Effective **Generic Drugs** Purchasing Practices

Q&A

with Jeff Patchett, RPh, MBA
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Pharmacy Purchasing & Products: **What are some of the decision points for pharmacies in choosing generic products?**

Jeff Patchett: Start with evaluating the quality of the product: Do the tablets come crushed or broken? Are they too soft? Do they powder out in the package? Look for consistency in the quality of the printing and labeling on the packages; this is particularly important for those with—or moving toward—BCMA. Packaging size is next: Will it fit in your automated dispensing cabinet and work with your robotics? Obviously price must be considered. Finally, supporting your GPO contract is important, as your GPO is only effective with your participation driving the volume that is leveraged in contract negotiations.

In some cases, the drug delivery method may be a determining factor, as syringes may be preferred over vials or unit dose vials may be preferred over multi-dose vials. In the case of inhalers, evaluating the effectiveness of the delivery mechanism is key.

PP&P: **What bar code labeling issues need to be considered by pharmacies with (or moving toward) BCMA?**

JP: Consistent, quality printing on the package is essential. If the bar code is not readable 100% of the time, your end-users will lose faith in the BCMA system and create work-arounds. Two-dimensional bar codes that include lot number and expiration dates are preferred by some institutions; however, few BCMA programs currently take advantage of this data. Consider the capabilities of your software and your future plans to determine if two-dimensional bar codes will be a requirement for your facility.

PP&P: **How do GPOs approach price negotiation with the generic drug companies?**

JP: Generic prices are bid like every GPO contract, with the product's volume and the number of manufacturers in the marketplace generally determining how much pressure the GPO can bring to bear on price. A reverse auction technique is often used wherein the price ceiling is established and through electronic bidding the price is quickly driven down. Periodically, additional vendors are invited to further bid down the contract, although the manufacturer of record generally has a clause in their contract allowing them to meet or beat the new price. This process is repeated frequently throughout the year providing many opportunities to drive prices down, a process not unlike day trading.

GPOs need to balance the reduction of generic prices through frequent manufacturer changes with health systems' needs to report accurate NDC numbers to multiple regulatory agencies. Constantly reloading NDC numbers to comply with Medicare and 340B regulations can be challenging and time consuming for health systems.

PP&P: **What is the best way to accrue savings in your drug purchasing practices?**

JP: The biggest opportunity for drug savings right now is through 340B. Given the current economic situation and the increase in charity care, many hospitals that previously did not qualify for 340B may now be eligible. Resources spent applying for 340B eligibility may be a more effective investment than negotiating for lower prices on generic drug contracts.

PP&P: **What other savings opportunities are there?**

JP: Opportunities exist particularly at the system level. Moving toward a single formulary provides greater opportunities to take advantage of volume discounts while also reducing internal costs and the time spent making system updates. Order entry can be centralized in a single location, with one team providing this service to every facility in the system, increasing efficiency and safety. Cost accounting, software systems maintenance, and regulatory reporting are all simpler with a unified formulary. With increased efficiency there is also the opportunity to reduce operational overhead and save money.

PP&P: **Some health systems have considered negotiating directly with generic drug companies rather than going through their GPO. What are the benefits and drawbacks of this approach?**

JP: This approach can be a double-edged sword. For a very large health system, it may be possible to drive prices much like a GPO. However, you also have to consider the services a GPO can provide, including contracting expertise. To contract directly, you would need to implement a purchasing system, hire staff, create contract templates, and establish systems to maintain these contracts. This is an enormous and costly undertaking.

A clear understanding of your usage data also is required to identify high-volume products and project potential savings. With a well-integrated IT system, you can easily access usage information and identify the best opportunities for savings. Those health systems with a more fragmented information system infrastructure will need to invest significant resources to gather this data from multiple sources.

A GPO, on the other hand, has instant access to comprehensive volume data allowing them to easily and accurately negotiate volume-based pricing. Without an integrated information system, it is easy to spend what you make on the margins compiling data and negotiating contracts.

So, in the short term, there may be an opportunity for lower prices, particularly with manufacturers who are not on the GPO contract and are interested in your business. Manufacturers may show some additional pricing flexibility, as they would not have to pay the administration fee to the GPO for your business.

You also would have more control over product choices, allowing you to ensure high quality and consistency. By negotiating a longer-term contract with these manufacturers than the GPO offers, you may have additional leverage.

On the other hand, you may lose out on lower prices if you are not constantly renegotiating your contracts as your GPO does. It is important to consider that by choosing to contract your high-volume items directly, you will reduce your GPO's volume and thus their effectiveness in contracting for you overall.

PP&P: **So is this an opportunity primarily for large institutions?**

JP: The largest hospital systems can build a purchasing department focused on drug contracting and save money. However, for many hospitals the cost of building and managing a contracting operation would probably offset any savings resulting from direct negotiation with generic drug companies.

In addition, it is important to understand just how much leverage a single health system can bring to the contracting process. In an environment where volume drives price, it is difficult to match the negotiating power of GPOs and chain operations such as WalMart. When considering direct contracting, a realistic assessment of your bargaining power must be conducted.

PP&P: **For those that choose to take a direct purchasing approach, what are the key components in contracting with generic drug manufacturers?**

JP: It is important to include a price guarantee clause in the contract to ensure you will continue to receive one of the lowest prices in the market, keeping in mind that manufacturers cannot sell to you at a lower price than the government receives, nor will you have the leverage to negotiate prices as low as the large retail chains, such as WalMart and Walgreens. Rather, your contract should state that you receive the lowest price for your market or your hospital size, and should include a clause that allows you to leave the contract if the manufacturer does not match a better-priced offer from another manufacturer. Be sure you can support the contracted volume over the long term. You also want to avoid constantly renegotiating the contract.

Consider including a negotiated increase or decrease in the contract, or state the term at which point the contract will be renegotiated. With pre-set, capped increases (or matching market price decreases), you can avoid lengthy renegotiations and avoid large price increases down the road. In addition, I recommend keeping contracts as simple as possible by removing any unnecessary legalese. ■

Jeff Patchett, RPh, MBA, is the pharmacy manager at Presbyterian Hospital Matthews, part of Novant Health. The majority of Jeff's career has been in pharmacy management with a focus on pharmacy leadership, automation, and safety systems. A more recent focus has been on positioning pharmacists as medication managers both in the acute care and the outpatient clinic setting. He also spent time as a contract director for a GPO and the software product manager for a BCMA company.