Wholesaler Agreements: Pricing Caveats

by **Dave Schuetz**, R.Ph.

AS A PHARMACY OWNER/MANAGER, there are a plethora of agreements that you will review, negotiate, and sign on a regular basis. The most important agreement may be with your primary wholesaler specifying drug pricing. Although a diligent review should be performed before the agreement is signed, what steps are you taking after the agreement is in place to ensure that the terms are being met? A regularly scheduled review is imperative to ensure that guarantees are being met.

WHOLESALER AGREEMENTS

A pharmacy-wholesaler agreement is a multifaceted agreement, with various parameters defining the invoice pricing for pharmaceuticals. Pricing parameters for brand-name products are the easiest to understand, because pricing is usually based on a published value, available from Medi-Span or First Databank, such as wholesale acquisition cost (WAC). The wholesaler will provide your pharmacy with a discount off WAC that is likely based on purchase volume and mix of business. The agreement may establish a starting point and then offer a greater discount when purchase volumes reach higher thresholds. Pharmacy owners or managers need to monitor their purchase volume to ensure that the tiered discount is provided when the pharmacy reaches a purchase threshold. You should also ensure there is access to published pricing that includes WAC, which is typically available in the pharmacy practice management system's drug pricing file. Knowing the discount and WAC, you can spot-check wholesaler invoices to ensure that the invoice price for branded pharmaceuticals reflects the negotiated discount off WAC.

This also makes it easier to understand how the brand acquisition cost relates to PBM (pharmacy benefit manager) reimbursement rates, which for branded pharmaceuticals is based on another published value, average wholesale price (AWP). For brands, there most often is a set relationship between AWP and WAC, which is as follows:

AWP = WAC + 20% (or WAC times 1.2)
WAC = AWP – 16.667% (or AWP times 0.8333)

You can estimate the profitability of branded pharmaceuticals for a PBM contract when the reimbursement rate and the wholesaler brand discount are known. The following table provides some comparisons:

Brand Acquisition Cost		PBM Brand Reimbursement Rate
WAC – 0%	Is the same as	AWP – 16.667%
WAC – 1%		AWP – 17.500%
WAC – 2%		AWP – 18.333%
WAC – 3%		AWP – 19.167%

Knowing the WAC discount on brand pharmaceuticals purchased from your wholesaler will allow you to understand how a PBM's aggressively discounted reimbursement rates will affect pharmacy profits; this facilitates reviewing PBM contracts and the pricing addendums that impact reimbursement rates.

GENERIC SOURCE PROGRAMS

Generic pricing is more difficult to understand, since the best price a wholesaler will offer for generics is not typically based on a value published by Medi-Span or First Databank. Wholesalers developed "source" programs so pharmacies can access lower generic pricing than the pharmacies could access if they were buying on their own. Wholesalers use a bidding process that allows the distributors in the generic

continued on next page

continued from previous page

marketplace to submit their lowest price. The wholesaler selects the generic manufacturer or distributor with the lowest price and guaranteed availability for the source program.

Your pharmacy should receive a source program formulary with pricing on a regular basis from your wholesaler. You should use the formulary to spot-check wholesaler invoices to ensure that the invoice prices for generics are correct. It is also important that you stick to products in the source program to maximize profitability. Purchasing "nonsource" generics with higher invoice prices can lead to reduced profits or losses. PBMs are usually aware of source program prices and will establish MAC prices in the same neighborhood. You should also review invoices for nonsource program generics and return those items for full credit. If the wholesaler is out of stock of the ordered source program item and substitutes an off-program item, the wholesaler should offer your pharmacy the source program price for that item.

GENERIC REBATES

Wholesalers offer postpurchase rebates that lower the final cost of the generic product. The agreement with the wholesaler may stipulate that a rebate is paid to your pharmacy if certain volume or spending milestones are attained. The wholesaler may pay or credit your pharmacy based on specified time frames, such as quarterly. It is important that you understand the rebate structure in the agreement and estimate what your pharmacy has earned based on the business transacted with your wholesaler.

By verifying financial terms, you can proactively identify discrepancies and bring them to the wholesalers' attention for resolution. This enables you to also assess other factors affecting prescription profitability and provide insight to negotiate better terms in future agreements.

Rebates may also come into play in determining profitability of generic prescriptions. You may encounter a generic prescription that is generating a loss based on the wholesaler's invoice price and the PBM's reimbursement rate, but after the postpurchase rebate is included, the prescription becomes profitable. There are times when your pharmacy's invoice cost for a generic is higher than the published WAC, which should be questioned. The wholesaler may inflate the invoice cost, believing postpurchase rebates will allow you to ultimately generate a profit. It is important that you remain vigilant regarding this scenario and not assume the postpurchase rebate will make your pharmacy whole. Generic invoice prices that are higher than a PBM's reimbursement or higher than the published WAC should be investigated and brought to the wholesaler's attention.

Negotiating agreements with well-defined terms is imperative for pharmacies. Detailed, clear contract language makes it easier to conduct internal audits to ensure that contractual terms are being met or exceeded. By verifying financial terms, you can proactively identify discrepancies and bring them to the wholesalers' attention for resolution. This enables you to also assess other factors affecting prescription profitability and provide insight to negotiate better terms in future agreements. **CT**

Dave Schuetz, R.Ph., has been working in pharmacy for over 30 years, with expertise in pharmacy practice management, electronic ordering systems operations, testing, training, documentation, and deployment. He also specializes in pharmacy database and drug file management, and serves as a subject matter expert in pharmacy data warehousing. The author can be reached at dschuetz@phsirx.com.