Building a Specialty Pharmacy Business

Kyle Skiermont, PharmD
Director of Specialty/Infusion Operation
Fairview Pharmacy Services
Overview Agenda

- Brief overview of Fairview
- Barriers for hospital/health system specialty pharmacy
- Services payers expect from their specialty pharmacy
- Strategies to get started
- Strategies to open larger opportunities
- Case study – Developing a business plan
Why is specialty pharmacy important for a hospital/health system?

- Fragmentation of care impacts costs and quality
  - Hospital Readmissions Result From Medication Therapy Fragmentation
  - NEHI Research Shows Patient Medication Non-adherence Costs Health Care System $290 Billion Annually
- Global Payment Models will put health systems at risk for the cost of care and those with health plans must increase value to their employer customers
Why is specialty pharmacy important for a hospital/health system?

• Specialty Pharmacy is concentrated with a small number of patients
  • ~1% of the population
  • High-cost and/or high-risk medications
  • Complex regimens used for complex conditions
Fairview Health Services provides a full continuum of health and medical services.

- Not-for-profit organization established in 1906
- Partner with the University of Minnesota since 1997
- 20,000+ employees
- 2,050 aligned physicians
- 7 hospitals/medical centers (1,627 staffed beds)
- 44 primary care clinics
- 55-plus specialty clinics
- 47 senior housing locations
- Home care, home medical and hospice
- 30+ retail pharmacies
- Urgent care and retail clinics

2012 data
- 74,649 inpatient admissions
- 1.16 million clinic visits
- $514 million community contributions
- Total assets of $2.77 billion
- $3.22 billion total revenue
Fairview Pharmacy Services LLC, a subsidiary of Fairview Health Services, is a comprehensive provider of pharmacy services covering the entire spectrum of customer needs.

Retail Pharmacies (34)
- Medical office buildings and clinics, University of MN hospital

Hospital Pharmacies (8)

Infusion Therapy (home and ambulatory service)
- Licensed pharmacy and home health agency w/regional coverage
- Clinical team: IV nurses, clinical pharmacists, dietitians
- Antibiotic therapy, TPN, oncology, pain management

On-site Infusion Pharmacies (4)

Specialty Pharmacy
- Nationwide coverage, all drug classes, case-managed approach

Mail Service Pharmacy

Long Term Care/Assisted Living Pharmacy

Compounding Pharmacy

Central Packaging

Medication Therapy Management (MTM)
- 20 clinics, multiple direct-to-employer and payer contracts

Fairview Clinical Trials Services

Anti-coagulation clinics (30)

Wholesale pharmacy

Advanced Drug Therapy Program

ClearScript℠ pharmacy benefit management

Management oversight of UMMC Hemophilia Clinic
Barriers for hospital/ health system specialty pharmacy

- Established specialty pharmacies in the market
  - Three companies generate about two-thirds of revenues from pharmacy-dispensed specialty drugs\(^1\)
- PBMs directing to owned specialty pharmacy

\(^1\) Drug Channels: 2011 Pharmacy Market Share for Specialty Drugs
Barriers for hospital/health system specialty pharmacy

- Limited number of hospital/health system based specialty pharmacies
- Competing priorities in the health system
- Lack of specialty pharmacy experience
Which of the following are barriers for a hospital/health system to enter specialty pharmacy?

A. There are established specialty pharmacies in the market
B. PBMs direct specialty business to their owned specialty pharmacy
C. There are a limited number of hospital/health system specialty pharmacies in the market
D. All of the above
Services stakeholders expect from their specialty pharmacy

- Distribution
- Billing
- Clinical Services
- Data reporting
- Customer Service
Specialty Pharmacy Process

Patient referral from:
- Prescriber
- Patient
- Manufacturer Triage Center

Welcome call
Intro to Specialty Program

Patient Financial Advocates (PFA)
- check pharmacy and medical benefits coverage, including deductible, copayments, maximum out-of-pocket, prior authorization (PA)

Insurance review with PFA
Together decide on best billing approach

Can't afford out-of-pocket

PA Tech
If prior authorization needed, PA Tech takes over

PA Tech monitors and handles denials

Problem found

Member or Prescriber contacted

Order reentered into system

Rx OK

Fulfillment Process
Prescriptions screened by pharmacist for clinical appropriateness, drug interactions and allergies

Patient counseling by a pharmacist

Prescription reverified by pharmacist

Order filled

Prescription fill verified by pharmacist

Order packed and shipped

Patient receives order

On-going Therapy Management or Refill Reminder Calls
- Therapy management contacts patient per condition-specific protocol
- Pharmacy contacts patient 5-7 days before refill is due

Fairview
Most valuable services provided by specialty pharmacies

- Ensure dose accuracy
- Manage drug waste and abuse
- Adherence measurement
- Limited distribution drug access

- EMD Serono Specialty Digest, 9th Edition
Most valuable services provided by specialty pharmacies

- Adherence programs
- Savings measurement
- Track type of patient interventions
- Track patient intervention outcomes

- EMD Serono Specialty Digest, 9th Edition
True or False:

Payer requirements for a specialty pharmacy are the same as the requirements for a community pharmacy?

A  True
B  False
Strategies to get started

- Maintain current environment
- Partner with an existing specialty pharmacy
  - On site model
  - Central model
- Start a specialty pharmacy
  - Joint venture
  - Consultants
  - Join with other health systems
Strategies to get started

• Size the opportunity
• Develop business plan
• Develop project plan and assign leader
• Obtain appropriate licensure
• Dedicate staff
• Dedicate space
Strategies to get started

• Provide service to patients with any willing provider payers
  • Government plans, some commercial
• Discharge
• “Non-specialty” specialty
  • Transplant, HIV
• Hospital/health system employees
• Concentrate on therapies with multiple new starts
• Hospital/health system owned health plan
Strategies to open larger opportunities

- HUB relationships
- Leverage hospital/health system payer agreements
  - Care for own patients
- Explore exclusive payer relationships
- Accreditation
- Explore limited distribution drugs
  - Center of excellence
  - Care for own patients
Strategies to get started in specialty pharmacy include:

A. Provide service to patients with any willing provider payers

B. Concentrate on therapies with multiple new starts

C. Service the hospital/health system owned health plan

D. All of the above
Ingredients That Worked for Fairview

- Focus and infrastructure
- Stand-alone business
  - Capital structure
  - Dedicated management team
  - Financial accountability
  - Infrastructure support
- Organizational alignment and accountability
Specialty Pharmacy Structure (an example)
Key Elements of Success

• Health system support
• Provider buy-in
• 340B
• Payer Contracts
• Service level
Summary/Lessons Learned

- First step is to develop the services expected by a specialty pharmacy
- Start small – open access medications or a few disease states
- Once established, utilize the expertise and leverage of the hospital/health system to expand
Case Study – Developing a Business Plan for Specialty Pharmacy
Case Study

- $1.25 Billion dollar total revenue health system
- All traditional specialty categories represented in the system
- Current outpatient pharmacy includes discharge and one medical office building pharmacy
- The system has recently signed a major ACO like at risk contract
Business Plan

- Determine the reason for entry into the market
- Educate/Socialize key leaders
- Size opportunity
- Gap analysis
- Identify resources needed and identify associated costs
Size the Opportunity

- How many specialty patients/prescriptions are part of your health system?
  - Market data
  - Utilize a consultant with specialty pharmacy experience
  - Prevalence of specialties in your health system
  - Prescription data from EHR
- Payer analysis
- 340B analysis if applicable
Current Market

Specialty Patients

Does IDN Have Relevant Clinical Program?

Does IDN Have Specialty Pharmacy Capabilities?

Does IDN Have The Necessary Payer Contracts?

Does IDN Have Access to Drug?

Dispense Specialty Script

Captured by For-Profit Specialty Pharmacy Companies
## Size the Opportunity

<table>
<thead>
<tr>
<th>Opportunity Sizing</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 1 - 100%</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$12,896,497</td>
<td>$21,253,427</td>
<td>$30,784,261</td>
<td>$40,867,816</td>
<td>$50,802,923</td>
<td>$64,482,485</td>
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<tr>
<td>Net cost of goods sold</td>
<td>$11,836,130</td>
<td>$19,505,942</td>
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<td>$37,507,610</td>
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<td>Gross Margin</td>
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<td>$1,747,485</td>
<td>$2,531,123</td>
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<td>$4,177,085</td>
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<tr>
<td>Capture %</td>
<td>20%</td>
<td>32%</td>
<td>45%</td>
<td>58%</td>
<td>70%</td>
<td></td>
</tr>
</tbody>
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- **Gross Margin** calculations assume an 8.2% margin across all years.
- **Capture %** indicates the percentage of the opportunity size that is expected to be captured in each year.
## Size the Opportunity

### Opportunity Sizing

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<td>$6,942,139</td>
<td>$11,440,645</td>
<td>$16,571,059</td>
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<td>$27,347,034</td>
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<tr>
<td><strong>Gross Margin</strong></td>
<td>$5,954,358</td>
<td>$9,812,782</td>
<td>$14,213,202</td>
<td>$18,868,815</td>
<td>$23,455,889</td>
<td>$29,771,791</td>
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Methods for a hospital/health system to size the potential specialty pharmacy opportunity include:

- Utilize a consultant with specialty pharmacy expertise (A)
- Obtain prescribing activity from the hospital/health system medical record (B)
- Use available market sizing or prevalence modeling (C)
- All of the above (D)
Gap Analysis

- Are key people, processes and tools in place?
- Methods to accomplish gap analysis:
  - Utilize a consultant with specialty pharmacy experience
  - Review payer and limited distribution drug RFPs
  - Assess accreditation readiness
Key Gaps for Example Health System

- Staff – leadership and front line
- Space
- Licensure
- Systems/technology
- Marketing to specialty clinics
## Case Study Sample Capital Costs

### Central Mail Pharmacy

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
<th>Notes</th>
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</thead>
<tbody>
<tr>
<td>Leaseholds - buildout</td>
<td>$1,662,500</td>
<td>$475/sq ft</td>
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<tr>
<td>Security</td>
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<tr>
<td>Automation</td>
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<tr>
<td>Operating System</td>
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<tr>
<td>POS</td>
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<tr>
<td>Call Center Software</td>
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<tr>
<td>Management Software</td>
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<td></td>
</tr>
<tr>
<td>Shipping Management</td>
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</tr>
<tr>
<td>Refrigerators</td>
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<td></td>
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<tr>
<td>Freezers</td>
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<tr>
<td>Fixtures and Furniture</td>
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</tr>
<tr>
<td>Computers/Printers/Faxes</td>
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<tr>
<td>Cabling/Server Room</td>
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<td></td>
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<tr>
<td>Continuous Power Supply</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,067,500</strong></td>
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Assumes 3500 sq ft pharmacy
Should Our Case Study Health System Enter the Specialty Pharmacy Market?