

The Business of Pharmacy: A Prescription For Change

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Reengineering, redesign, and transformation of healthcare are at the forefront of professional conversations and activities in hospitals and health systems. Senior leadership in healthcare is attempting to respond to a pace of change that has accelerated to levels never experienced before with major challenges that seem almost mutually exclusive. We continue to produce better outcomes in chronic disease management, which improves life expectancy, which increases demand for services. We are on the edge of a demographic tsunami with the largest age cohort in the workforce—the baby boomers—aging into retirement. As that happens, demand for healthcare services will increase dramatically. And assuming Congress actually funds the insurance component of healthcare reform, at some point in the next 2 years we will see approximately 30 million Americans previously without healthcare insurance receive some form of coverage. All of this adds up to an escalating demand and patient access issues. At the same time as we move into the new value-based purchasing environment we expect current government reimbursement levels to decrease by approximately 30% over the next 3 years while supply costs continue to rise. This is the perfect storm for healthcare and successfully weathering this storm will require innovative and creative solutions and highly developed change management skills centered on transformational change.

However, in healthcare, transformational change has traditionally not been practiced and generally incremental change methodology is employed. Systems, processes, or structures are changed, but given the pace of change and the magnitude of the drivers, incremental change will *not* get us where we need to be. What is required is a change in the fundamental way we think and behave. That is transformational change, and healthcare organizations are struggling with it. To be successful in the future healthcare will need to place a premium

Objective: The objective of this paper is to describe a new way to approach and deliver pharmacy services in organized healthcare settings. The concept of the business of pharmacy as a business within a business is presented.

Study Design: Summary results from an observational study of a business within a business for pharmacy are presented.

Methods: Pharmacy services in a large integrated delivery system were reorganized in a new fashion to better leverage external partner capabilities and internal talent. Thirty-two separate projects were coordinated to produce a new business approach.

Results: The business within a business approach for pharmacy services netted the organization \$34M in 36 months, while also producing improvements in patient care.

Conclusions: Pharmacy in most healthcare organizations is a complex service that plays a significant role in the clinical care of patients and the business of the hospital. It is generally undervalued and underutilized, but a new way of thinking and operating pharmacy as a business within the larger business of the organization can significantly enhance the contributions in both clinical and financial areas.

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PRACTICAL IMPLICATIONS

Healthcare must embrace transformational change efforts to be successful in the current and future environment. Pharmacy represents a major opportunity.

- Pharmacy is a unique entity, being part clinical and part business.
- Pharmacy is composed of complex operating systems and processes that demand a new way of thinking.
- Treating pharmacy as a business within the larger business of the hospital can produce rapid and significant improvements in clinical and financial outcomes.

on innovation, creativity, and risk taking to support new ways of thinking and behaving.

Pharmacy: An Untapped Resource

In his book *Good to Great*, Jim Collins notes that successful companies identify the drivers of their economic engines and work to nurture and support those drivers for the betterment of their company. Hospitals and health systems are in essence companies and an often overlooked driver of clinical and economic success is the pharmacy service.¹ Traditionally, pharmacy is categorized as an ancillary support service in most organizations. The primary focus is on drug cost with limited understanding of the clinical impact that pharmacy can have, with the result being an undervaluation of the total service capability. Pharmacy leadership is generally isolated from strategic decision making in the organization, and the service is most often managed as a commodity with a “one-size-fits-all” approach applied to all “ancillary” services. The result is that most organizations are unaware of the opportunities present in pharmacy. However, as US healthcare makes the transition from a volume-based industry to a value-based industry there are few service lines that can have as large an impact on the key drivers of access, quality, and cost as pharmacy. From a financial perspective, one of the fastest growing expense lines in most organizations is pharmaceuticals; one of the primary revenue sources for hospitals is pharmaceuticals, and there are numerous new opportunities for revenue generation around drugs. In terms of clinical care and patient outcomes, the primary treatment modality for over 80% of patients is drug therapy. From a patient safety and quality viewpoint, other than the operating theater, with millions of doses of drugs dispensed annually, a major source of medical error is drugs. Taken together, pharmacy is an obvious driver

of success which demands a “new way of thinking” by hospitals and health systems.

A Business Within a Business

For many large hospitals, pharmacy expenses easily total \$400M to \$500M annually and revenue exceeds \$700M. If pharmacy were broken out of the total hospital structure and viewed as a stand-alone business, it would make an operation of this size a major midsize US corporation. However, as discussed earlier, most hospitals do not operate the pharmacy service as the complex business entity that it really is. A new way of thinking—operating pharmacy services for healthcare organizations—is the concept of the business within a business. In essence, the business within a business paradigm simply means running internal service functions of a larger corporate entity in an entrepreneurial fashion much as you would a stand-alone business.² Any business inside or outside of healthcare that produces services or goods and requires a diversity of people to design, develop, and support its products and services needs coordination to ensure an integrated delivery of those outputs, as well as a sales and marketing team to find opportunities for its goods and services. When you consider pharmacy from this perspective, it delivers services to both external customers (our patients) and internal customers like medicine and nursing, and it can be a very substantial entity. The business within a business approach works to align the incentives of everyone in the business of pharmacy, and to create an ownership model that engages and brings out the best in everyone in that business with empowerment, teamwork, innovation, efficiency, customer focus, quality, and risk-taking orientation. Done correctly, the business within a business paradigm is not just something for the management team; it really applies to everyone at every level in the pharmacy and encourages them to think like entrepreneurs and owners.

Working off the concepts of total employee engagement and alignment, the biggest process change for the business within a business approach for pharmacy services comes in the areas of cross-boundary work flows and collaboration. In healthcare we tend to be vertically structured with defined hierarchies, but in the business within a business paradigm, cross-boundary work flow is encouraged. Peers are treated as customers and suppliers, and clear individual accountability is established with healthy collaboration and close partnerships. The business of pharmacy will cross organizational boundaries to get work done, and that might include inpatient, outpatient, and managed care or at-risk populations. All



of these should be treated as coordinated customers, and that requires more team building in the pharmacy business. For all pharmacy projects or services, organizations should be able to put together the right people from anywhere in the organization without regard for structural boundaries. People should have clear accountability for the business, should want to see everyone in the business succeed, and should be committed to helping one another to that end. Ideally, people should recognize the need for action and put together these teams without direction from top management, but that level of self-forming teams could take time. The other key element for a pharmacy business within a business approach is a high degree of collaboration with other internal customers to break down traditional territorial issues for the mutual benefit of customers and the business. A good example of this might be revenue cycle services. Pharmacy is producing financial outputs for revenue cycle and they are the end game in billing and collection in order to ensure that the financial outputs pharmacy produces actually translate into real dollars for the larger organization. Most often in pharmacy the service goes to great lengths to ensure that the right drug and dose was ordered—it was entered into the computer system and appears on the electronic medical record correctly, it gets prepared and dispensed correctly and administered and monitored correctly, and then when pharmacy hits “send” and those charges move over to revenue cycle, the job is done. But in the business within a business paradigm that is not the case. Pharmacy needs to cross those boundaries and work collaboratively with its customers in the revenue cycle to ensure that it supports the total process. Did those charges make it through the interface from the pharmacy system to the finance system? Where appropriate, did the dispense quantity get translated into the right bill quantity? Were any required billing codes present and correct? Did the charges link to the correct charge data master code? Did they post on the final bill and was the description correct, and what actually came back on the explanation of benefits? If charges were denied is there anything pharmacy can do to support an appeal? If this were a stand-alone personal business, in all likelihood, the business would most certainly do all of this intuitively to make sure it was collecting everything that was due, and with the ownership principle of the business within a business paradigm that encourages this type of thinking and collaboration.

Pharmacy Business Success

The business within a business paradigm places a premium on engagement of everyone in the business to

be more innovative and creative, and we can certainly demonstrate the benefit of this for our larger organization. When I was in my previous CPO role for a large integrated health delivery system, I knew I needed to expand services to improve outcomes around a variety of medication use elements and this would require an investment in personnel and services. However, in the current climate of cost control there was little chance my organization was going to support the request for funding. We had to be innovative and change the way we thought about and approached our business of pharmacy. We designed an entirely new business model based on a partnership with a supplier. We created an at-risk model with our wholesaler that guaranteed a bottom line net margin enhancement of at least \$12 million over a 36-month time frame. We created 32 different projects with defined quality and financial metrics, and added new personnel and implemented clinical pharmacy services in a variety of sites including oncology, heart failure, dialysis, transplant, human immunodeficiency virus infection/acquired immunodeficiency syndrome, and infectious disease and chronic disease management. We built discharge prescription capture programs and expanded retail pharmacy operations. We created a specialty pharmacy program, built a pharmacy benefits management service to support the hospital insurance programs, and in-sourced employee prescription benefits. In total, we added 30 new full-time equivalents and invested over a million dollars in services and equipment. At the end of the 36 months, we produced reductions in expenses and increases in revenue that netted the business of pharmacy and, subsequently, the larger organization \$34 million while at the same time improving care for our patients.³ We changed the way we thought about this element of our business.

Summary

The accelerating pace of change in healthcare demands innovative new ways of thinking about how we organize and deliver services. A major opportunity to improve patient outcomes and organizational finances exists in the pharmacy service line. By recognizing and approaching pharmacy as the large and complex business entity that it is, and operating pharmacy as a business within the larger business of the hospital, rapid and significant improvements are possible. As stated by Dave Gray, “When you give people a business within your business, you are aligning their incentives with owners and management. Everyone is a business owner and everyone is a manager.”⁴

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