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VIEWPOINT

Drug/technology bundling: Good for you?

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Drug distributors often try to bundle pharmacy dispensing technology with distribution contracts. These arrangements, targeted primarily at independent pharmacies, are designed to tie critical business systems to long-term drug purchase commitments. Are these types of contracts good for independent pharmacies?

Technology implementation is a long-term commitment. It is not easily reversed or changed. A bad technology decision can cause great damage to the business. The proper technology can dra-

matically help the pharmacy control operating costs, increase customer service, and avoid dispensing errors.

Wholesalers bundle technology with drug distribution to overcome the basic fact that everything else they sell is a commodity, and it is difficult to command a premium price for commodities. The customer can easily compare prices and switch vendors. By bundling technology with drugs, distributors attempt to lock in customers and increase profits down the road. Independent pharmacies are

the highest profit market segment for drug distributors. They often have an incomplete understanding of how their drug costs are determined and are especially vulnerable to these tactics.

Do these deals help pharmacies in the long run? The answer is probably not. First, it is costly for a pharmacy to be locked into an inflexible long-term contract with a drug distributor. And, since technology is not the core business of drug distributors, they may not maintain the infrastructure, skills, or focus to provide the highest level of design or support for the systems they promote. This is not just theory. Drug distributors have had problems delivering on their promises in the technology arena.

Why would a technology vendor align with a drug distributor to offer its product at a discount or under a contrived drug/technol-

ogy package deal? Has the vendor resorted to these schemes to sell an inferior product that cannot compete based on performance? Is the vendor dependent on the financial resources of the drug distributor for research, development, support, and marketing of the product?

When a technology product is promoted under a drug distributor price deal, pharmacists should weigh the proposition carefully. Investment in pharmacy technology should be based on long-term, independent control and use of proven, fully supported equipment and software. It should not be unduly influenced by commodity-based price concessions.

There are potential legal and regulatory problems with the drug/technology bundle. With all of the focus on “transparency” in business transactions today, pharmacies need to keep their accounting methods within the structure

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of standard accounting practices. In a recent Massachusetts lawsuit against generic drug-makers the prosecutor stated, "The suit should serve as a wake-up call to those drug manufacturers that manipulate the system to inflate their profits at the expense of the taxpayers."

Also, Securities & Exchange Commission auditors have warned chain pharmacies that they should restate drug costs to reflect distributor and manufacturer advertising allowances. Similar restatements may be required for technology subsidies. Today's bundled drug deal could become tomorrow's audit headache.

Understanding the pricing and costing mechanisms in drug distribution channels has become a profession unto itself. Operators controlling these channels, including manufacturers, pharmacy benefit managers, and drug distributors, have profited

greatly from the sheer confusion they have generated and the misleading information they may have disseminated.

The public and governmental officials are becoming alarmed as the convoluted financial details are exposed on an almost daily basis. This, along with the recently enacted changes to Medicare, suggests that sooner or later drug pricing will be based on pharmacy dead net acquisition costs. In other words, pharmacies will be required to justify the prices they charge based on their actual cost for the drugs they dispense. That will unwind a host of schemes such as bundling, rebates, credits, and multiple invoicing.

Fundamentally, pharmacists running a business should negotiate and understand their true drug costs. When distributors propose technology giveaways, ask for reduced drug prices instead. If that is not an option, ask how

much money has been allowed toward the cost of technology. Ask what will happen if the technology does not perform satisfactorily. What if you change distributors or fail to meet purchase commitments? Request that the allowance be applied to the technology of your choice. Pharmacy managers should know how the dead net cost of their drugs will be determined, including the effects of purchase volume and technology credits.

Instead of purchasing technology from a drug wholesaler, a pharmacy is better off acquiring it from the manufacturer of the equipment. The decision to purchase should be based upon the product's merits, value, manufacturer's reputation and track record, and other factors. Price is important, but it should not be the main point to focus on nor should it be tied to a wholesaler's bundle.

One of the most im-

portant decisions a pharmacy manager makes is selection of the dispensing technology and the vendor that stands behind it. These are complex hardware/software systems that will not operate without human intervention; they need and deserve 24/7 support. If the manufacturer is not committed to future enhancements, the investment will soon be obsolete. Such investments should not be undertaken in tandem with a commodity contract.

The marriage of drug distribution deals with technology adoption is another flawed arrangement in the arcane world of drug pricing. These contracts should either be avoided or unbundled, analyzed, and fully understood. As the saying goes, *Caveat emptor!*

THE AUTHOR, a Connecticut pharmacist, has retired from community practice but plans to keep involved with technology consulting as part of his retirement plans.