

**The road to success is  
always under  
construction.**

Arnold Palmer





**Chains and PBMs are thriving as Independents face diminishing profit levels caused by:**

- **Pricing formulas that fail to protect margins against cost changes**
- **Usual and Customary pricing that results in inadequate third party reimbursements on non-preferred drugs, non-formulary drugs and large numbers of generics**
- **DIR fees, GER adjustments and “Claw Backs”**
- **Delays by PBMs in updating costs for several weeks after items increase**

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- The issue with regard to reduced reimbursement following catalog changes is fairly common and is created by PBM reimbursement strategies: Generally, what occurs
  - is a lower price per RX overall.

On a multi-source generic what can happen is:

Different MACs which obviously cause different net reimbursements and will vary by PBM so what you end up with is a complex grid when you lay the different NDC numbers over the myriad PBMs. Each one will be different.

Some of those items with different NDC numbers will be in different copay tiers  
So that what you see is:

- Cost \$7.00 Adjudicated price of \$9.00 OR
  - Cost \$7.00 Adjudicated price of \$9.00 with \$30.00 copay of which \$21.00 is "clawed back" OR
  - Cost \$7.00 Non formulary which applies U&C pricing with the customer paying 50% co-insurance and the PBM pays nothing
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Again, these will be different by drug and by PBM.

There isn't much point in chasing these down one by one because there is nothing, we can do to affect what the PBM will do RX by RX.

What you can do is analyze the mix and adjust price tables to ensure that:

- There is no under reimbursement caused by an inadequate U&C being generated
- Non-preferred and non-formulary reimbursement are maximized to counter the effect of those RXS that you can't change.

# Algorithm

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In mathematics and computer science, an algorithm is a finite sequence of well-defined, computer-implementable instructions, typically to solve a class of problems or to perform a computation.

## **CASE STUDY**

### **ILLUSTRATION OF THE NEGATIVE EFFECT OF COST INCREASES ON GROSS MARGINS**

	<b>BASELINE</b>	<b>6 MONTHS</b>	<b>12 MONTHS</b>	<b>18 MONTHS</b>	<b>24 MONTHS</b>
<b>AVERAGE COST</b>	\$30.75	\$32.10	\$34.10	\$34.75	\$39.80
<b>AVERAGE Margin</b>	\$8.70	\$8.90	\$9.10	\$9.25	\$9.55
<b>AVERAGE RETAIL</b>	\$39.45	\$41.00	\$43.20	\$44.00	\$49.35
<b>GROSS MARGIN %</b>	22.10%	21.70%	21.10%	21.00%	19.35%

- **WHOLESALE COSTS INCREASED 29.4%**
- **AVERAGE RETAIL INCREASED 25.0%**
- **AVERAGE Margin INCREASED ONLY 9.7%**
- **GROSS MARGIN DROPPED (2.8)**
  
- **THIS SITUATION IS TYPICAL IN PHARMACY AND IS CAUSED BY THE AVERAGE COST PER RX INCREASING AT A GREATER RATE THAN THE AVERAGE Margin PER RX.**
  
- **PERIODIC REVISIONS OF PRICE FORMULA TABLES ARE NECESSARY TO OFFSET THE NEGATIVE IMPACT OF COST INCREASES.**





## Your takeaway:

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you need to adjust  
your pricing tables  
that fit you and your  
pharmacy to stop  
leaving money on the  
table.