



# Why Outpatient Pharmacies Fail

## *Reason 4: Information – Part 1, Board Viewpoint*

*“Envision and Think In Terms of the Future State”*

*Sabrina Hannigan*

[TransformationalOutpatientPharmacy.com](http://TransformationalOutpatientPharmacy.com)

*Board members own the success or failure of organizations as guardians of mission and long-range strategy. It is fair to say a reason why outpatient pharmacies fail to thrive across the healthcare industry has its beginnings in the board room. And, as this decision sanctum trades only in information, something must be wrong with what is said or heard.*

I have never met a hospital pharmacist who was not well intentioned, save perhaps those who cite the work as ‘easier than a drug store’. A reason pharmacists might prefer outpatient pharmacy is they are *designed* for low scrip activity.<sup>[1]</sup>

The truth is that a successful outpatient pharmacy requires a far more complex operation than drug stores because its window of opportunity for capturing the free market is very small. On the upside, once engaged, the revenue potential for patient scrip lives is significant.

Complexity *does not* translate to prohibitive operations or costs. It means hospitals need to work smarter than drug stores. Outpatient pharmacies can leverage IT and process changes to deal with added complexity of marketing, production, and delivery.

However, trying to manage complexity with a drug store clone, poor operations, location, etc. will most certainly lead to prohibitive investment and cost. If you find yourself engaging one of the big healthcare consulting companies to reduce cost, you may have already failed.

### Define Success

A national director of underperforming retail operations recently declined free mentoring stating “We’re doing

great!” As a former Walgreen pharmacy supervisor, he may very well believe he is. However, the metrics for a successful outpatient pharmacy are very different than the plug-n-play retail drug store he supervised.

Point: Boards and management must be aware of total potential to define success.

Would the board consider operations successful if they knew the opportunity in the above example was over \$1.1 *billion* and his operations were delivering only a small fraction of that? I suspect the board and the director were not aware of the true potential.

**Illustration A**  
Outpatient Pharmacy Must be Able to Serve the Total Market

SOURCE	ENGAGEMENTS	SCRIPS	REVENUE
Acute Care	675,000	845,000	55,000,000
Psychiatric Care	44,000	1,060,000	68,900,000
Rehabilitation	11,000	655,000	42,600,000
Skilled Nursing	1,000	62,000	4,000,000
Long Term AC	1,500	85,000	5,500,000
Other	7,000	11,000	700,000
Outpatient	28,500,000	14,270,000	570,600,000
Outpatient Surgical	425,000	320,000	12,800,000
ER	2,700,000	2,015,000	80,600,000
Employees	140,000	4,060,000	264,000,000
<b>TOTAL POTENTIAL</b>	<b>32,504,500</b>	<b>23,383,000</b>	<b>1,104,700,000</b>

A national pharmacy director self-described his operation as ‘doing great’ even though it only served a small fraction of employees and even smaller number of acute care patients.

EMR systems contain information on patient scrips that management can easily access and analyze with simple portable systems. Canvassing on-site doctor offices and clinics further provide predictable scrip potential. Management can provide this data to the board.

Point: The outpatient pharmacy must serve the total market to successfully improve patient outcomes.

Some clients cite improved patient outcome as a measure for success of retail operations. Even so, *significant* market capture is required for even modest success of these boilerplate goals, with the exception of one ... serving the indigent community.

**Illustration B**  
Boilerplate Drivers for Outpatient Pharmacies



These drivers are most often cited to support outpatient pharmacy. However, the pharmacy must achieve a critical mass before having any significant impact on these drivers.

A large hospital in Miami excelled at serving this community resulting in tens of millions in loss and inability to serve profitable markets.<sup>[2]</sup> Another large hospital in North Carolina served indigent patients at the expense of their bedside program and walk-up profitable scrip potential.

This is not to suggest hospitals should also ignore the indigent community. It simply means that if outpatient pharmacies are not designed correctly, they will be overwhelmed by the demand.

Point: Operations must be capable of achieving the market goals.

The #1 reason outpatient pharmacies fail is that they are *designed to fail*. Inability to achieve production channel rates to serve all markets, use of non-gateway locations, poor marketing, and not integrating goals with other departments are just a few ways they fail before they start.

Point: Defining market to fit a solution understates the true potential of outpatient pharmacy.

A healthcare consulting company and its St. Louis client asked what I defined as a successful bedside program ... 10%, maybe 20% capture? I responded 90-100% market capture. The difference was I saw a solution to fit the market whereas the consultant and client saw a market that fit their solution.

Point: Outpatient pharmacy is increasingly a defensive hospital system strategy.

Drug chains have launched their long-awaited offensive on the healthcare industry. As retailers, they are only interested in harvesting profitable, low-hanging fruit. This poses a significant risk to hospitals relying on these services to underpin their operations.

Drug chain's foray into healthcare was not as much a long-term strategy as born out of necessity to seek new avenues of revenue/profit growth in an increasingly unstable prescription delivery industry. Therein lies the opportunity for hospitals to launch their own offensive and capitalize on this ailing underbelly.

**Warning Signs**

There are warning signs for the board that an outpatient

**Illustration C**  
Warning Signs That an Outpatient Pharmacy Will Fail or Is Failing



An outpatient pharmacy will fail if a Business Plan proposes or states any of these six giveaways. A successful pharmacy must account for the six key requirements under Operation Plan.

pharmacy venture is underperforming or will fail to

achieve its stated goals. These fall into two categories ... the business plan and the operation plan.

Point: The drug store clone will not work.

If nothing else is taken away from this article, take away the knowledge that drug store clones do not work as outpatient pharmacies. Having spent over three decades tuning retail drug store operations for a captive market, I can say with 100% certainty the clone will only serve a *very* small fraction of a hospital's total free market scrip potential.

The chain drug store is designed for a captive market that *must wait*, pre-order, or return for their prescription delivery. None of these describe hospital markets which are on-demand delivery ... meaning delivery must occur when patients want it and not when the drug store clone can deliver it.

If you need more proof drug store clones do not work, try to find one successful outpatient pharmacy run by a major drug chain or third-party pharmacy management company noting the above metric for success.

Point: Management that do not serve the total market do not know how to.

Outpatient pharmacies must be able to serve the total market potential *from the outset*. They must be in the right location(s), have the right layout, technology, and process. Short of this, the investment will need to be scrapped and begun anew to reach hospital markets.

The worst operation I ever reviewed was a large Miami hospital losing tens of millions in their pharmacy. Yet, management had all the right answers about what they wanted to do. There is a big difference between knowing what you want to do and being able to do it.

Point: Patient convenience is NOT a market.

The semantically loaded phrase 'patient convenience' should never be used to define outpatient markets. Board members should require management to define specific markets both in terms of who and size.

Because drug store clones cannot support patient convenience,<sup>[3]</sup> these clones eventually come to define themselves as a convenience to only those patients they serve.

Point: Gateways are retail Main & Main.

Outpatient pharmacy success builds on many moving parts and one fixed part ... location. I have seen clients put these in basements, second and third floors, in isolated retail courts, and hidden behind walls as if they did not want to fill prescriptions.

Board members must be prepared to reject a proposal for wont of a location. The right location does exist for sure. Hospitals manage space poorly and often give up prime retail (gateway) space for conference rooms, staff libraries, utility closets, coffee shops, and medical space.

Point: We do not want to be Walgreens or CVS ... truth

Management often has a clearer vision of what they do not want to be than what they need to. The simple fact is that outpatient pharmacies cannot operate like the Walgreens, CVS, or any other in-market pharmacy. Yet, every outpatient pharmacy I have seen or reviewed runs *exactly* like chains, just not as efficiently.

Board members must require management to define themselves by detailing what differentiates operations and how these differences will lead to desired goals and objectives.

Point: A bridge crossed later is rarely crossed.

We build the future on the foundation poured today. There is no '*we will figure that out later*' or '*we need to get our feet wet first*'. You need to know that the outpatient pharmacy you are building will support the future state.

Board members should press management for these solutions to ensure they are thinking in terms of the future state. Chances are if management is unable to define how they will succeed, they will not succeed.

A business plan sheds light on whether management recognizes the complexity of hospital markets. The operation plan quantifies this understanding. Process and production engineering is a matter of mathematics whether applied to drug chains or hospitals.

The illustration above lists six of the most important outpatient pharmacy math problems that do not exist for drug chains or independent pharmacies. Management must provide answers to these problems before the approval of operations.

## Before you sign-off

It would be a good idea to have a third party review the outpatient pharmacy proposal or remediation plan before it reaches the board room to ensure it has the best chance for success. Management can avail itself of free guidance on my website.

## Summary

I do not know another retail enterprise that has as many meanings for 'success' as outpatient pharmacy. What is certain, however, the board and management must agree on their definition of success, ensure that the solution can achieve success, and not allowing this metric to erode for want of innovation and transformation.

## Footnotes

- [1] Management does not intentionally design a pharmacy to underperform. However, the choices they make determine this.
- [2] Drug chains do not serve indigent communities for precisely this reason. Pharmacy deserts exist because there is no profit in these markets. And in other markets, indigents would make it difficult for chains to serve their profitable patients.
- [3] Drug stores require a *captive* market which by definition is not convenient for patients. Drug chains would need to completely redesign their pharmacies to serve the convenience of patients.

## ***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.

