

Building a Specialty Pharmacy Business

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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 Nonadherence 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 SM 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 drugs¹
- 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

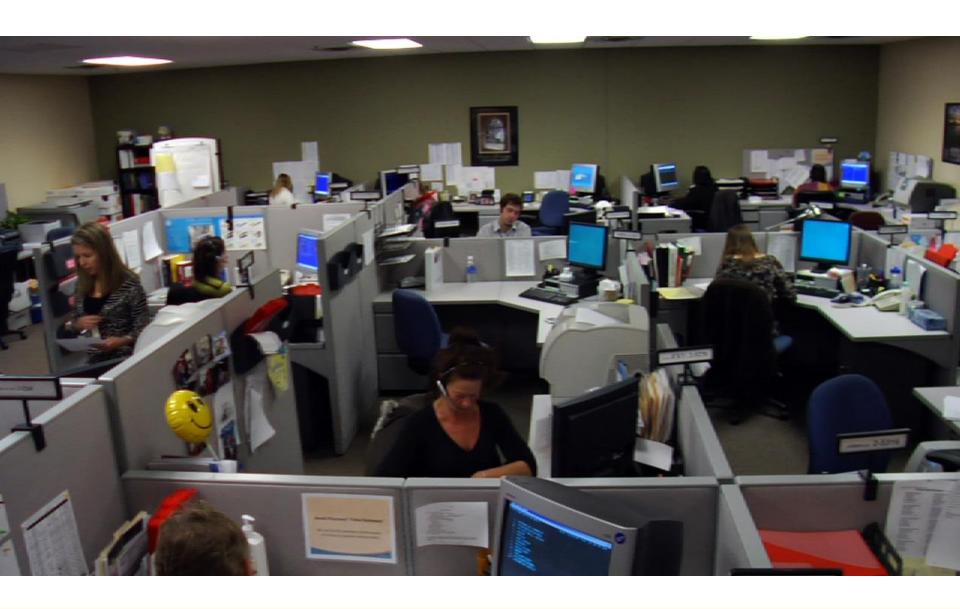
Lack of specialty pharmacy experience

Which of the following are barriers for a hospital/health system to enter specialty pharmacy?

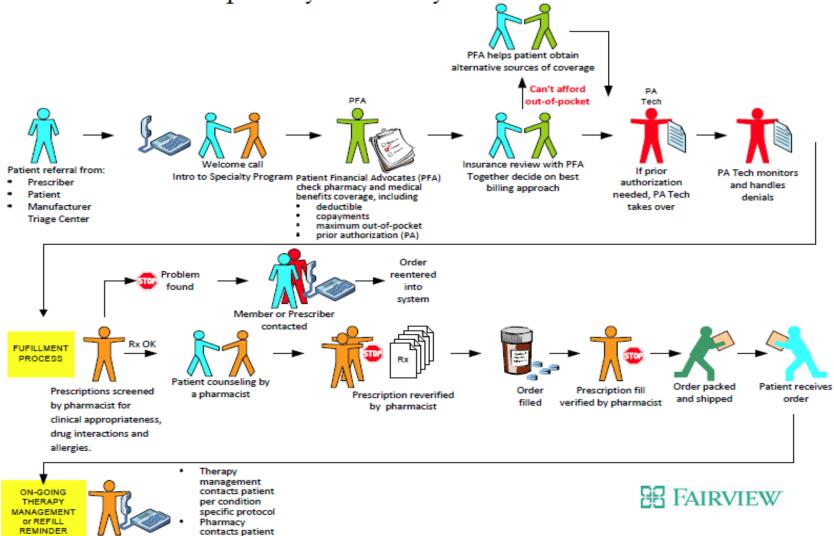
- There are established specialty pharmacies in the market
- PBMs direct specialty business to their owned specialty pharmacy
- There are a limited number of hospital/health system specialty pharmacies in the market
 - All of the above

Services stakeholders expect from their specialty pharmacy

- Distribution
- Billing
- Clinical Services
- Data reporting
- Customer Service



Specialty Pharmacy Process



CALLS

5-7 days before refill is due

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?



True



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

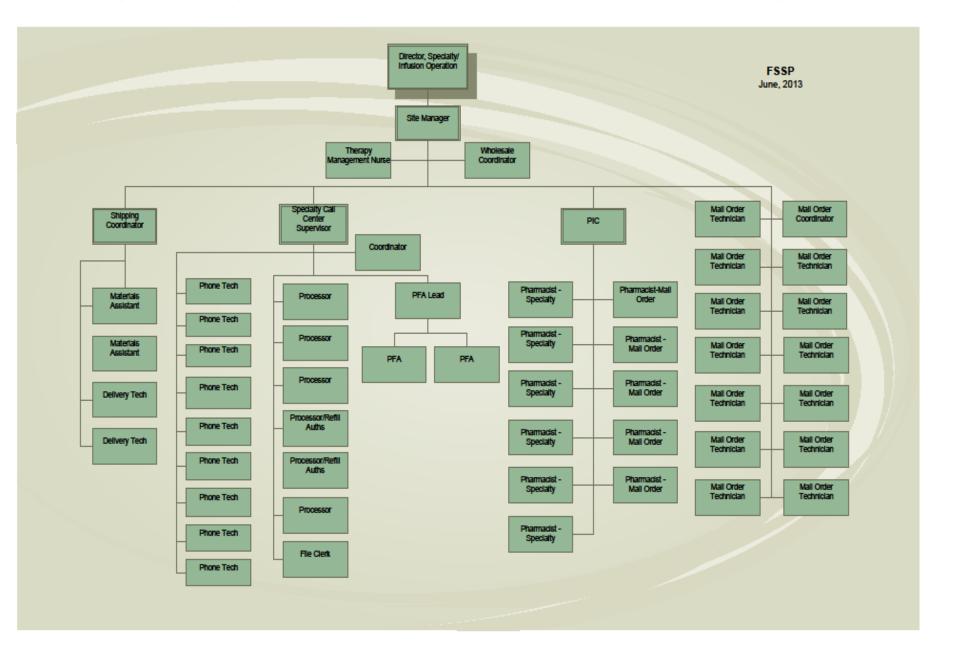
Strategies to get started in specialty pharmacy include:

- Provide service to patients with any willing provider payers
- Concentrate on therapies with multiple new starts
- 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

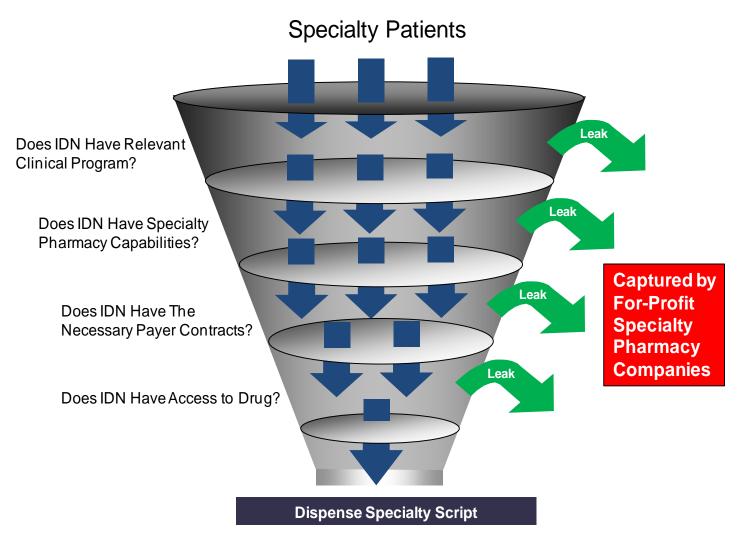
Business Plan

- 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



Size the Opportunity

Opportunity Sizing							
	Year 1	Year 2	Year 3	Year 4	Year 5	<u>Y</u> (ear 1 - 100%
Revenue	\$ 12,896,497	\$ 21,253,427	\$ 30,784,261	\$ 40,867,816	\$ 50,802,923	\$	64,482,485
Net cost of goods sold	\$ 11,836,130	\$ 19,505,942	\$ 28,253,137	\$ 37,507,610	\$ 46,625,839	\$	59,180,648
Gross Margin	\$ 1,060,367	\$ 1,747,485	\$ 2,531,123	\$ 3,360,207	\$ 4,177,085	\$	5,301,837
	8.2%	8.2%	8.2%	8.2%	8.2%		8.2%
Capture %	20%	32%	45%	58%	70%		

Size the Opportunity

Opportunity Sizing								
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Net cost of goods sold	\$	6,942,139	\$ 11,440,645	\$ 16,571,059	\$ 21,999,001	\$ 27,347,034	\$	34,710,694
Gross Margin	\$	5,954,358	\$ 9,812,782	\$ 14,213,202	\$ 18,868,815	\$ 23,455,889	\$	29,771,791
		46.2%	46.2%	46.2%	46.2%	46.2%		46.2%
		200/	222/	4=0/	=00/	700/		
Capture %		20%	32%	45%	58%	70%		

Methods for a hospital/health system to size the potential specialty pharmacy opportunity include:

- Utilize a consultant with specialty pharmacy expertise
- Obtain prescribing activity from the hospital/health system medical record
- Use available market sizing or prevalence modeling
- All of the above

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									
Leaseholds - buildout	\$1	,662,500	\$475/sq ft						
Security	\$	50,000							
Automation	\$	-							
Operating System	\$	40,000							
POS	\$	-							
Call Center Software	\$	45,000							
Management Software	\$	25,000							
Shipping Management	\$	35,000							
Refrigerators	\$	14,000							
Freezers	\$	16,000							
Fixtures and Furniture	\$	75,000							
Computers/Printers/Faxes	\$	60,000							
Cabling/Server Room	\$	45,000							
Continuous Power Supply	\$	-							
Total	\$2								

Assumes 3500 sq ft pharmacy

Should Our Case Study Health System Enter the Specialty Pharmacy Market?

