

Mergers and Acquisitions and the Health System Pharmacy

By AmerisourceBergen | February 27, 2017

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As hospitals and health systems navigate the transition to value-based care, merger and acquisition (M&A) activity across the country continues to accelerate. In 2016 alone, 102 hospital mergers took place, a three percent increase over 2015.¹ Propelled by market competition, reform-driven financial challenges and regulatory pressure, healthcare providers are using M&A to consolidate hospitals and form large health systems that deliver economies of scale and a broader service footprint.

But what impact does consolidation have on the practice of pharmacy within these expanded health systems? First and foremost, pharmacy leaders are being called upon to meaningfully contribute to the broader goals of the merger — reducing costs, improving efficiency and achieving high quality care. At the same time, they must also balance the complexity of handling drug purchasing for a larger organization, as pharmacy can account for up to 20 percent of a health system's overall budget, with an estimated 80 percent of that budget taken up by drug supplies.²

After a merger, changes in service mix and the addition of new sites of care may significantly change the pharmacy's cost structure and drug purchasing decisions. Other post-merger considerations include optimizing staff and understanding how class of trade restrictions will impact a budget. While consolidation presents these and other challenges, it also offers opportunities for standardizing pharmacy practices and driving revenue.

Post-acquisition standardization opportunities for pharmacy.

Standardization across the health system creates both cost efficiencies and time gains that enable pharmacists to take a more active role on patient care teams (and a valued seat at the proverbial "table") or otherwise use staff more effectively. After a merger, opportunities for standardization of pharmacy practices across the organization are abundant — from medication reconciliation to group purchasing to formulary systems.

Hospital-related medication errors and adverse drug events due to poor communication are among the most common breakdowns in transitions of care.³ A systemwide pharmacy-led medication reconciliation program can eliminate discrepancies during care transitions across hospital departments and upon discharge. Pharmacy will be able to demonstrate the effectiveness of this program with reductions in medication errors, improved patient safety and reduced readmissions.

Another opportunity post-acquisition is to ensure the new organization takes full advantage of discounts through its group purchasing organization, wholesalers' buying incentives programs and government-sponsored discount programs. Pharmacy should assess the health system's tiered discount programs to maximize its tier status. Additionally, creating a standard generics strategy ensures the organization is purchasing the most cost-effective drugs and realizing all of the discounts that may be available.

Finally, across a health system, it is not uncommon for individual hospitals to maintain their own formularies, leading to dramatic variation of drugs used. While not a small undertaking, performing a medication review across the newly merged organization and standardizing the formulary can significantly decrease the number of medications carried, save money, and improve clinical outcomes and patient safety across the organization.

Health system pharmacy as a revenue generator.

While managing costs will always be critical, pharmacy can be instrumental in generating health system revenue after a merger through in-house specialty and ambulatory pharmacy programs and other strategies. In 2015, 37 percent of the total spending on drugs in the United States was attributed to specialty medications, and specialty medications are projected to account for 50 percent of total drug spend by 2018.⁴ Specialty pharmacy can be a huge revenue driver for health systems in caring for patients with chronic illnesses and complex medical conditions. Furthermore, operating a specialty pharmacy can help a health system ensure quality care and better outcomes for patients through a comprehensive and coordinated model of care.

In addition to specialty pharmacy, an effective health system-supported ambulatory pharmacy can produce new revenue by serving as the prescription "hub" for discharged patients and employees. An ambulatory pharmacy program establishes the pharmacist as a leader in ensuring consistent support and monitoring of a patient's medication needs across the continuum of care. As 20 percent of hospital readmissions are medication-related,⁵ an ambulatory pharmacy program keeps patients engaged and improves adherence to medication regimens, thereby reducing the risk of readmission and enhancing patient safety.

Ensuring compliance and savings from 340B Drug Pricing programs is another opportunity for newly merged health systems. Reinforcing and streamlining 340B systems and processes can strengthen a health system's regulatory profile, increase audit readiness and expand access to affordable medications for at-risk patients.

Harnessing the power of data and analytics.

After two entities merge, access to the right data is vital to driving better decision-making and business planning under a new operating structure. With drug costs ranking as one of the highest monthly expenditures for health systems, the power of data and analytics cannot be overstated. A robust analytics and forecasting tool provides holistic visibility into the total drug purchasing picture across multiple sites of care and contracts within a health system. Further, predictive analytics enables pharmacy leaders to perform scenario planning around cost and volume increases or decreases and the impact on health system cash flow, as well as changes in service mix, providing valuable insight into the new organization.

As the M&A trend continues across the healthcare industry, pharmacy leaders are poised to make important contributions to increasing supply chain efficiency, generating revenue and improving outcomes for patients.

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