

Three tips for developing a high-performance contract pharmacy network



Excerpts from *Practical Insights into 340B: Developing a High-Performance Contract Pharmacy Network* panel discussion*

In the past seven years, we have seen a great deal of activity in the 340B contract pharmacy space. The number of covered entities with a contract pharmacy agreement has grown to over 5,000 with networks ranging in size from a single location to networks of 50 pharmacies or more.^{1, 2}

Data from the Office of Pharmacy Affairs (OPA) website indicates that during that same time period over 40% of contract pharmacy locations were terminated, indicating some material change in circumstances or expectations between the contracting parties over time.³

Covered entities currently participating in a contract pharmacy relationship or considering entering into a contract pharmacy relationship can benefit from strategies that identify the elements of success and facilitate reacting to changes in the marketplace.

Best practices from industry experts

To build a strong 340B contract pharmacy relationship, consider the following three tips from pharmacy directors and senior leaders at the Medical University of South Carolina, Meijer Pharmacy and McKesson's 340B Solutions team.

1 Build strong relationships

One of the first steps for a 340B covered entity to take in building a productive contract pharmacy network is to establish clear organizational goals. Next, strategically evaluate and select contract pharmacy partners to ensure that 340B program expectations are aligned between the parties. After those initial steps are in place, focus on managing and strengthening those contract pharmacy relationships with the organizational goals in mind.

Fostering open, frequent communication will help minimize any surprises — especially during HRSA audits. Having the support of the contract pharmacy partners along with the timely exchange of transaction data and reporting provides a tangible measure of performance and helps manage expectations.

“Our retail pharmacy partnerships started out as numbers-based, but as we grew and evolved in this marketplace, **we realized that our strongest contract pharmacy providers were also the ones who were the most transparent and cooperative.**”

Heather Easterling,
Director of Pharmacy Services, Medical University of South Carolina

2 Enforce strict compliance

Covered entities know that contract pharmacy relationships can be complex and that compliance issues have the potential to jeopardize the covered entity's 340B program status. Having a robust internal and external auditing process in place along with a well-utilized 340B management software package can help mitigate risks.

Best-in-class contract pharmacy networks understand the value of using a well-supported team of knowledgeable staff to oversee the organization's 340B program. For example, a 500+ bed academic medical center may have three to five full-time employees dedicated to managing its contract pharmacy network, managing the internal auditing process, generating meaningful financial reports, and engaging with a third party to conduct annual audits. Managing compliance requires an ongoing investment in infrastructure.

3 Manage financial reporting and expectations

Other key elements in building a successful contract pharmacy network include understanding and managing the CFO's expectations through regular and reliable financial reporting. For instance, developing financial controls and systems that help the 340B team track, manage and report revenue and expenses in detail will allow the team to provide store-level analysis upon request. The 340B team should be able to articulate any of the summary numbers that are presented within the organization. Robust reporting typically requires efforts beyond software-generated standard reports given the unique goals of 340B in each organization.

The reporting frequency should be regular, consistent and aligned with the organization. Frequency might be a monthly reconciliation report or quarterly report that highlights trends. Work closely with the hospital finance team to develop a model that works for all parties and identify partners in the organization who can provide ongoing support. It may be someone from the finance or reimbursement department, or from a third-party software provider who can assist with developing insightful data.

Summary

Contract pharmacy networks can be an important component of a covered entity's 340B program. The complexity associated with 340B requires a thoughtful approach to achieve the covered entity's and partner's goals. Asking the right questions and building the necessary infrastructure and relationships will facilitate the development of a risk/benefit profile that is appropriate for your covered entity.

"Don't be afraid to ask your contract pharmacy partners for what you need in an audit. We can help an entity significantly reduce the risk of a potential 340B program violation."

Jeff Romano,
Hospital Programs, Meijer Pharmacy

"If you are going to go talk to the CFO, have your house in order. It's your responsibility to educate him/her on the contract pharmacy model — where the revenue comes from, how to understand the contract pharmacy numbers, and every element of expense, including infrastructure and headcount."

Gregg Niemiec,
Senior Managing Consultant,
McKesson Corporation

Visit mckesson.com/340B for more insights and news.

* "Practical Insights into 340B: Developing a High-Performance Contract Pharmacy Network" panel discussion held July 12, 2016, in Washington, D.C.

1 "More than One in Four U.S. Pharmacies Is Now a 340B Contract Pharmacy; Walgreens Still Dominates," *Drug Channels*, July 14, 2015

2 "Walgreens Still Dominates Booming 340B Contract Pharmacy Market, with CVS and Rite Aid Right Behind," *Drug Channels*, February 5, 2014

3 OPA Website, June 20, 2016 (340B Tips, Tricks and Traps Summer Presentation 2016, Slide 7)

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