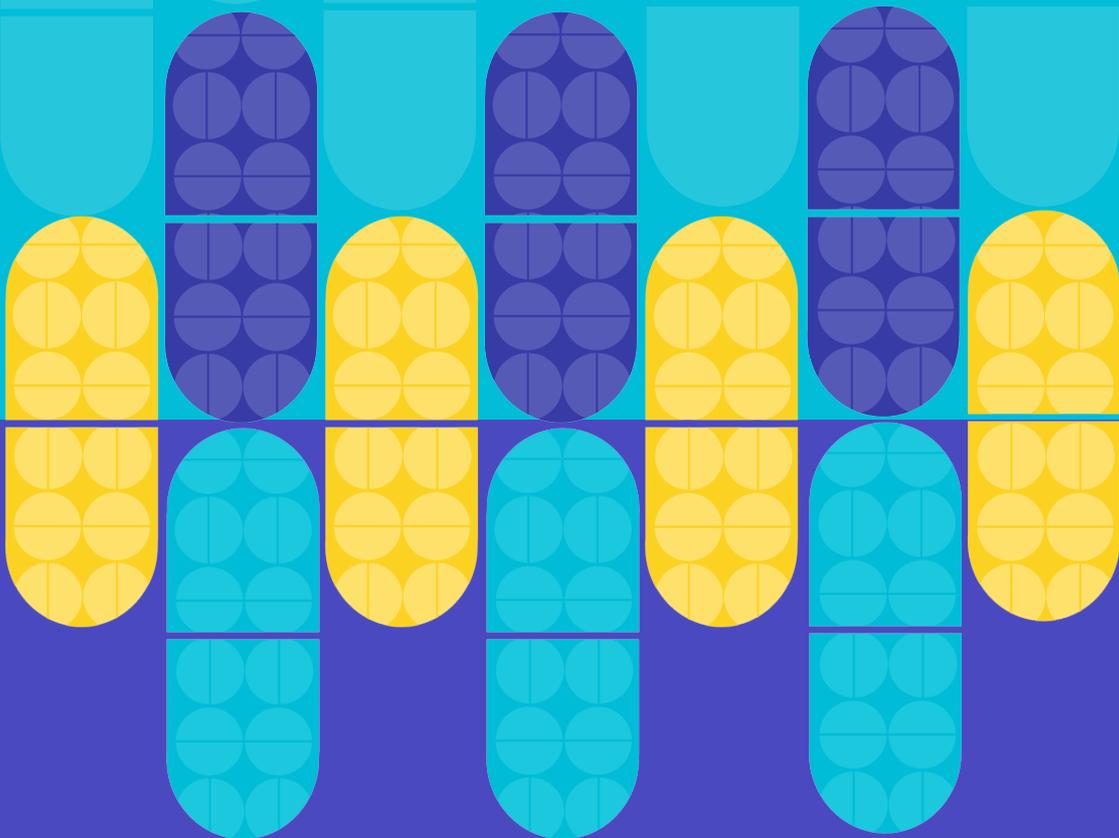




# Best Cost Isn't Always the Lowest Cost

## How to Drive Strategic Pharmacy Purchasing Decisions



**There are many factors complicating pharmacy purchasing.  
For example, the unpredictable nature of DIR fees emphasizes how crucial  
sound financial planning is.**

Pharmacy delivery of essential pharmaceuticals and patient care services puts pharmacies at the forefront of healthcare. Independent retail pharmacies encounter a variety of difficulties in a constantly shifting environment, from cost fluctuations and regulatory compliance to the requirement to deliver excellent customer service. Retail pharmacies must overcome these obstacles with effectiveness, intellect and agility if they're going to thrive.

This white paper explores the complex landscape of pharmacy purchasing, emphasizing the challenges posed by DIR fees, DSCSA compliance and the misconception that the lowest price always equates to the best value. We present strategies to overcome these challenges and maximize savings, while ensuring excellent customer care.

## **Challenges of Pharmacy Purchasing**

Pharmacy purchasing and inventory management are critical components for a retail pharmacy's success. Efficiently managing these aspects can lead to substantial savings and improved customer care. However, independent retail pharmacies face unique challenges that require strategic solutions. We'll delve into the impact of DIR fees, rising operational costs and the misconception about the lowest price.

### **The DIR Fee Dilemma**

Retail pharmacies have a major financial issue as a result of the Direct and Indirect Remuneration (DIR) costs. These charges, which are sometimes applied retrospectively, can significantly impact a pharmacy's profitability. The unpredictable nature of DIR fees emphasizes how crucial sound financial planning is.

As Calvin Hunsicker, SureCost Founder and Chief of Product, states "Starting January 2024, expect having that price upfront at the time of billing. What that means for pharmacies is it will be a double dip. You're going to have reduced rates upfront as you submit claims, but they also can go back and get that money for the previous quarter or potentially even longer. This may affect cash flow, potentially reducing margins for three to six months or longer, as some clients suggest."



**Learn more on  
the impact of  
DIR fee changes**

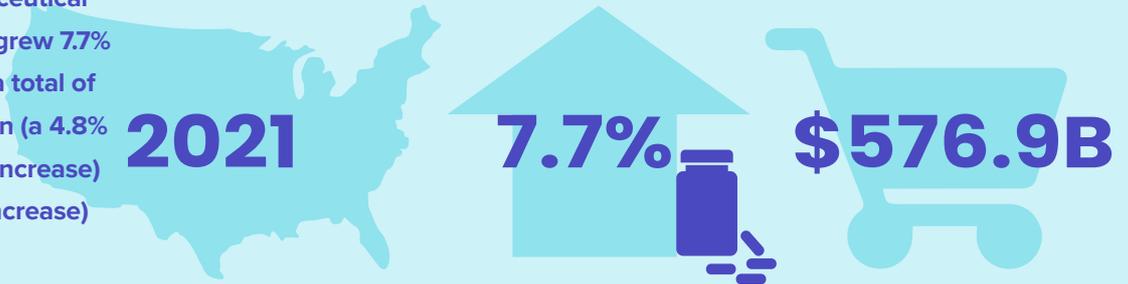
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**Factors such as increased labor costs, rising overheads and the need for advanced technology to ensure compliance further strain pharmacy budgets.**

### Rising Operational Costs

Pharmacies face the uphill battle of escalating operational expenses. Factors such as increased labor costs, rising overheads and the need for advanced technology to ensure compliance further strain pharmacy budgets.

In 2021, overall pharmaceutical expenditures in the US grew 7.7% compared to 2020, for a total of \$576.9 billion. Utilization (a 4.8% increase), price (a 1.9% increase) and new drugs (a 1.1% increase) drove this increase.<sup>1</sup>



Addressing these rising costs is essential for maintaining profitability and ensuring the sustainability of pharmacy operations. It underscores the importance of not only optimizing purchasing practices, but also implementing cost-effective solutions like SureCost to help pharmacies thrive in a cost-conscious environment.

### The Perceived Pitfall of the Lowest Price

The perception that the lowest purchasing price equates to the best way to overcome DIR fees and rising operational costs can be misleading. It's an understandable mindset, given the competitive nature of the healthcare industry and the constant pressure to contain costs. While securing a low purchase price for pharmaceutical products may seem like an immediate win, it can often be a short-sighted approach. The quest for lowest price can sometimes obscure the hidden costs associated with a product.

As Chase Ferguson, SureCost Product Manager, highlighted, "There could be an upfront price that's lower, but actually, your rebate is lower on the backend." This is a key point that retail pharmacies should take into account. A cheaper product upfront might lead to reduced rebates, which could ultimately erode potential savings. Hence, pharmacies should consider the holistic financial impact of their purchasing decisions, accounting for not only the immediate cost, but also downstream consequences.



**Find out how  
retail pharmacy,  
The Prescription Center,  
was impacted  
by driving  
primary vendor  
compliance**

**Read More**

**While securing a low purchase price for pharmaceutical products may seem like an immediate win, it can often be a short-sighted approach.**

## 5 Strategies for Retail Pharmacy Purchasing Success

01



### Achieve and Maintain Primary Vendor Compliance

To maintain control and maximize the benefits of your primary vendor relationship, pharmacies must employ a centralized vendor management strategy. It's essential for pharmacies to compare prices, track rebates and ensure compliance.

#### Understand Your Agreements

A fundamental step in centralized vendor management is to thoroughly review and understand your vendor agreements. These agreements lay the foundation for your purchasing, defining the terms, conditions and pricing structure you'll be operating under.

#### Establish and Track Key Compliance Indicators

Compliance is a critical aspect of vendor management, and tracking key compliance indicators will help pharmacies stay on top of purchasing relationships. Some of these key indicators include: GCR (Generic Compliance Rate), product spend and product volume.

#### Monitor and Track Vendor Non-Compliance

It's crucial to be vigilant in identifying and addressing vendor non-compliance issues promptly. Vendors should adhere to the pricing outlined in your agreements. They should be sending you the right items in the right quantities at the right prices. Vendor product substitutions can also negatively impact compliance and costs.

#### Analyze Metrics to Proactively Identify Areas of Improvement

Regular reporting on compliance and vendor performance metrics is essential for continuous improvement. As Ferguson noted, "You want to leverage all the data that you have at your disposal because it's your friend. You want to keep it close regularly, assess and adjust based on demand changes."

**"Understand your true costs. Look at your reimbursement rates to really understand what your margins are. If you're just using the primary vendor as a cost basis for looking at margins, it may not be reflective of what's really happening in your pharmacy."** – Calvin Hunsicker, SureCost Founder/Chief of Product

02



### Maximize Rebates

Rebates have emerged as a valuable yet often underutilized avenue for cost savings in retail pharmacy purchasing. In a landscape where pharmacies are constantly striving to enhance their bottom lines, harnessing the full potential of rebates has become a strategic imperative. As Calvin emphasized, "Understand your true costs. Look at your reimbursement rates to really understand what your margins are. If you're just using the primary vendor as a cost basis for looking at margins, it may not be reflective of what's really happening in your pharmacy." Maximizing rebates requires a proactive approach that integrates various aspects of purchasing and vendor management.

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03



### Ensure Purchasing Compliance with Automation

Hunsicker highlights, "Having automated systems that do a lot of the front-end work for you and deal with the issues, rather than involving a human, allows you to continue to drive compliance, and better service your customers by making sure you have the right product at the right time. Your service levels become incredibly high for your patients."

Implementation of automation to monitor prices, quantities and compliance with purchasing agreements reduces the risk of errors and ensures that pharmacies receive the correct products at the right time.

04



### Adapting to Changes with Data-Driven Insights

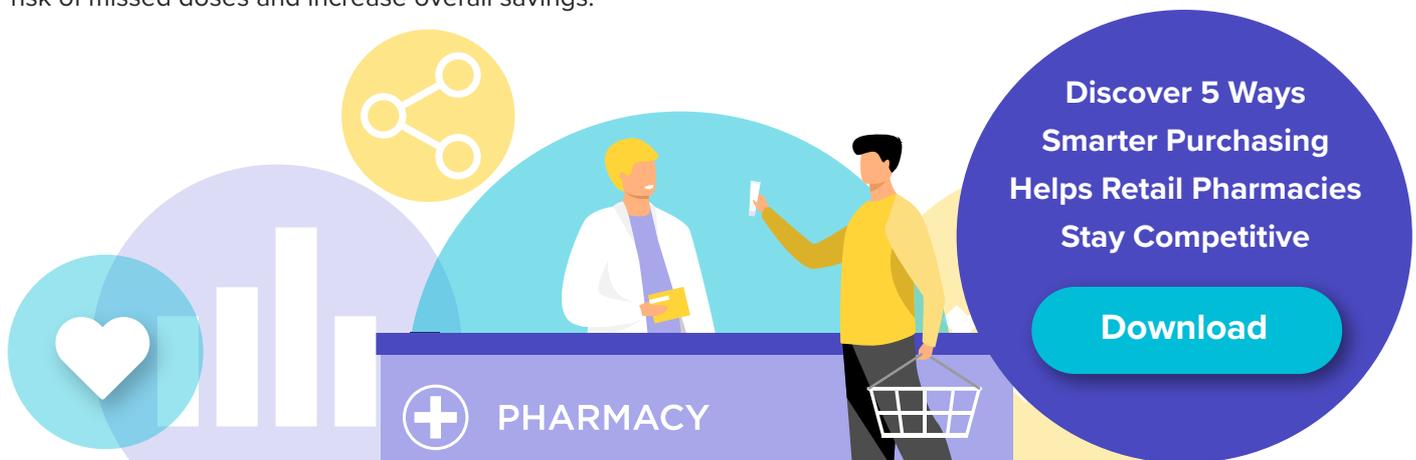
One of the cornerstones of successful adaptation is harnessing the power of data-driven insights. By analyzing purchasing trends and market dynamics, pharmacies can make informed decisions to stay compliant and competitive. Pharmacies can identify areas where savings can be achieved, such as purchasing patterns, inventory levels, turnover rates and expenses. By understanding inventory rates, pharmacies can leverage purchasing volume to negotiate favorable agreements. By thoroughly understanding purchasing and inventory trends, adjustments can be made. Overstocking can be avoided to reduce carrying costs and potential waste. Pharmacies can reduce reliance on a single source by diversifying their supplier base to access different pricing options. Pharmacies must be proactive in analyzing purchasing trends and adapting their inventory and purchasing strategies accordingly.

05



### Enhancing Customer Care and Efficiency

In the competitive landscape of the pharmacy industry, customers have more options than ever when it comes to where they fill their prescriptions and seek healthcare advice. Building and maintaining a loyal customer base isn't merely about convenience or location. It's about the quality of care and service that a pharmacy provides. **Automated systems like SureCost** free up time for pharmacists and staff to focus on providing personalized care to patients, ultimately building stronger relationships and improving patient outcomes. Exceptional customer care offers several distinct advantages for retail pharmacies. Pharmacies can work with prescribers to choose medications covered by insurance and explore therapeutic substitutions that are available at lower copayments, while reducing costs. Pharmacies can also reduce the risk of missed doses and increase overall savings.



**Pharmacy purchasing isn't just about getting the lowest cost. It's about adhering to specific rules and configurations unique to each pharmacy's operation.**

## **Empowering Pharmacies with SureCost**

SureCost isn't just a tool. It's a transformative solution that empowers pharmacies to streamline their purchasing operations, optimize costs and enhance efficiency. In this section, we delve into how SureCost consolidates vendors, ensures pricing accuracy, simplifies ordering and leverages automation to maximize savings while maintaining compliance.

### **Streamlining Vendor Management**

SureCost allows pharmacies to consolidate all of their vendors into one platform, making it easier to compare prices, rebates and compliance options. These vendors include primary vendors, secondary vendors, Group Purchasing Organizations (GPOs) and buying groups. SureCost's Purchase Manager solution also streamlines the ordering process, allowing pharmacies to place orders quickly and accurately. The platform's automation can even place optimal order quantities based on historical data and demand forecasting. Efficiency in vendor management directly translates into cost savings, better resource allocation and enhanced patient care.

### **Ensuring Accurate and Transparent Costs**

SureCost goes beyond presenting the initial purchase price. It provides a holistic view of costs, including rebates, to offer complete transparency. This approach ensures that the costs you see aren't only accurate, but eliminates hidden charges and unexpected expenses. Moreover, SureCost's pricing accuracy identifies any discrepancies between GPO contract pricing and the vendor's pricing, ensuring that pharmacies always receive the agreed-upon rates. By understanding the true cost of each item, pharmacies can identify the best value beyond the initial price.

**Kelly Cicero, SureCost Customer Success Specialist, states "Formulary is a list of items that are suggested to purchase based on your cost, monthly average purchasing volume and other rules that you customize to your goals. It's not a cookie cutter application. We go through the configurations with you to make sure we're targeting your goals."**

### **Leveraging Automation for Savings**

SureCost harnesses the power of automation to identify additional opportunities for savings. SureCost lists items that may have another vendor offering a lower cost, allowing pharmacies to make informed decisions that align with their budget goals. Items will be highlighted on the purchase order that may not be a recommended formulary item, helping pharmacies to adhere to their purchasing and compliance rules and configurations. Automating item substitutions based on your pharmacy's purchasing rules ensures that they aren't only getting the best price, but also the best value for their specific needs.

Ferguson adds, "You just want to get the order in so you can get out for the day. But, if you implement automation, like SureCost, there's plenty of times where you or someone else might have to make a decision, but you only need to make that decision once. SureCost will automate that decision moving forward."

**“There could be an upfront price that’s lower, but actually, your rebate is lower on the backend.”**

– Chase Ferguson, SureCost Product Manager

### Formulary Recommendations: Aligning with Pharmacy Rules

Pharmacy purchasing isn’t just about getting the lowest cost. It’s about adhering to specific rules and configurations unique to each pharmacy’s operation. SureCost understands this and provides a valuable feature: the formulary recommended item. This item may be generic or brand, from a specific vendor and in a specific package size. It aligns perfectly with your pharmacy’s purchasing rules and configurations, making it easy to maintain compliance while optimizing costs.

Kelly Cicero, SureCost Customer Success Specialist, states “Formulary is a list of items that are suggested to purchase based on your cost, monthly average purchasing volume and other rules that you customize to your goals. It’s not a cookie cutter application. We go through the configurations with you to make sure we’re targeting your goals.”

### Tracking Compliance and Operational Metrics

SureCost helps pharmacies establish and track key compliance indicators, such as GCR, product spend and product volume. It also monitors vendor compliance, including adherence to pricing agreements and accurate valuation of received goods. Not only external compliance, but internal compliance as well by continuously monitoring and analyzing purchasing decisions made by pharmacy teams and locations, ensuring they align with the established rules and configurations. If non-compliance occurs, SureCost provides detailed reports highlighting the frequency, reasons and areas where compliance isn’t met, enabling pharmacies to pinpoint and rectify any deviations swiftly to optimize their operations. By regularly reporting on these metrics, pharmacies can identify areas for improvement and make data-driven decisions to mitigate the impact of DIR fees and rising operational costs.

SureCost goes beyond the perception of the lowest price by providing a comprehensive solution that factors in rebates, compliance and operational efficiency. It enables pharmacies to make value-driven decisions that optimize costs, while addressing the challenges posed by DIR fees and rising operational costs. Through accurate cost analysis, formulary recommendations, automation, streamlined vendor management and compliance tracking, SureCost empowers pharmacies to maximize savings and deliver better patient care.



**Book a Demo**

**Let’s talk.**  
Book a 30-minute introductory meeting today.



#### REFERENCES

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