

## View Point



### Plugging Retail Pharmacy Revenue Leaks

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#### Abstract

With rising “insurance driven” revenues, pharmacies need to ensure that payments they receive are at contractually agreed rates. A lack of compliance on this issue results in a leakage of up to 2-4% of pharmacy third party revenues.

Given the complexity of the pharmacy business, identifying and preventing this leakage is a challenge. This paper presents Infosys' insights and approach for better third party pharmacy revenue management.

## The Retail Pharmacy's Bitter Pill

Drugstore chains, mass merchants and supermarket pharmacies together dispensed prescription drugs worth \$145 billion in 2005 - 63% of the overall prescription drug sales in the US. Ninety percent of this revenue was driven by third party (3P) payments. \*\*

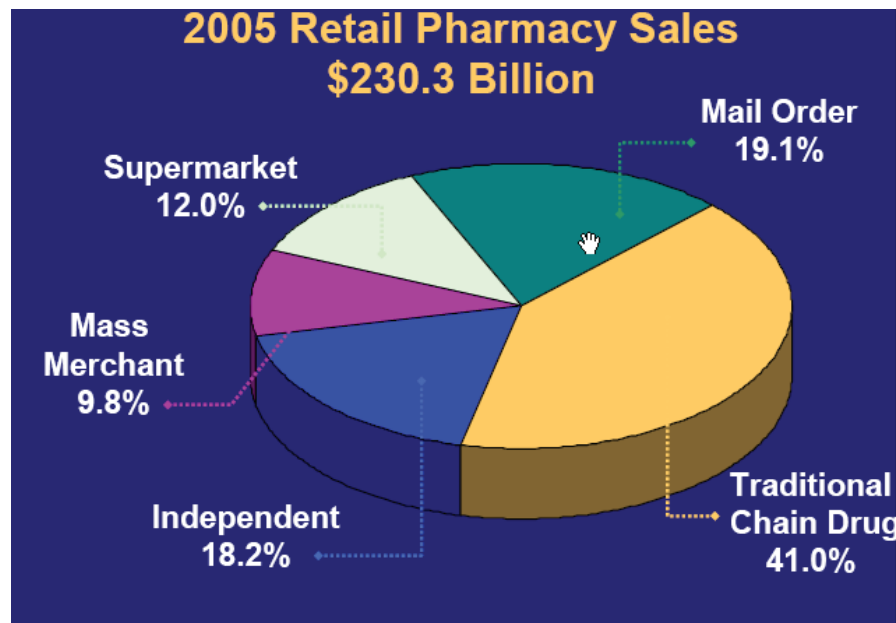


Exhibit 1 – 2005 retail pharmacy sales split by market share

With third party payments driving a large chunk of revenues, pharmacies not only need to attract more patients to fill prescriptions, but they must also ensure payment at competitive and contractually agreed rates. Inability to do so can result in significant revenue loss.

The key obstacle to any third party payment analysis is a lack of transparency between pharmacies and payers - typically, insurance companies and Pharmacy Benefit Managers or PBMs. With individual claim transactions executed regardless of whether the pharmacy was paid at agreed rates, the impact is primarily on the pharmacy. Complicating matters further is the existence of several variable pricing factors like Maximum Allowable Costs (MAC) lists.

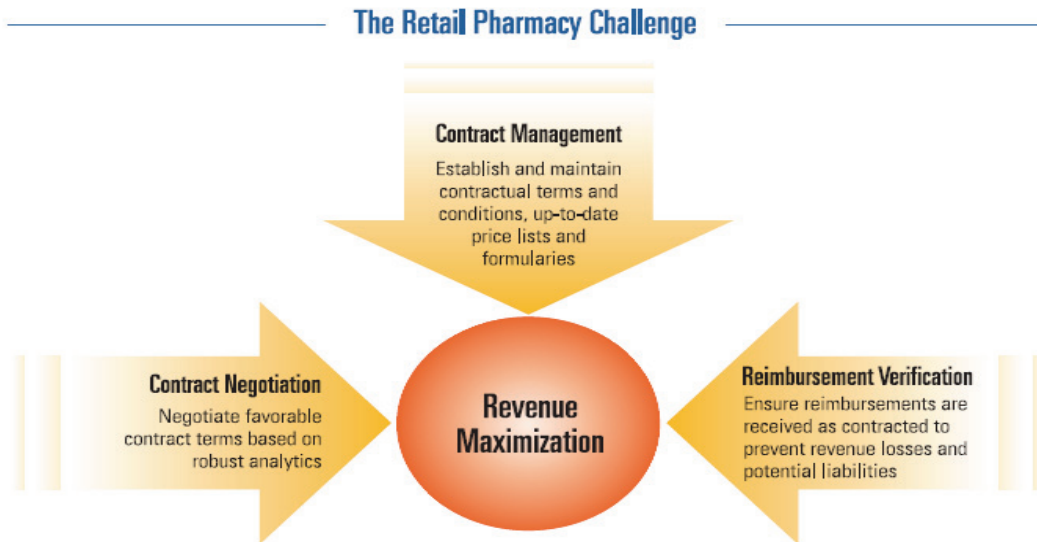
For retail pharmacies, non-adherence by payers to contract rates can lead to revenue losses as high as 2%-4%. Although the lack of transparency is a key factor, the inability of pharmacies to analyze these leaks and take corrective action is also responsible.

While revenue loss is the most tangible outcome, the lack of visibility for pharmacies also results in other strategic disadvantages including the inability to:

- understand true sales metrics (for insurance sales)
- perform true profitability and margin analysis on third party sales
- track effect of procurement and Usual and Customary/Cash (U&C) pricing changes on third party sales
- perform what-if analyses on strategic considerations

\*\* Source – NACDS - Community Pharmacy 2005 results

These factors inhibit the pharmacy chains' ability to forecast trends and accurately estimate profitability.



*Exhibit 2 – Challenge for pharmacies*

The primary reason for the lack of transparency is the unwillingness of payers to share information on critical processes like:

- Modifying / adding new contract rates
  - Movement of multi-source brand drugs from brand to generic rates
  - Usage of alternate sources of Average Wholesale Price to reduce the overall reimbursement
- Updating / adding MAC Lists
  - This is usually done without notifying pharmacies
- Moving member groups across plans
  - Payment terms that suit payers, not pharmacies, are often the basis for moving member groups

To safeguard their interests, pharmacies need to deploy systems that can monitor payer performance and capture short payments immediately. The systems should support

- Regular contract reviews
- Plan performance analyses
- Reimbursement analyses

## The Infosys approach to third party pharmacy revenue management

Infosys' unique approach/methodology to third party pharmacy revenue management brings in transparency, providing pharmacy chains with much-needed visibility. This methodology helps measure compliance of actual payments received against contractual obligations with third-party payers (PBMs). It ensures this by:

- Verifying third-party claim reimbursements
- Highlighting short/over payments
- Providing analytical insights on plan profitability and utilization

As an effective contract management system, the approach provides intelligent data-analysis capability and facilitates analytics to support future contract negotiations with PBMs.

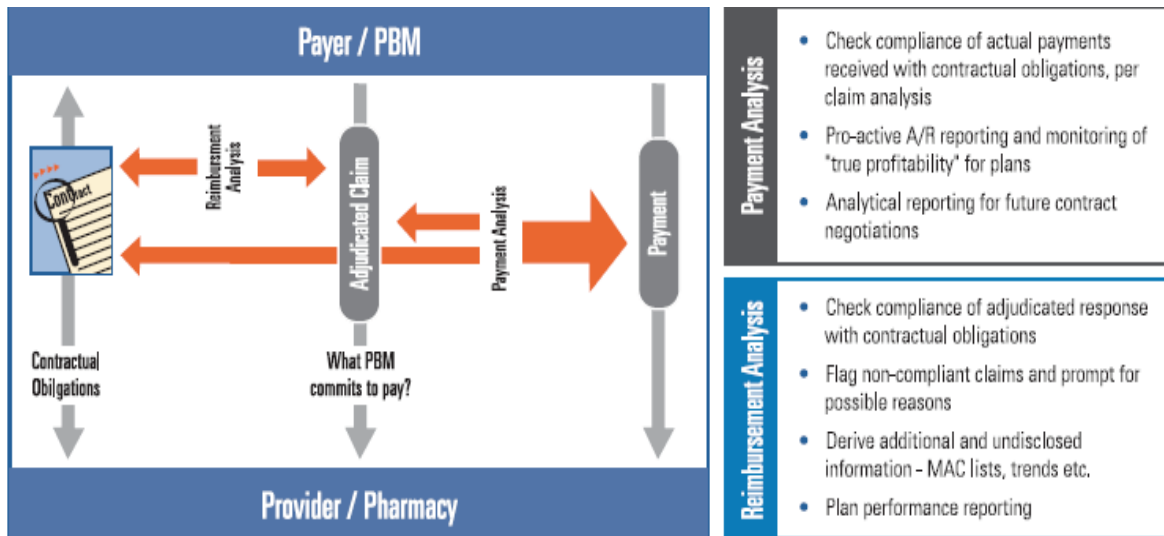


Exhibit 3 – Infosys' methodology ensures complete visibility into payment flows

The methodology empowers pharmacies to:

- Minimize revenue leakage by identifying short-payments
- Reduce future liabilities by identifying over-payments and netting them against short-payments
- Enhance real-time analytics ability on claim reimbursement patterns
- Monitor metrics - plan, payer performance, including profitability, and utilization
- Analyze data for negotiating and renewing contracts

Built on an extensible platform, solutions based on this approach can be expanded with ease to facilitate additional analysis in areas like:

- Pharmacy receivables reconciliation
- Plan profitability analysis
- Effect of new generics
- Member movement across plans
- Contractual rate change analysis
- MAC comparison and MAC change analysis

Leveraging the Infosys methodology, pharmacies have complete visibility into payment flows. This enables them to:

- Seek recovery of short payments
- Define systemic alerts to be triggered on specific criteria
- Identify MAC trends and compare MACs across payers
- Monitor sales metrics
- Conduct margin and profitability analyses
- Forecast future trends and take corrective action

## Conclusion

While many retail pharmacies live with the feeling of leaving something on the table, they have come to accept revenue losses as a cost of doing business. However, it is not just revenues that are impacted. Transparency and the ability to analyze real revenues provide insights critical to strategic business decisions. For example, how should a pharmacy respond to a discount chain's aggressive pricing of generics? Without detailed knowledge of the true drivers for over 90% of their pharmacy revenues, key decisions can be reduced to guessing games.

Infosys' third party revenue management approach enables pharmacies to gain insight into real revenues, measure and analyze the metrics accurately, and make the right business decisions.

### About the authors

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To know more about Infosys' Pharmacy Contract & Revenue Management solution, please visit <http://www.infosys.com/industries/retail-distribution/pharmacy-contracts-revenue-managementsolution.asp>



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