



# Web- Based Marketplace

Delivering bottom line profits by  
helping independent pharmacists  
leverage technology

*By John Kello and Gabe Zawaideh, RPh*

# Pharmacies

Today's independent pharmacist faces a multitude of challenges—from being shut out of PBM mail order contracts and competition from chain pharmacies, to managing inventory in an industry marked by skyrocketing carry and diminished return costs. In fact, the “silent killer” that often goes unnoticed by the busy independent pharmacist is lingering on pharmacy shelves: overstocked and expired prescription drugs.

## TESTIMONIAL



“I posted a few items to test the water and to my excitement cut our inventory by \$10,000 in a few weeks,” says Patrick Pritchett, pharmacist at Grace Pharmacy, Lubbock, Texas.

“These were items I no longer had patients on and were just taking up space and costing us money. I was able to turn the money I received into items that I could turn over. I was kicking myself for not acting sooner. I now use the selling side and buying side almost daily. It is good business and fun to use. Who does not like a bargain? Each day when I come in I check the site to see if anything has sold and it puts a big smile on my face when one does.”

These challenges—further hindered by a recovering economy—are contributing to the industry's shrinking profit margins of 3–4 percent of sales. They also reinforce the need for proactive steps on the part of independent pharmacists who want to maintain a competitive stance and profitability.

### Connecting on a Nationwide Scale

Much like chain pharmacies, leveraging technology through web-based solutions is a simple way to help independents work together as a unified community, and is critical to remaining competitive. Recent advances in technology, specifically the use of web-based marketplaces, have empowered the independent pharmacy community as never before.

A web-based marketplace extends the independent pharmacists' reach across the country, enabling pharmacists to communicate and transact with one another in an organized fashion while remaining compliant with individual state requirements. At present, more than 30 states follow the guidelines of the Food and Drug Administration, which allow for the sale of up to 5 percent of a pharmacy's annual drug sales to other pharmacies without requiring a wholesale license.

### How the Process Works

In most web-based marketplaces, once the pharmacist completes a one-time registration and submits the required documentation for validation, they are free to purchase medications being sold by registered colleagues,

## CALCULATING EXCESS INVENTORY

In an average pharmacy, cost of goods sold accounts for approximately 68 percent of total expenditures. For every 1 percent change in an average pharmacy's costs of goods, profits may increase or decrease by slightly more than 20 percent. So, what you might consider to be small inefficiencies in purchasing and inventory control becomes critically important to cash flow and profitability.

Current Prescription Turnover: 9

Our sample pharmacy's current inventory turnover is 9\*, the average for independent community pharmacies. By getting rid of excess inventory through better inventory management, this pharmacy can improve its cash flow and reduce inventory-carrying costs.

The formula below can be used to determine the average inventory needed to increase prescription inventory turnover to the same level as the average independent community pharmacy.

$$\frac{\text{Your Cost of Prescription Goods Sold*}}{\text{Target Inventory Turnover}} = \frac{\$2,486,506}{12} = \$207,208$$

Using this formula we can determine how much excess inventory is currently being held.

Your Average Prescription Inventory @ 9 Turns = \$276,278

Subtract Targeted Inventory @ 12 Turns = \$207,208

Excess Inventory = \$69,070

This excess inventory represents what otherwise could be cash on hand or money to be reinvested into your pharmacy.

*\*Source: 2012 NCPA Digest, sponsored by Cardinal Health*

post their own pharmacy's drugs for sale, and return expired drugs.

These web-based marketplaces provide certainty to the buying, selling, and returns processes combined with computer-generated tracking. Order alerts and notices sent via email and text messages keep members updated regarding new and existing orders, including pick-up and tracking of shipments.

A web-based marketplace also provides detailed invoices that identify both the buyer and the seller, remaining compliant with FDA requirements. Statements of origin or a wholesale invoice from the seller to confirm a specific drug's pedigree should also be made available upon request from the buyer.

### A Web-Based Marketplace for Overstock

Every so often, an innovation appears that makes a world of difference in a specific industry. For independent

pharmacists, a web-based marketplace designed to minimize overstock is a game-changer, reducing the investment in inventory while improving cash flow.

The goal of effective inventory management is to minimize the investment made in inventory while maintaining adequate stock levels that meet customer demand. On average, 20 percent of an independent's inventory is slow moving and risks expiring on the shelf as a lost investment. Less than ideal package size, medications that have fallen out of favor, and specialty drugs can accumulate at a rapid pace. Connecting independent pharmacies through a simple web-based marketplace to sell and purchase overstock from other members reduces waste, improves operational profits, and generates positive cash flow.

To date, web-based marketplaces have processed more than 100,000 transactions, saving members millions of dollars in overstocked and expiring inventory.

## TESTIMONIAL



"In an era of declining reimbursement rates and increasing drug costs," "we turned to a web-based marketplace for help," says Ryan Carrellie of Olde Philly Pharmacy, Philadelphia. "In less

than two months, our pharmacy has saved thousands of dollars in drug expenses while selling and clearing inventory that was no longer in use. It has provided us with an outlet to sell stagnant inventory that would otherwise sit on our shelves until its expiration date. The concept is clear: post and sell dead inventory while purchasing and replacing those drugs with discounted medications. Why spend more on medications when you don't have too? The end result, in such a short period of time, has far exceeded our expectations with higher profit margins and a healthy, thriving business. A web-based marketplace allows independent pharmacies to team up across the country through a single website and help one another."

Carrellie gives an example of how a web-based marketplace for overstock has helped his pharmacy save. "I had a partial bottle of Edecrin 25 mg sit on my shelf for almost three years. With a simple click of a button I was able to sell that medication at a value of much more than what I would have gotten had that drug expired. At the same time, the purchasing pharmacy clearly benefited by purchasing a medication at a lower price than had they bought it through any other source. Though your pharmacy may no longer be using a certain medication, trust me there's a good chance that somewhere in this country there is a pharmacy that still does. I challenge and truly believe that every independent pharmacy should be leveraging this technology if we are going to continue to survive and push forward in an era of uncertainty."

## WHO IS THE TYPICAL SELLER?

- Pharmacists with medication that has recently lost its patent.
- Pharmacists with customers who have moved or changed their drug therapy.
- Pharmacists with an overstock of prescription drugs to sell.
- Pharmacists dealing with less than ideal manufacturer package sizes.
- Pharmacists with prescribers who have changed their writing habits or with a medication that has fallen out of favor.



Simple to use and accessible 24 hours a day, 7 days a week, these sites are designed to suit anyone's schedule, whether working at the pharmacy or from home. No investment in technology is required. Simply log-in using a web browser and you have access to a marketplace.

Let's examine one web-based marketplace company to see how the process typically works. This company has more than 2,200 independent pharmacist members that buy and sell overstock, soon to expire, and partial packs with one another. Members simply post items to the marketplace, set the price, and ship items purchased by other members without ever leaving the pharmacy. All items are sold at a minimum of 10 percent below the prevailing WAC, with an average savings of 22 percent.

Items nearing expiration are automatically moved and placed in the new returns section, allowing reverse distributors with the opportunity to provide a fixed reimbursement for each item and payment within 45 days. Easy, simple, and transparent solutions are what web-based marketplaces bring to the independent industry, and the return of expired drugs is another market to benefit from this technology.

A successful independent pharmacy must leverage technology to remain competitive in today's health care arena. The adoption of web-based marketplaces give independents access to advanced technology that was previously available only to large chains with deep budgets. Such innovative solutions provide independents with the tools that improve bottom line profits and help grow their business without the requirement of an expensive investment in technology. **ap**

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