

The 2023 **Smarter** **Purchasing** Report

HOW PHARMACIES HARNESS SMARTER
PURCHASING TO DRIVE SAVINGS
AND ENHANCE OPERATIONS



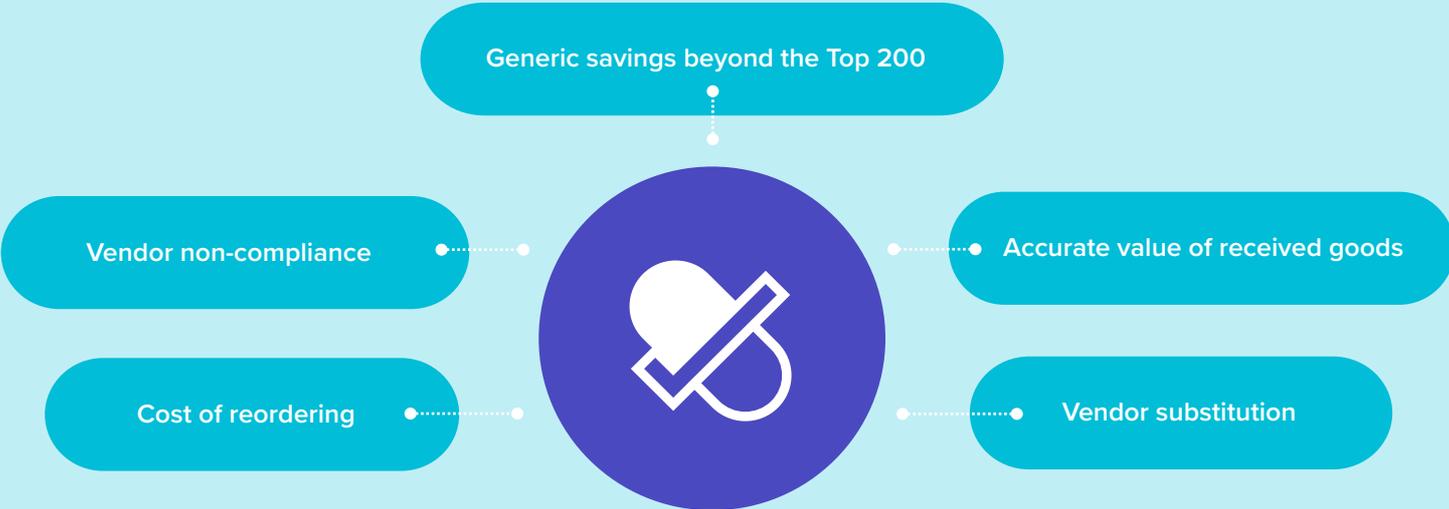
In a groundbreaking analysis of our 2021 customer data, **SureCost delved deep into the numbers to uncover valuable insights.**

Last year’s Smarter Purchasing Report highlighted five key data points that shed light on opportunities for enhanced data transparency and potential areas for savings. The findings proved instrumental in empowering pharmacies to make informed decisions and drive efficiency in their operations. As a result of the profound impact and actionable information generated by the report, we’re committed to conducting annual analyses. We want to ensure that pharmacies consistently benefit from the wealth of knowledge and strategic guidance offered by these reports. Our aim is to empower pharmacies to optimize their purchasing strategies and drive continuous growth and savings in their operations.

Methodology

In 2022, SureCost analyzed anonymized customer data from its entire customer portfolio, encompassing over 5,000 pharmacy professionals across the United States.

SureCost then isolated five data points according to their potential to expand data transparency for customers and indicate potential areas for savings or losses:



Customer data was first standardized by removing outliers to ensure an accurate “apples to apples” comparison. SureCost’s leadership examined each data set to address potential anomalies and note trends. Data was then averaged to provide a snapshot of findings and opportunities for the average pharmacy.

Finally, SureCost collected quantitative data through interviews with customers.

Navigating the Complex World of Pharmacy Operations

Pharmacies face a variety of challenges as the healthcare industry develops that can negatively impact their day-to-day business operations, financial situation and capacity to deliver high-quality treatment to their patients. The difficulties pharmacists encounter include staffing shortages, third party audits and DIR fees, also known as "clawbacks". In this report, we dig deeper into these difficulties, consider potential solutions and discuss how [SureCost provides the tools and assistance to overcome these obstacles](#). Here are some of the critical obstacles facing today's pharmacies.

Staffing Shortages

Staffing shortages are among the biggest problems affecting long-term and retail pharmacies. The demand for services in the pharmacy industry has significantly increased, placing pressure on the workforce. There is an increased need for medicines and medical services as the population ages and the frequency of chronic illnesses rises. Additionally, the COVID-19 epidemic has made the industry's personnel problems worse. According to administrative data about Medicaid, the number of prescriptions per person with Medicaid coverage increased 57%.¹

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The operations and profitability of a pharmacy may be significantly harmed by a personnel shortage. When there aren't enough staff to manage patient care, the quality of care can suffer, leading to negative patient outcomes and decreased patient satisfaction. Furthermore, staffing shortages may cause greater stress and burnout, which can lower morale and exacerbate the issue by increasing turnover.

The Rise of 3rd Party Audits

The rising frequency and expense of third-party audits is another key issue that retail and long term pharmacists must deal with. These audits are designed to ensure pharmacies are following the rules and regulations and provide high-quality treatment.

In 2020, PBMs reviewed a 40% increase in prescriptions, according to PAAS National, a pharmacy audit support service. This highlights the necessity for pharmacists to build up a robust internal review procedure. Additionally, these audits may be expensive. The typical audit in 2020 cost pharmacies \$23,978, which is 35% higher than the average yearly cost over the preceding five years.²

[Pharmacies are required to abide by a wide range of rules and regulations](#). However, following all these regulations may be expensive and time-consuming, which makes it harder for pharmacies to run efficiently and profitably. The pharmacy's resources are heavily strained since auditors divert workers from other crucial activities. Failing to abide by all rules might have significant repercussions, including fines, penalties or even the loss of the pharmacy's accreditation or operating license.

The Impact of DIR Fees

Retail and longer-term care pharmacists are growing more concerned about direct and indirect remuneration (DIR) payments. These fees are levied by Medicare Part D plans and pharmacy benefit managers (PBMs) to adjust payment rates according to performance indicators including generic distribution rates and medication adherence.

DIR fees are problematic because they might be unexpectedly and retrospectively applied, making it challenging for pharmacists to budget and make plans. The financial instability that can result from this unpredictability can make it difficult for pharmacies to operate and continue offering vital services to their communities. CMS disclosed in a budget document PBMs increased retroactive fees on pharmacies by an astonishing 91,500 percent between 2010 and 2019.³

Beginning on January 1, 2024, DIR fees are no longer being retroactively applied, but the final rule doesn't eliminate PBMs' use of DIR fees and CMS doesn't address the impact on pharmacy cash flow during the transition period. PBMs can continue to engage in other harmful business practices, such as negative reimbursements and "patient steering" for brand, generic and specialty drugs to PBM-affiliated pharmacies. Therefore, pharmacies need to continue to ensure they're getting the best prices, the products are covered by the PBMs and they're maximizing their cash flow through better inventory management.⁴

The Case for Smarter Purchasing

Smarter Purchasing is a powerful methodology that retail and long-term care pharmacies use to overcome the negative effects of staffing shortages, 3rd party audits and DIR fees. By finding the best price for medications, pharmacies lower their expenses and improve their bottom line. This, in turn, assists pharmacies in dealing with the financial consequences of workforce shortages and DIR fees. Staffing shortages might result in revenue loss owing to the inability to fill prescriptions and service customers on time. DIR fees potentially have a detrimental influence on a pharmacy's financial viability by imposing extra costs on top of already reduced reimbursement rates. Pharmacies may better handle these financial problems by lowering expenditures with smarter purchasing practices.

Not only should pharmacies seek competitive pricing, they should also seek accurate pricing. By receiving the most up-to-date vendor prices and having the ability to compare the value of goods received to what was invoiced, pharmacies ensure they're avoiding overpayment and that vendors are compliant. This is especially important in the face of 3rd party audits.

With staffing shortages or changes to the staff, pharmacies may not be aware of stockouts or vendor substitutions until it is too late. Streamlining the purchasing process ensures pharmacies will always have the medications needed and that customers receive the correct prescriptions on time.



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We can actually shop more aggressively among the top 500, and we use SureCost for everything. I can compare prices in SureCost in my sleep!

—Wolf Kraus, Director of Purchasing at [Specialty Rx](#)

The Benefits of Smarter Purchasing

[The challenges of staffing shortages](#), 3rd party audits and DIR fees that retail and long-term care pharmacies face leads to financial instability and operational difficulties. Smarter purchasing helps overcome these difficulties by preventing revenue loss and lowering expenses. Using digital solutions to examine processes and transactions at a granular level, pharmacies identify areas for improvement and make data-driven decisions.

We looked at analytics from five key areas connected to data transparency and enhanced operations:



The analysis shows that savings only starts with finding the best price for products. In fact, by finding the best prices for products, only paying for what was ordered and actually received and avoiding unexpected costs due to vendor non-compliance and product shortages, smarter purchasing saves pharmacies substantial amounts of money.

Five Areas to Apply Smarter Purchasing

Generic Savings Beyond the Top 200 Savings

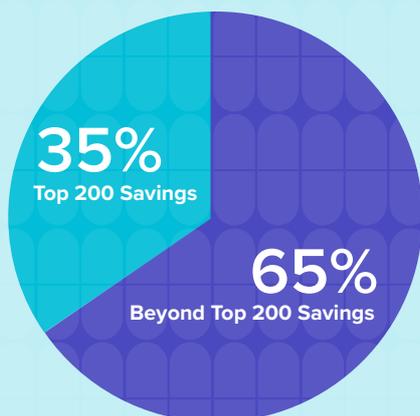
As explained, the pharmacy purchasing environment obscures the best pricing for items. A complex web of brand names, generic alternatives, wholesalers, secondary vendors, catalogs order forms and product categories are presented to pharmacies. The best price is buried in a sea of information, so even a pharmacy with the luxury of time to spend hours researching everything, will lose out on possible savings. For instance, despite the fact that pharmacists are aware that generic medications are often the most affordable choices, there are still considerable price discrepancies between them. Many pharmacies are unaware that discounts are available from other items outside the Top 200 generic medications.

Discover your potential savings with SureCost.

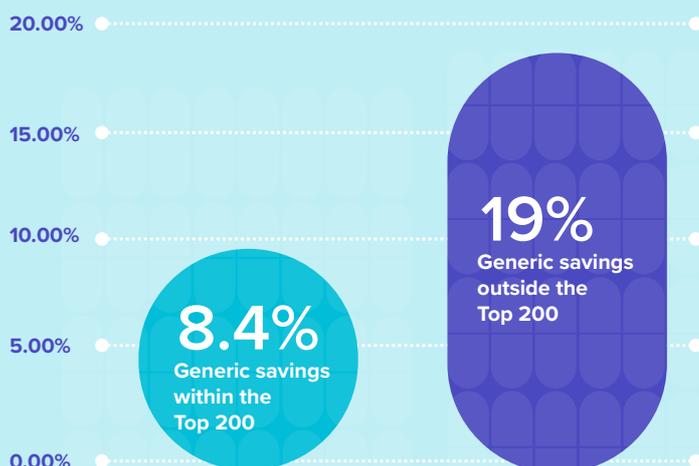
Calculate in Seconds

Consider the savings made by SureCost users:

Ratio of savings between Top 200 drugs purchased and beyond the Top 200



Average COGs savings within and beyond Top 200 drugs



The graph demonstrates that there are considerable opportunities for savings outside of the Top 200. To get the best product pricing, keep in mind that some pharmacies utilize technology that searches for an even larger variety of possibilities. Pharmacies are also keeping track of adherence to any chosen custom rules and any current purchase agreements. Pharmacy businesses benefit from being able to genuinely “see” everything thanks to technology.

Gain Visibility

With the help of SureCost, pharmacists quickly monitor all of their orders and identify what is available outside of the Top 200. These pharmacies still monitor compliance with their primary vendor, unlike shopping systems that simply look at secondary vendors, without taking time away from their regular business hours.

Based on the [average 2% savings that SureCost provides to pharmacies](#), you could save even more on cost of goods by shopping outside the Top 200. For example, a pharmacy saving 3% with SureCost, purchasing an average of \$3M annually, will save \$90,000 each year.

\$90K

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It's incredible how much I utilize SureCost throughout my day. Purchase history, returns, price comparison, equivalency, stock availability and orders are just the tip of the iceberg.

—Tracy Zahn, Inventory Manager, Young at Heart Pharmacy

With more partnership oversight and easier access to vital metrics, SureCost will help you better understand your relationships with all service providers.

Accurate Value of Received Goods

A purchasing solution will minimize the cost of products by always seeking the best price. In addition, it will also reveal expensive errors in the procurement process, such as disparities with the actual value of goods received being less than what the value pharmacists are invoiced for.

There are several distinct causes for the discrepancy between the amount of received goods and the amount charged on the invoice. A vendor could just choose not to deliver the item. It is possible for a pharmacy to place an order for a certain quantity and receive less or none at all. Another problem is “miss-picks” - when a vendor fills the incorrect product, the pharmacy receives a bill for a product they didn’t request.

Data from SureCost customers shows that these issues have a major impact on a pharmacy’s bottom line. Some pharmacies have incurred costs of 0.34% or more and a discrepancy of 23 basis points was found between the invoiced amount and the actual quantity of goods received.

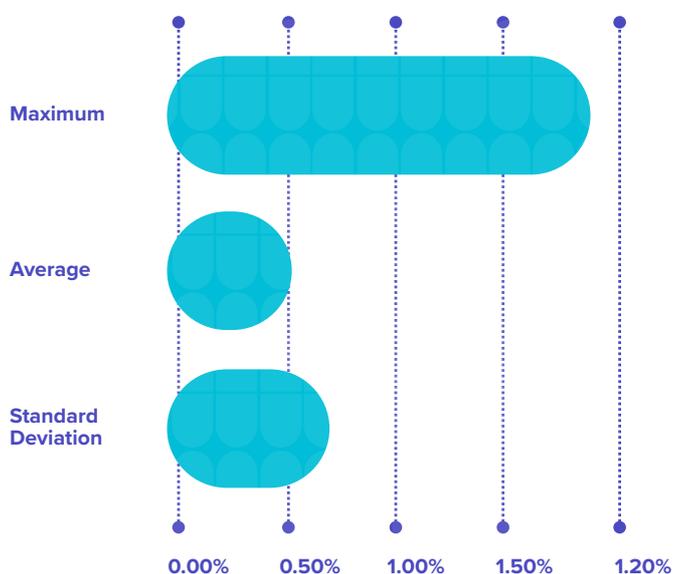


0.34%
Invoices higher than goods received



\$6,900
Yearly losses for pharmacies with \$3M annual purchasing

Invoice vs Receiving variation



Discovering a 34 basis point discrepancy may appear insignificant at first glance. However, for a pharmacy with an average annual expenditure of \$3 million, this seemingly small difference translates into an astounding annual loss of \$6,900!

Now, consider this: Are you potentially losing hundreds of thousands of dollars by failing to compare your invoiced amount to the actual received?

Ensure Accountability

SureCost's Accounts Payable reconciliation enables pharmacies to monitor these errors and take precautions. You may check invoices against orders at the moment of receipt by integrating purchasing with your existing accounting process. Utilizing a single interface, you'll quickly compare what you ordered, what you received and what you're being charged for.

Avoiding Vendor Non-Compliance

Another discrepancy resulting in lost revenue is being charged more than the quoted contract price. While vendors and pharmacies are both responsible for the terms of their purchasing agreements, vendors make unintended mistakes. Pharmacies are left to monitor every purchase. It's a time-consuming and tedious process that, when left to manual means, is far from perfect.

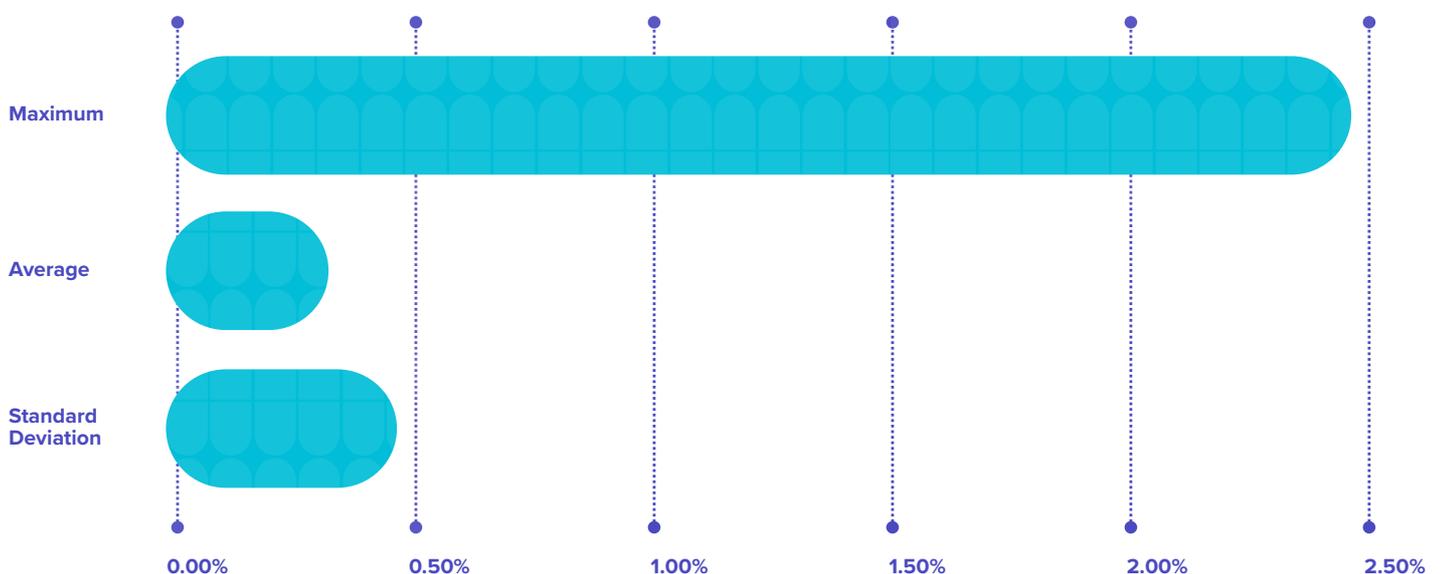
Pharmacies end up literally paying more than they bargained for:



Astonishingly, SureCost users encountered pricing issues on approximately 16% of all contracted items. This has led to a significant cost increase of over 2.5% for several pharmacies, with an average spike of 27 basis points in costs. For a retail pharmacy with an annual purchasing volume of \$3M, this results in \$8,100 per year being spent on invoices they shouldn't be paying.

Contract pricing is just one aspect of vendor compliance. This issue also raises the question of how pharmacies effectively monitor compliance in general. In addition to the quantitative cost of these discrepancies, there is a significant added value to the peace of mind that comes from having an eye on all aspects of procurement.

Invoice to GPO contract variances impacting pharmacy COGS



Leveraging Transparency

SureCost alerts you if the vendor fails to honor the quoted contract price and gives you the information in order to report back to them. Along with that, we'll make sure your pharmacy abides by its own purchasing agreements. Gain access to vendor transactions without having to personally audit each transaction.

The Real Cost of Reordering

For pharmacies, reorders due to a popular item being out of stock happens frequently. They struggle to locate a different provider and end up paying more. It's yet another laborious procedure. Additionally, the harder it is to even locate the product the longer a pharmacy learns that it is out of stock. If the pharmacy doesn't carry that item, it may lose out on the sale, let down the customer and fail to provide the patient with the essentials for their health. Because of this, even a seemingly little proportion of reorder products has a significant negative impact on patients and pharmacies.

On average among the pharmacies analyzed for this report, 2.5% of items had to be reordered—with some pharmacies experiencing reordering percentages as high as 19.6%. The average cost of reordering surged by 10 basis points. With some pharmacies, this surge reached an alarming 45 basis points.

2.5% Average pharmacy reordering percentage

19.6% Above-average pharmacy reordering percentage

Reordering “on the fly” will most likely always be a factor, even if supply chain problems and related difficulties go away in the future. Pharmacies will always need to be prepared to adapt when a product goes out of stock, which is inevitable yet unexpected. Again, it's hard to put a dollar amount on preventing the anxiety of a last-minute scramble to bring patients what they need.

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Your company brings a lot of value to your customers by providing training and the knowledge to help them manage their vendor contracts and purchasing accurately and efficiently. No one else in the industry provides that type of service.

—Doug Smock, CEO & President, [Infinity Pharmacy Solutions, LLC](#)



About three years ago, we debated switching to a different buying group. It had better pricing than our current group, but was more rigid in allowing us to buy outside. We needed to know if the switch was worthwhile, so we did an analysis. It turned out **SureCost was saving us over \$200,000 a year. And it's probably closer to \$300,000 now.**

—Nic Smith, Found and Owner, [Smith Pharmacy](#)

Gain Foresight

[SureCost quickly determines compatible in-stock products](#) without having to wait to discover which items are back-ordered or can't be filled because all of your vendors are in one purchasing solution. Additionally, SureCost alerts you to any potential supply problems and always identifies the best deal possibilities. You consistently address the needs of your patients, reduce your cost of goods and have the proper products in stock.

Tracking Vendor Substitutions

Vendors may substitute a product before shipping without informing the pharmacy. This is different from mistakenly sending pharmacies an incorrect item. A pharmacy may not notice the substitution or might assume that they're still getting what they need. In the 2022 Smarter Purchasing Report, we delved deep into the purchasing habits of SureCost customers and found a staggering revelation: a significant 8% of total items purchased by SureCost customers were substituted. An array of substitution types were analyzed, including the common brand-to-generic substitution. This year, vendor substitutions exclusively within the generics category were examined to see how often substitutions occur for different reasons such as dosage form, strength and package size substitutions.

SureCost customers, on average, encountered vendor substitutions in approximately 0.74% of their generic purchases. With some pharmacies, vendors substituted an astounding 7.45% of their generic purchases. However, pharmacies don't always realize the impact of these substitutions or changes.

Percent of substituted items



0.74%

Vendor substitutions of generic purchases

That substitution rate of 0.74% could mean significantly higher costs. Pharmacies have incurred notable costs resulting in an average increase of 8 basis points, in some cases, soaring as high as 3.5%. In fact, some pharmacies could pay over \$35,000 per year due to vendor substitution.



\$2,400

Yearly losses for pharmacies with \$3M annual purchasing

In addition, these pharmacies receive what's essentially a different item than the one they needed. By extension, so does the patient, assuming the pharmacy still uses that item.

Increase Awareness

Vendor substitutions can be harmful to a pharmacy's bottom line. If a vendor substitutes a medication with a higher cost or a lower reimbursement rate, it can impact the pharmacy's profitability. SureCost displays the costs of substitutes while tracking the predicted product and pricing. If you do get a different item, the system marks it so you readily identify the problem and talk to the vendor about it. SureCost enables you to keep an eye out for these modifications or, as several pharmacies described, to prevent suppliers from substituting any items. Prevention of item substitution eliminates the additional tasks, time and resources needed to verify and update records, re-label products if necessary and communicate any changes to patients or healthcare providers.

Tips for Smarter Purchasing

Summary of Savings Potential

Here is a snapshot of the savings potential from engaging smarter purchasing:

|  Savings Indicator |  Cost of Goods Savings |  Estimated Yearly Value (Based on \$3M Annual Purchasing Volume) |
|---|---|--|
| Generic Savings Outside Top 200 | 19% | \$102,600 |
| Generic Savings Inside Top 200 | 8.4% | \$45,360 |
| Accurate Value of Received Goods | 0.34% | \$10,200 |
| Vendor Substitution of Generic Purchases | 0.08% | \$2,400 |
| Vendor Non-compliance | 0.27% | \$8,100 |
| Cost of Reordering | Variable | Variable |

As shown, smarter purchasing makes a huge difference in driving savings. With the right solution, pharmacies unlock data that lowers their cost of goods, reduces costly inefficiencies and improves how they work while informing strategy. Pharmacies achieve ROI by lowering costs, saving time and reducing staff burnout.

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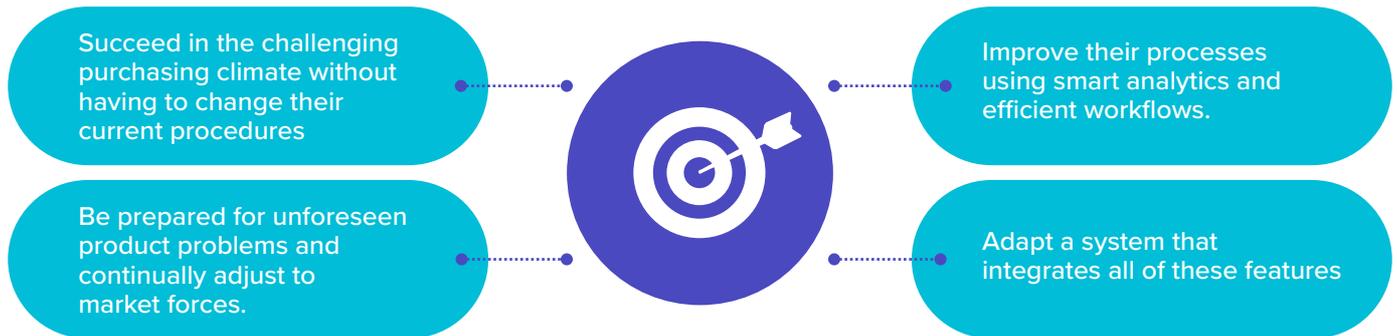
SureCost has definitely saved us time and money when ordering our medications. SureCost saves the hassle of looking up items from multiple vendor websites to find the best price. It allows you to price check multiple vendors at one time and get the best price at that time.

—Jason Degenhart PharmD, Assistant Director of Operations, [Green Tree Pharmacy](#)

A Strategy for Smarter Purchasing

Pharmacies aspire to do more than just survive in the face of the aforementioned difficulties.

In order to guarantee that patients always receive accurate, timely products while reducing the cost of goods, the successful pharmacies use smarter purchasing:



Assessing Your Current Purchasing Model

To gauge how effectively they're meeting these needs, pharmacies should start by asking a few tough but important questions.

- Am I getting the best price from my entire catalog?
- How often am I paying for exactly what I receive?
- Am I always honoring my vendor contracts?
- How often am I reordering on the fly?



Elevate your purchasing game with our **Smarter Purchasing Assessment!** Discover your strengths and areas for improvement in your buying strategy.

[Take Assessment Now](#)

The Smarter Purchasing Solution™

SureCost brings together customizable automation, your pharmacy's entire vendor and wholesaler catalog under one continuously updated interface and unified purchasing and inventory.



**Save
More**

Find the right product at the best price from your entire vendor and wholesaler catalog while reducing out-of-stock items.



**Stay
Compliant**

Confirm delivery of items at the prices you expected and reduce rogue spending through a single solution.



**Work
Smarter**

Automate selected decisions and streamline workflows to save time, drive productivity and avoid staff burnout.

SureCost is designed and managed by a team of industry experts with over a century of collective experience in the pharmacy industry. We understand the complex purchasing environment pharmacies navigate. For us, these challenges are opportunities to empower pharmacy teams to accomplish even more for their patients and their business.

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I have worked with SureCost for several years now. The team at SureCost is professional and brings significant value in regards to Inventory management best practices. **SureCost software has increased our efficiencies in purchasing, which directly hits the bottom line. The data available through SureCost and our analysis of this information gives us the ability to make smart decisions regarding inventory control. I would highly recommend SureCost.**

Steve Boulanger, R.Ph. & President, [Mercury Pharmacy Services](#)

Next Steps

Want to learn more about what smarter purchasing will do for your pharmacy?

Let's discuss how your pharmacy can harness **smarter purchasing** without disrupting your existing process.

[Book a Meeting](#)

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