$312K
- 340-B Hospitals:
Up to **\$1.3M**

Best Practice #2: Reduce hospital employee medication costs

Another significant financial benefit of a hospital-owned ambulatory outpatient pharmacy is the savings on the cost of medications for its own employees and their dependents under their prescription benefit plans.

If employees can fill their prescriptions at the hospital, the drugs can be purchased at GPO prices, which are typically 5% to 12% lower than retail prices at big box chains and community pharmacies. Annually, the average cost of providing prescription drugs to an employee is \$700 to \$800 when they use retail pharmacies⁷. By utilizing the lower GPO pricing this could reduce annual per covered member medication costs by \$35 to \$84⁸.

Our sample 300-bed system might have 1,800 employees totaling 4,500 benefit members⁷ which would cost the hospital about \$3.25 million annually. The purchase cost of these medications is approximately \$2.6 million. By purchasing medications at GPO prices and facilitating employee access to the hospital owned pharmacy, the system could save \$130,000 to \$312,000 per year.

For 340B hospitals, prescription medication costs could be potentially reduced by more than 50%, saving the facility an estimated \$1.3 million per year. It is important to note that 340B hospitals must have carefully controlled processes and appropriate systems to ensure they meet the strict patient eligibility criteria as defined by the federal Health Resources and Services Administration.

Best Practice #3: Enhance patient experience, improve medication adherence reduce readmissions

Filling medications onsite is generally more convenient for patients and improves their experience with the healthcare provider. The inconvenience of filling a prescription offsite may contribute to the 20% of prescriptions going unfilled as previously noted. Approximately 45,000 patients would not receive their prescriptions using our sample 300-bed system. Providing access to medications onsite makes it easier for patients to get and take initially prescribed drugs. Increasing

⁷ Kaiser Family Foundation/Health Research & Educational Trust 2013 Annual Employer Health Benefits Survey

⁸ 2013-2014 Prescription Drug Benefit Cost and Plan Design Report

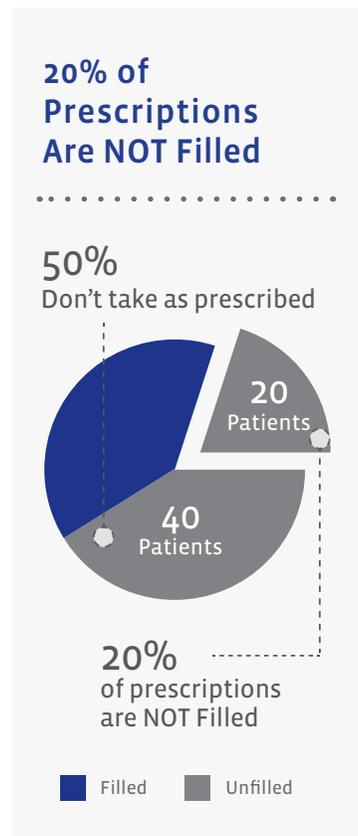
fill rates has the potential to increase medication adherence, improve outcomes and reduce readmissions.

Improving medication adherence is even more important as healthcare moves towards population health management.

PRACTICES TO RECONSIDER OR PITFALLS TO AVOID

There are certain practices that may keep hospitals from achieving advantages such as new revenue, additional savings, and improved quality. So hospitals should keep the following top of mind when determining the best way to meet their pharmacy needs. Avoiding these common pitfalls can contribute to ensuring objectives are achieved:

- EXECUTIVE AND KEY STAKEHOLDER SUPPORT.** It is critical to get all internal stakeholders aligned behind the single vision and advantages of a hospital-owned ambulatory outpatient pharmacy. Everyone from an executive sponsor to physicians, bedside nurses, discharge planners, and inpatient pharmacy team need to have a seat at table in the planning and implementation process of an outpatient pharmacy.
- ESTABLISH CLEAR GOALS FOR THE PROJECT.** Goals should be set with defined metrics where possible: revenue, return on investment, reducing readmissions and revisits, patient satisfaction with discharge process, percentage prescription filled by patients and employees.
- ALIGNMENT AND CONTROL.** A hospital-owned ambulatory outpatient pharmacy provides the hospital with better control over the health and care outcomes of the patient across the entire continuum of care. An externally-owned pharmacy's interests and a hospital's interests may not be in alignment. It is critical for hospitals when partnering with an external resource to manage their outpatient pharmacies to make sure there is clear alignment of strategy and interests from a downstream revenue standpoint.
- CLARIFY REQUIRED SKILL SETS.** The skill set needed to manage an outpatient pharmacy significantly differs from managing an inpatient pharmacy department: retail pharmacy policies and procedures, staff training and education, interfacing with customers, understanding and managing third party insurance requirements and maintaining inventory varies significantly from inpatient to outpatient settings.



CONCLUSION

Establishing a hospital-owned ambulatory outpatient pharmacy or optimizing an existing one can deliver new sources of revenue, decrease costs, improve quality and extend more coordinated care to patients.

With the right subject matter expertise, following a few established best practices, and avoiding some well-traveled pitfalls, hospital systems can achieve a number of financial and clinical benefits.

About the Authors

Tracy W. Becker, PharmD, MBA, CDE, is the Divisional Vice President of Outpatient Pharmacy Services for Comprehensive Pharmacy Services, applying his 37 years of pharmacy experience to support outpatient pharmacy services through outpatient unit development, 340-B Drug Discount Programs, medication therapy management and accountable care strategies. He earned his PharmD from Duquesne University, MBA from Waynesburg University, and Certified Diabetes Educator designation thru the National Certification Board of Diabetic Educators.

Robert Ketchum, RPh, MS, is a Regional Manager in the Specialty Hospital Division for Comprehensive Pharmacy Services, applying his 30 years of pharmacy experience to providing medication management oversight to small acute care, critical access, long term acute care, and behavioral health hospitals. He received a Bachelor and Master of Science in Pharmacy from Auburn University and completed an American Society of Health System Pharmacists Residency in Hospital Pharmacy at Richland Memorial Hospital in Columbia, South Carolina.

For More Information Contact:

TRACY BECKER PharmD, MBA, CDE
Divisional Vice President of Outpatient Pharmacy Services
(724) 317-2295
Tracy.Becker@cpspharm.com

GREG WENTHE
Vice President Marketing
(901) 462-9081
Greg.Wenthe@cpspharm.com