Outpatient Pharmacy Efficiency

"Envision and Think In Terms of the Future State"

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In the face of what I believe to be compelling truths and urgency, how is it possible that hospitals remain passively amused rather than inspired to act on transforming outpatient pharmacy operations? One possible answer may have more to do with context than inspiration.

Hospital pharmacy management convey up-front they do not want to operate like a Walgreens or CVS pharmacy[1]. This indirect way of conveying a need to protect operations from cost reduction fishing expeditions may point the way forward for changes in consulting solutions[2]. *Efficiency* is the shark in the water, and costs of effective products are easy prey for management and consultants fishing for low hanging fruit.

While there may be many reasons for incredulity when it comes to consultants, misunderstanding context should not be one of them. Outpatient pharmacy clients can help themselves by insisting consultants have competency to provide solutions and perform the work within product boundaries.

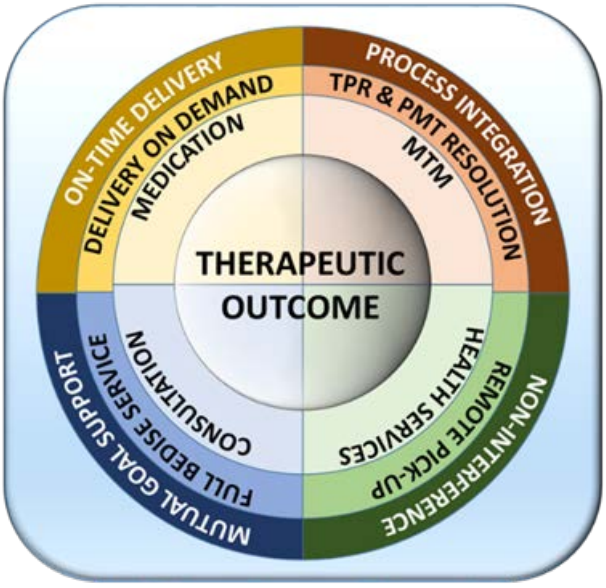
Product

More often than not, product is the first misunderstanding by consultants and clients alike. In the 60's and 70's, it was all the rage to question what business we were *really* in. If you were TWA, for example, you would not be in the airline business but the transportation business. This broader view of a business helped define new strategies, but more importantly, it expanded the notion of what product really is.

Clients often describe product in terms of the medication sold to a patient. I would argue that commonly thought products or services are simply the building blocks of the *real* product. Illustration 1 identifies **therapeutic outcome** as the *product* delivered by *outpatient* pharmacy. Rings show the essential elements of this product, each ring representing an aspect of the product.

The innermost product ring represents *primary aspects* consisting of medication, services, etc. The second ring, in this example, might represent *patient aspect*. These elements are typically services or promises (kept) to create personal value. Finally, the third ring might represent *partnership aspect*. The elements of this ring represent services and promises to other parts of the organization for facilitating the product.

ILLUSTRATION 1
Building Blocks of Product



While there may be more (or less) layers comprising product building blocks, Illustration 1 makes a point that outpatient pharmacy product encompasses more than something sold at the front counter.

Product:Delivery Models (PDM)

As the term implies, PDMs have product and delivery components. For the purpose of this paper, let us assume that there are only two[3] such models, *effective:efficient* and *efficient:effective*. The product determines which model applies to the business, and the starting point for management or consultants.

It is easy to determine which PDM applies. If the primary focus of a business answers the question: "What product maximizes stockholder value?", then the business follows an efficiency:effective PDM. On the other hand, if the primary focus answers the question: "What outcome are we looking for?", then it is an effective:efficient PDM.

ILLUSTRATION 2
EFFICIENT *versus* EFFECTIVE

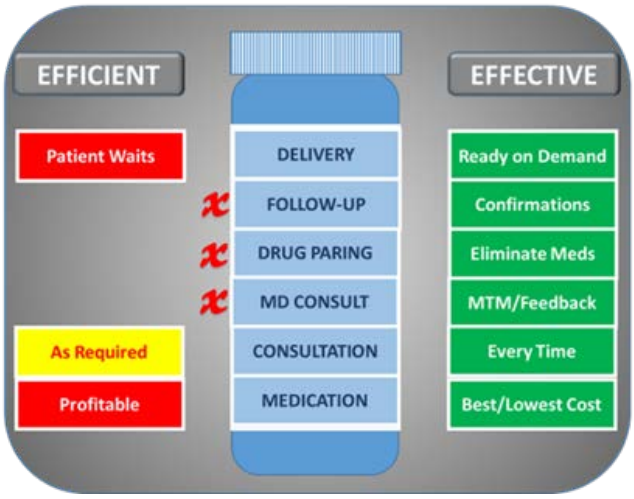


Illustration 2 identifies elements and aspects that drive effective patient outcome. In the example, effective drivers like follow-up, drug paring, and MD consultation are *net drags* on profit and likely discarded by efficiency models. Unless *made* profitable by technology or operations, retailers do not include these as primary aspect elements[4].

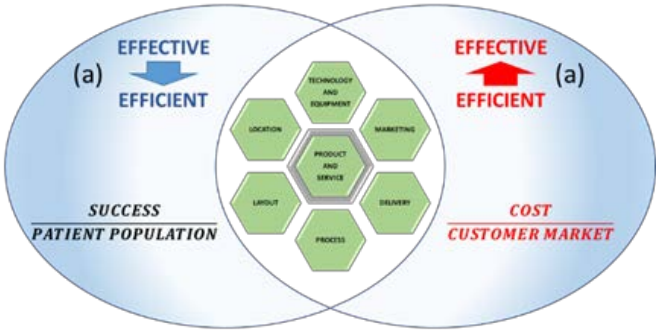
Efficient:Effective – The retail model is the easiest to address because it normally has fewer product elements and aspects. All primary aspect elements sell for the *sole* purpose of profit. In this context, cost/profit drives all elements and operations (labor, process, inventory, equipment, technology, etc.)

Effective:Efficient – Outpatient pharmacy sells therapeutic outcome. All product aspects sell, or otherwise support, that result. Effective product aspects typically add uncompensated costs that require offset or mitigation. Fortunately, hospitals have three ways to offset the higher cost of effective PDM models: funding[5], risk mitigation[6], and efficient delivery[7].

Delivery Intersection

The second component of PDM models defines the *means to deliver* effective or efficient product to the market. Illustration 3 identifies some of the major elements for designing delivery systems. Both models adjust delivery elements to complete the efficient-effective and effective-efficient models. However, the solution for each element differs markedly.

ILLUSTRATION 3
Delivery[1] Intersection



(a) Product is the starting point and Delivery is the ending point as in Product:Delivery

Consumer behavior is central to developing a delivery model. Patients are foremost, consumers. It is in this intersection where healthcare may not be comfortable with context. However, forward-thinking hospitals[8], capable of self-reliance, will benefit from patience and learning how to build *consumer* delivery models.

Effective and efficient consumer models differ in *significant* ways. The role of the client and consultant is to design and develop operations to minimize the delivery cost differential while respecting the product.

Technology & Equipment – Delivery on-demand requires information engineering, technology, and equipment not generally found in chain drug stores[9]. Existing hospital data systems must collect and export encrypted data to ensure medications are ready when demanded. Process changes require equipment also not found or configured differently in chain drug stores. Finally, management and consultants should anticipate non-drug chain technology to secure controlled

substances, refrigeration, storage, patient queuing, and automated pick-up to name a few.

Process – Outpatient pharmacies must deliver medication and superior services faster than chain drug stores owing to the absence of a resilient demand queue, and the need for effective integration with other hospital services. Management and consultants must anticipate multiple-type inventory (WIP, bundled, etc.) trap siding, interrupt mitigation, RF tracking, multiple production channels, etc. These transformative processes (and others) ensure acceptable tolerances for production channel thru-put rates.

Location – The absence of a resilient demand queue, and the small window of opportunity, require high profile, high accessibility in-hospital and on-campus locations. Off-campus pharmacies can make use of transformative medical center locations, strip centers, neighborhood, and independent pharmacy locations. The best solutions include some form of outpatient pharmacy integration with transformative medical centers[10].

Layout – Innovative pharmacy layouts must accommodate technology, equipment, and process not found in traditional chain drug stores. Things like drive-thru, staff pick-up and delivery windows, discharge patient parking, and pharmacist access must work seamlessly with other parts of the pharmacy. Custom, low cost fixtures will give flexibility to the multi-production center layout.

Delivery - Efficient pick-up and delivery operations require innovated solutions, from electric carts to drones, and drop-ship to automated remote delivery. The outpatient pharmacy product depends on patients leaving the hospital or campus medical centers with medication and recovery items in-hand. Management and consultants must work to eliminate retail bias in pharmacy regulations.

Marketing - Hospital management aversion to marketing makes this a four-letter word. Yet, marketing influences, and even controls consumer behavior. Retailers have made a science of branding drug store pharmacy and managing consumer expectations. Management and consultants should expect to bring a more effective marketing and advertising strategy in order to upend a patient belief that drug stores are the de facto source for prescriptions, or that they need nationwide prescription access offered only by chain drug stores. Upending retail branding and consumer beliefs requires bold, aggressive marketing.

Integrating Competence

Hospitals choosing to go down the retail rabbit hole will have little difficulty in finding consultants to guide the way. Those choosing a transformative future need to be selective, hiring consultants that respect the effective:efficient boundary, and possess the competence and ready solutions for non-retail outpatient pharmacy.

Intelligence can be our own worst enemy when it comes to project control, competencies, and differing context. Hospitals *should* be careful when engaging consultants, and closely monitor ongoing projects. However, it can be counterproductive to obstruct discussion on topics where both parties do not have mutual competencies.

In the case of outpatient pharmacy, consultants should bring retail expertise (efficiency) for product *delivery*. The consultant's deliverable is an efficient system for delivering the client's product, therapeutic outcome. Example: A contractor asked to remove $500,000 labor cost from an outpatient pharmacy. While it was a reasonable retail goal, the resulting delivery system would not support the client's product and would create a dysfunctional pharmacy.

Integration of competencies requires a client willingness for self-reliance, commitment, and learning. Conversely, consultants must offer transparency, mentor, and teach. Clients should insist on learning and gaining new competencies from an engagement. Example: Frustrated by a lack of action after many meetings and discussions with a client, I asked the client how to move forward. The client responded management instructed them to do *only* what I *told* them.

Summary

Paradoxically, hospitals cling to unsuccessful retail strategies and clones even in the face of compelling reasons to seek a transformative solution to therapeutic outcome delivery. Perhaps one answer lies in a difficulty or reluctance to integrate competencies. Efficiency consultants further polarize entrenchments by preying on costs meant to support an effective product.

Competency integration protects the integrity of product while developing the most efficient delivery model. While retail and healthcare product differ significantly, both share the same consumer and rely on the same efficiency and marketing tools for behavior management. Hospitals can transform outpatient pharmacies and deliver effective products by embracing retail engineering *adapted* for healthcare.

Footnotes

[1] The intimation is that chain drug stores may not provide, from their point of view, product, service, and price that offer patients the best chance for successful therapeutic outcome.

[2] Many consulting companies may resist changing product solutions where revenue depends on realizing cost reductions for a client.

[3] There are four PDM models: Effective:Effective, Effective:Efficient, Efficient:Efficient, and Efficient:Efficient. Industry consolidation undermines free markets and causes migration of business models to less efficient or effective solutions. Illustration 1 depicts the migration of effective:effective to effective:efficient models. Service commoditization and capital funds leaching by the retail industry, in part, force consolidation and entrenchment of the healthcare industry.

Vertical and horizontal integration strategies by the two largest drug chains illustrate significant migration from free market efficiency:efficiency models. Emerging integration strategies threaten to upend free markets and patient choice.

[4] Failure of hospitals to keep up with technology and equipment advances, and perhaps the absence of a strategy to defend product, allowed commoditization of healthcare services and revenue leaching by drug store and other retailers.

[5] Effective capital models require government funding to remain inside and recycle through the healthcare system. Retailer leaching of 340b funds from healthcare, while remaining profit whole by avoiding loss, is an example of funds leaving healthcare and increasing the value stockholder portfolios.

[6] Reduction of ER, readmission and other cost, as well as improved capital recovery rates by making capacity available to expand market share, represent risk mitigation opportunities afforded by a successful therapeutic outcome pharmacy.

[7] Technology, equipment, and process changes mitigate costs that would otherwise exist in less transformative retail models. Example: WIP inventory reduces wait time by warehousing labor cost that would otherwise occur during at the time a patient waits for a prescription at a retail store.

[8] Few (if any) consulting firms offer transformative, therapeutic outcome pharmacy solutions. This is another reason why hospitals should work towards self-reliance (as a single entity or as an alliance of hospitals, systems, or networks).

[9] The resilient demand queue allows drug chains to avoid investments that would improve patient experience and services. This, coupled with the high cost of adding new technology to tens of thousands of stores, while pursuing alternative vertical and integration strategies, make patient-centric investment prohibitive. Retail friendly pharmacy regulations create a barrier for non-retail pharmacies that healthcare must address.

[10] Retail horizontal integration creates medical service centers and repositions retail (aka retail stockholders) at the point of care. This retail model does not provide a strategic advantage for healthcare, or does it provide an efficient delivery system for services. Hospitals, systems, and networks would benefit by eliminating the retail intermediary, and tactically locate medical centers to better serve patients and reduce delivery cost.

About the Author

Sabrina Hannigan is a retired major drug chain executive with over three decades experience in site analysis and operations optimization. Upon retiring, she contracted with a healthcare consulting firm to consult on a broad range of operational topics specific to build-out of an outpatient pharmacy service.

As an independent consultant, Sabrina recognized that retail solutions were not transferable and created an outpatient pharmacy business model incorporating methods and processes experienced over forty years in manufacturing and retail.

Sabrina is passionate about the future of healthcare and envisions hospital-centric solutions for improving therapeutic outcome and population health. Towards this end, she continues to develop new processes and methods for outpatient pharmacies.