

340B Spend Optimization: Ensure the Lowest Price

An ESI Healthcare Business Solutions White Paper
by Thomas Renshaw R.Ph.



Introduction

The 340B Drug Program provides excellent cost savings for qualified outpatient covered entities. 340B drug prices are exclusively for outpatient retail and clinic administered drugs and cannot be used in an inpatient environment. The 340B price is approximately 30% lower than the group purchasing organization (GPO) price paid for the same drugs for inpatient use. The procurement team traditionally purchases 340B drugs using the covered entities distributor's ordering system after input is received from The Pharmacy and Therapeutics (P&T) Committee. This process ensures clinically appropriate drugs are purchased at the lowest possible price.

Problem Statement

The lower prices offered by the 340B program allow covered entities to subsidize care for the medically indigent populations that would likely do without needed medications, if the program did not exist. Despite the benefit of lower prices, the program is difficult to administer because prices change quarterly and the procurement team must constantly change the drugs that are ordered. If the products are not evaluated and changed every quarter, the full savings potential is not realized. The percentage of the procurement that is not optimized can equate to a large dollar amount and is dependent on the difference in product prices and the volume used in a quarter for the particular drug class.

Every quarter up to 15,000 products incur price changes and changing the preferred product is very time consuming. These product changes can save money, but they involve a cascade of other changes. Any NDC product change must be transferred to all downstream systems such as the outpatient pharmacy system, the charge master system, the ADM cabinets for outpatient clinics, if applicable, and in the automation systems that the pharmacy uses. How to quantify the changes that represent the largest savings is paramount in this task, given limited resources and time to implement the changes. In addition to the dynamic nature of 340B price files, the 340B price is protected and confidential, leaving no accessible source to compare all price files.

Solutions in the Market

Currently, there are no software systems that completely prioritize this task for covered entities. All of the distributors ordering systems have the ability to find the lowest priced item within a drug class, but this does not prioritize the changes based on utilization. In addition, distributor systems typically do not have every 340B drug item loaded. Of the total amount of 340B items in a given quarter, a covered entity may have information about 2/3 of the drugs available. There are roughly 32,000 items in the 340B price file for a given quarter and a distributor may stock up to 22,000. This is to be expected as a distributor cannot physically or fiscally stock every item that is available, but they will usually order a requested item if the utilization justifies the item.

ESI 340B Spend Optimization™

To help covered entities with the quarterly task of finding the lowest priced item within every drug class, ESI has created a solution that provides the 340B participant a customized work list that prioritizes the most critical changes. This data is evaluated against a covered entity's utilization from the previous quarter to identify the items that should be changed based on highest to lowest savings. If the 340B participant only has time and resources to change 20 items in all of their systems each quarter, this tool prioritizes which items should be addressed to optimize the cost savings.

Retail drug environments with many drug categories and multiple NDC's for the same drug represent the best opportunity for cost reduction. Based on a system's procurement procedures, this solution can reduce 340B spend by 2-8% and decrease the time and resources needed to optimize best price procurement.

In procurement environments where many of the drugs are sole source items such as HIV or Oncology Clinics, the spend reduction opportunity is closer to 1% as there is no prospect of a lower priced drug substitution for many drug classes. This tool is ideal for systems trying to reduce their 340B budget as the 340B Spend Optimization™ is priced with no upfront cost. If the solution does not reduce your budget, there is no cost to the covered entity. A shared savings pricing model is ideal for many covered entities that do not have capital, but do have drug budgets that need to be managed and optimized.

Implementation

The 340B change list is provided to the covered entity by the 15th day of each new quarter. Once all price files are loaded into the system, the analysis will run to identify the lowest priced item for each drug category. The customized report also includes an availability component, which removes recommended items that are out of stock, even if they have the lowest price. The analysis also shows which items are not stocked by their current distributor and which items are available for a bulk purchase opportunity.

In order to operationalize the suggested product changes, a user must analyze the list for all possible drug substitutions and identify the threshold for a need to change. For some systems, the baseline might be \$1,000 per drug per quarter, for others the actionable line item savings baseline might be \$100 per drug per quarter. In addition to the savings baseline, the user must identify which drugs are not applicable for substitution due to clinical reasons such as certain brand to generic substitutions (i.e. immunosuppressive like Prograf to tacrolimus). The P&T committee should be involved in clinically relevant decisions, but most substitutions are simply generic to generic switches that are under the purview of the procurement team.

Therapeutic substitutions, ½ tab programs, and multiple tab programs are also provided for consideration each quarter. These recommendations must always be vetted by the P&T committee, but can provide tremendous value if they are adopted.

Summary

The 340B program offers qualified covered entities a mechanism to subsidize the cost of indigent care. To maximize these savings, hospitals and clinics must change which products they purchase based on dynamic quarterly pricing. To help these systems prioritize which items need to be changed each quarter, ESI has created a tool that shows exactly what NDC should be utilized for the current quarter and how much savings the new drug will generate. This is tied to the sites utilization and is provided each quarter as prices change. For the first time, a covered entity can systematically manage the quarterly price changes and successfully optimize 340B procurement.

About ESI Healthcare Business Solutions

ESI Healthcare Business Solutions (ESI) partners with safety net providers to deliver industry-specific solutions focused on pharmacy procurement, reimbursement and performance-based professional services agreements and end-to-end revenue cycle performance. With headquarters in Dallas, ESI Healthcare Business Solutions applies proprietary technology and solid industry expertise to help our clients achieve efficiencies and savings, drive revenues, and improve patient outcomes. For more information, visit www.esihealthcaresolutions.com.

About the Author

Tom Renshaw, R.Ph., M.C.S.D has more than 20 years of clinical systems management experience at a safety net hospital. He has been instrumental in developing pharmacy solutions designed to streamline clinical workflow, lower hospital costs and optimize patient and clinical outcomes in the inpatient and outpatient setting. He can be reached at tomrenshaw@esihealthcaresolutions.com.

Sample Report

(Actual Purchased Items)

Purchased NDC	Item Purchased	Route	Purchased Mfg	Purchased Total Package Size	Unit Price Paid	Q3 2010 Packages Purchased	Q3 2010 Total Purchase Cost
00469061773	Prograf 1 mg capsule	oral	Astellas Pharma US, Inc	100	\$1.7741	921	\$163,397.75
00469060773	Prograf 0.5 mg capsule	oral	Astellas Pharma US, Inc	100	\$1.3084	298	\$38,991.54
00469065773	Prograf 5 mg capsule	oral	Astellas Pharma US, Inc	100	\$8.8323	28	\$24,730.44
55253007530	Fentanyl Citrate 1600 mcg lozenge UD	oral transmucosal	Watson Pharmaceuticals	30	\$10.7723	54	\$17,451.18
00074647932	Gengraf microemulsion 100 mg capsule UD	oral	SangStat Medical Corporation	30	\$2.0610	253	\$15,642.99
00004026001	CellCept 500 mg tablet	oral	Roche Laboratories	100	\$0.8455	127	\$10,737.87
00004026043	CellCept 500 mg tablet	oral	Roche Laboratories	500	\$0.8519	19	\$8,092.67
00406052301	Acetaminophen-Oxycodone Hydrochloride 325 mg-10 mg tablet	oral	Mallinckrodt Medical Inc	100	\$0.2774	310	\$8,599.72
00173073601	Imitrex 50 mg tablet	oral	GlaxoSmithKline	9	\$12.5345	58	\$6,543.03
00173093308	Valtrex 500 mg tablet	oral	GlaxoSmithKline	30	\$1.4701	161	\$7,100.53
00378086005	Clozapine 100 mg tablet	oral	Mylan Pharmaceuticals Inc	500	\$0.6209	27	\$8,381.61

(Available Lower Priced Items)

Available NDC	Available Item Description	Available Mfg	Available Unit Price	Available Total Package Size	Available Total Cost	Savings Opportunity
55111052601	Tacrolimus 1 mg capsule	Dr. Reddy's Laboratories Inc	\$0.01620	100	\$1,492.02	\$161,905.73
55111052501	Tacrolimus 0.5 mg capsule	Dr. Reddy's Laboratories Inc	\$0.01620	100	\$482.76	\$38,508.78
55111052701	Tacrolimus 5 mg capsule	Dr. Reddy's Laboratories Inc	\$0.01620	100	\$45.36	\$24,685.08
63459051630	Actiq 1600 mcg lozenge	Cephalon Inc	\$0.00033	30	\$0.54	\$17,450.64
50111092043	CycloSPORINE microemulsion 100 mg capsule UD	Sandoz Laboratories, Eon Division	\$0.79100	30	\$6,003.69	\$9,639.30
00781517501	Mycophenolate Mofetil 500 mg tablet	Sandoz Inc	\$0.08850	100	\$1,123.95	\$9,613.92
00781517501	Mycophenolate Mofetil 500 mg tablet	Sandoz Inc	\$0.08850	100	\$840.75	\$7,251.92
00591093201	Acetaminophen-Oxycodone Hydrochloride 325 mg-10 mg tablet	Watson Pharmaceuticals	\$0.06490	100	\$2,011.90	\$6,587.82
63304009819	Sumatriptan Succinate 50 mg tablet	Ranbaxy Pharmaceuticals	\$0.28222	9	\$147.32	\$6,395.71
00054011413	Valacyclovir Hydrochloride 500 mg tablet	Roxane Laboratories Inc	\$0.15500	30	\$748.65	\$6,351.88
51079092220	Clozapine 100 mg tablet UD	UDL Laboratories Inc	\$0.17810	100	\$2,404.35	\$5,977.26