

EYE ON QUALITY | INNOVATION AND QUALITY: ENEMIES OR ALLIES?

HEALTH SYSTEM MANAGEMENT

+ NURSE MANAGEMENT:
INFECTION PREVENTION
AND CONTROL

JULY | 2016

LEVERAGING
SUPPLY CHAIN
ASSETS

+ EXECUTIVE
PERSPECTIVE:
KEY TO GREENING
HEALTHCARE



Achieve Pharmacy Consolidation

Reduce pharmacy costs, improve efficiency with consolidated distribution

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BY JAMIE C. KOWALSKI AND MITCH WOOD

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With rising pharmacy and drug costs, declining reimbursements and the shift from fee-for-service to value-based payments, healthcare is changing like never before. It's a fast-paced evolution to a new world where smart business and smart medicine must come together to lower costs and demonstrate new value.

As one of healthcare's greatest (and fastest-growing) expenses, drugs and pharmacy departments have long been a focus for cost reduction. Any duplication, waste and inefficiency can have a significant impact on your bottom line. What's the most effective model for improving performance? A feasibility study can determine what your savings opportunities could be.

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THE TRADITIONAL APPROACH: CENTRALIZED DISTRIBUTION

Today, a growing number of health systems are investigating self-distribution as a way to help reduce escalating pharmacy costs. "Centralization" is the form of self-distribution that many health systems consider first, relying on a hub-and-spoke infrastructure that connects the central pharmacy to a freestanding shared services facility or warehouse to support various acute and non-acute sites of care. Advantages of this approach include:

- Economies of scale by centralizing multiple service lines into a single distribution network;
- Low unit-of-measure distribution, which lowers waste;
- Consolidated, standardized and automated purchasing

processes;

- Combined and committed volumes leveraged to maximize contract value;
- Lower inventory investment;
- Enhanced visibility of expiring, recalled and obsolete medications;
- Inventory rebalanced across the health system to help avoid stockouts and expirations; and
- Greater efficiency and reduced labor.

Centralized distribution can be an effective strategy if you already have freestanding warehouse space available and ready to use. In fact, the number of health systems taking this approach has increased rapidly in the past three years, from under 40 to 55.

One major provider taking advantage of this model is UNC Health Care System (UNCHCS) in Chapel Hill, N.C., which has a centralized Shared Services Center housing its pharmacy and medical-surgical supply operations.

Before taking this approach, pharmacy leadership within UNCHCS's UNC Medical Center (UNCMC) engaged Pharmacy Healthcare Solutions (PHS), a subsidiary of AmerisourceBergen,



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Gain Efficiencies Through Enhanced Supply Chain Processes

With the changing healthcare landscape, health systems are looking for ways to simplify, automate and standardize their pharmacy supply chain processes to eliminate waste and improve patient safety. Health systems must identify existing and potential synergies in their pharmacy supply chain, systems and services. A big step toward achieving these goals is to develop a strategic vision and approach to transform their supply chain structure to meet today's challenges.

Pharmacy Healthcare Solutions can develop solutions to assist including:

- > End-to-end safety, efficiency, tracking and security associated with the pharmaceutical supply chain
- > A coordinated supply-chain process from procurement to the patient bedside
- > Centralized low unit-of-measure (LUM) replenishment to inventory locations such as unit-based cabinets, satellites and clinics
- > Fulfillment of specialty, chronic and refill prescription needs for employees and dependents at a lower cost-to-fill
- > Reduced costs associated with outsourced compounded sterile preparation while increasing standardization and quality
- > Investigational Drug Clinical Trial Operations Management

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to perform a feasibility study. "Based on our health system's goals, we needed to determine which pharmacy services should be included in the new Shared Services Center," said Scott Savage, associate director of pharmacy, UNCMC.

Following the study, several services were recommended totaling \$7 million in savings over the first five years. Now three years into the program, several recommendations have been implemented and exceeded the original savings projections for all of them.

Critical to driving the return on investment (ROI) that UNCMC wanted was the centralization of several pharmacy services – not just one. Indeed, the more services that are combined under a centralization or consolidation model, the more compelling the total ROI can be.

The centralized model is working well. But what occurs in the case of a health system that doesn't have freestanding warehouse space available? Indeed, most systems don't have space ready to use and would need to build, buy or lease, requiring a substantial capital expense. With competition high for the limited capital available, health systems may opt for investments with a higher potential ROI than a warehouse. If the concept of centralization makes sense – but the capital investment in a new facility does not – what's the solution?

CONSOLIDATION: LOWER THE BARRIER TO ENTRY

The key is to think differently; what you need is infrastructure and storage space – not necessarily a new warehouse. In fact, the resources may already be available throughout your organization.

You may have an existing, internal delivery infrastructure connecting hospital departments and other sites of care – such as trucks and vans making scheduled deliveries. And you may have space freed up due to lower in-patient volume and the strategy of moving care to more cost-effective venues. You can leverage these resources via a consolidated distribution model, providing the benefits of centralization without the intense capital costs.

There are other significant advantages as well, including no additional staffing investment required for complying with a complex regulatory environment; no need to create and maintain duplicate warehousing and distribution IT systems; and no duplication of other overhead expenses, such as information technology and infrastructure. You'll also free up significant pharmacy labor that you can redirect elsewhere or take the savings to your bottom line.

WORK IN THE REAL WORLD

Denver-based Centura Health wanted to enjoy the benefits of centralization without the cost of creating a freestanding facility. Taking the consolidation approach, Centura has an opportunity to save \$17 million over five years if all of its programs were operational and optimized. But cost savings alone aren't the main driver of the company's strategy.

"We need an a la carte distribution approach that aligns with our pharmacy's growth strategy," said Quan Pho, Centura Health's vice president of pharmacy.

"AmerisourceBergen is our pharmacy wholesaler, so PHS already understands the level of flexibility we need. They've given us a system for launching projects at our own pace. And we've seen tremendous gains already." Projects include:

- **Unit dose optimization:** purchasing slow-moving products more efficiently and helping to avoid expirations and waste by buying in unit doses vs. in bulk
- **Formulary compliance:** standardizing purchas-

ing across the health system via a Centralized Pharmacy Therapeutics Committee working in conjunction with Centura's GPO

- **Inventory rebalancing:** implementing a holistic vs. individual site strategy to move drugs near expiration to other sites where they'll be used sooner, a team-based approach that lowers costs and helps avoid expirations
- **Drug shortage management:** mitigating rising drug costs and the potential for shortages by centralizing a single cache vs. individually hoarding drugs across 18 different sites of care

"There are many ways a consolidated model can help a pharmacy achieve its objectives," Pho said. "When you choose consolidation, you stand to gain a lot of political capital."

HOW DOES THE CONSOLIDATION MODEL WORK?

To design and implement the most effective consolidated pharmacy solution, focus on these areas:

1. Prescription volume and pharmacy services that flow through your organization
2. Your unique local and regional supply chain fulfillment processes and practices
3. Supply chain-related labor (both full- and part-time) and technology costs
4. Regulatory environment

With this background of understanding in place, a proven, four-step implementation process can be undertaken – from performing an initial feasibility study, to design, implementation and ongoing sustainability of the program.

SIGNIFICANT ROI POTENTIAL

Depending on the size of your facilities, your annual pharmacy operating expenses and the speed at which you ramp up the consolidated distribution model, an annual ROI of \$2 million to \$3 million is possible.

+WEBEXTRA

Inventory management is a key factor in running an efficient pharmacy. "Pharmacy Supply Chain 101" offers four strategies to bring it into the 21st century at www.HealthSystemMgmt.com