

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



THE PERILS OF PRIME VENDOR AGREEMENTS: MAYBE BETTER, MAYBE DIFFERENT OR....WORSE



LEARNING OBJECTIVES

1. Understand the various components of a direct purchase agreement between an independent pharmacy and a pharmaceutical wholesaler.
2. Understand what it means to purchase Brand and Generic Rx items at market rates and what the true cost of that is.
3. What is Generic Rx contract compliance and how it affects brand cost of goods.
4. Acknowledge the obligations of a binding agreement.
5. Understand the essential components of a successful negotiation.

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

DEFINITIONS OF “BETTER”

Greater in excellence or higher in quality

More advantageous or favorable; improved

To surpass or exceed.



IDIOMS OF “BETTER”

Better off= In a better or more prosperous condition

For the Better= Resulting in or aiming at an improvement

Get The Better of= To outdo or outwit; defeat.

GOOGLE: “LOOKING FOR SOMETHING BETTER”

“Most People Mess Up Something Good,
By Looking For Something Better
Just To End Up With Something Worse”

-Unknown

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

MOTIVATIONS FOR BETTER

Brand Rx Reimbursements 

Generic Rx MAC Reimbursements 

DIR fees 

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



BETTER PRICES



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



WE HAVE A BETTER DEAL!



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

“I CAN MAKE IT ALL BETTER”



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

NON-DISCLOSURE AGREEMENT

NDA

Information exchanged between the disclosing company and the receiving party will be kept strictly confidential. Any leakage of the information, or breach of contract involving relating technologies, software, trade secrets, statistics, and the like will be severely penalized.

I agree to the above terms of the agreement.

Name: _____

Email: _____

WHAT'S YOUR PAY LINE?



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

ASPIRATIONS FOR BETTER

Brand Cost of Goods 

Generic Pricing 

Generic Rebates 

FOUND BETTER – LET’S GET GOING!



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

STOP: READ & UNDERSTAND EVERY WORD



COMPONENTS CAN MAKE NOT BETTER

Contract Term (length)

Contract Termination

Dollar Volume Purchase Requirement

Percent of Total Purchases Requirement

Brand Rx Purchase Price

Brand Rx Exclusions

Payment Terms

Service Charges

COMPONENTS CAN MAKE IT NOT BETTER

Generic Compliance Requirement

Generic Rebates

Embedded Required Programs

Service Charges

Ordering, Delivery and Returns

Compliance Agreement

Force Majeure

Miscellaneous and Non-disclosure

WHAT'S MISSING?

Generic Rx Invoice Pricing

ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

BACK TO BETTER

Page 1

CONTRACT TERM – 3 YEARS?

The initial term of the Agreement shall commence on December 1, 2017, (the “**Effective Date**”) and shall continue in effect thereafter through November 30, 2020.

Thereafter, the Agreement will **automatically renew for two (2) additional one (1) year renewal terms** unless either party provides written notice of non-renewal to the other party at least ninety (90) days prior to the end of the initial term or the then-current renewal term, as applicable.

CONTRACT TERM – 3 YEARS?



Signing day = Joy

10 months = Sadness

18 months = Disgust

24 months = Anger

30 months = Better Offer?

See -> Signing Day

CONTRACT TERM – 3 YEARS?



Important:
Must have freedom to
renegotiate as market
conditions reset.

CONTRACT TERM – 3 YEARS?

“But I do have an out clause!”

TERMINATION

BREACH CLAUSE

Wholesaler may affect an early termination of the Agreement upon the occurrence of a material breach by Customer, and the Customer may affect an early termination of the Agreement upon the occurrence of a material breach by Wholesaler.

The non-breaching party must give written notice to the breaching party of the nature and occurrence of such breach. If the breach is not cured by the expiration of sixty (60) days from the date of such notice, or if the breaching party has not made reasonable efforts to effect the cure if the breach cannot reasonably be cured within such sixty(60) day period, then the non-breaching party may provide written notice to the breaching party that the Agreement will be terminated in thirty (30) days following the expiration of such sixty (60) day period.

BREACH CLAUSE \neq OUT CLAUSE

Notwithstanding the foregoing, **Wholesaler may** immediately **terminate** a given Customer's participation under the Agreement **upon any payment default** by such Customer **or based upon other credit considerations deemed relevant** by Wholesaler.

IMPORTANT:

A breach is not an out clause! Must have a clearly defined **"without cause" termination statement** for both parties.

Identify restrictions and consequences. Insist on arbitration language in the breach clause. Any one sided language must be removed.

BETTER PURCHASE REQUIREMENTS?

A) The Customer agrees to purchase from (supplier) at least 90% of their requirements for prescription drugs, OTC drugs, HBA and sundries

*B) Customer hereby designates supplier as its primary wholesale pharmaceutical supplier to **all the pharmacy locations owned**, managed or operated. Each will purchase from supplier at least ninety five percent (95%) of the prescription pharmaceuticals*

BETTER BRAND RX COST OF GOODS

Cost minus.....whatever?

- Brand Rx – which items
- “Specially Priced Merchandise.” Must be defined

Except as otherwise set forth in the Agreement, Customer may, but will have no obligation to, purchase any specified volume or percentage of its requirements of these items.

- On Invoice Cost minus vs Rebated Cost minus
- Requirements to earn the Rebated Cost?

Q: Is the additional rebate obtainable

BRAND RX COST & COMPLIANCE

GCR -Generic Compliance Rate

- Source Generics divided by Total Rx

GBR –Generic to Brand Ratio

- Source Generics divided by Brand Rx

Dollar value

- Defines a specific or tiers based on total GRx dollars

Generic Price Deflation

GENERIC PURCHASE REQUIREMENTS

A) Customer is eligible to earn a monthly rebates if its total Net purchases of Source Generics if its GPR is 90% or more, and its BPR is 90% or more, for such month.

B) Each pharmacy location shall purchase at least ninety five percent (95%) of its generic Rx Product requirements through supplier Generic Source program and agrees that supplier shall implement a automatic substitution.

BETTER GENERIC RX SOURCE

Wholesaler Generic Source Contract.

- Which Source contract(s)?
- Only wholesaler Source contract items count towards compliance calculation.
- How many items in the Source file?
- Auto Substitution?
- Invoice pricing – GCR % affected
- Generic price deflation – GCR % is affected

PAYMENT TERMS

Wholesaler retains the **right to adjust a Customer's payment terms, place a Customer on C.O.D. status, and/or refuse orders from a Customer** if Wholesaler has not received payment when due for merchandise delivered or services provided to the Customer, or **based upon credit considerations deemed relevant by Wholesaler.**

Until merchandise is paid for in full, Wholesaler retains, and each **Customer hereby grants Wholesaler, a security interest in the merchandise.** Without limiting Wholesaler's rights under law or in equity, **Wholesaler and its affiliates, parent or related entities, collectively or individually, may exercise a right of set-off** against any and all amounts due a Customer.

PAYMENT TERMS

Semi-Monthly Terms

- 1-15 Due on 25th or (EOM)
- 16-End of Month = due on 10th (or 15th)

Weekly Pay Terms

- Reduces COG 15-20 basis pts
- Mon- Friday due following Wednesday (or Friday)

Prepay – Reduction of 40-80 basis pts

Monthly – **Increase** COG 30-40 basis pts

PAYMENT TERMS – SERVICE CHARGE

Penalties (service charges) or COG increase for late pay or extended DSO?

(1.5 – 3 bpts/day?)

Payment by Check charge? (10 bpts)

Fuel Delivery Charge? >\$4.00

COMPLIANCE – CONTROLLED SUBSTANCES

Wholesaler may, **within its sole and absolute discretion**, do any of the following: (a) **Limit or deny any order for Controlled Substances** or other regulated products as warranted by any established diversion monitoring program of Wholesaler and (b) Immediately terminate this Agreement, in whole or in part, without liability if: (i) **Continued performance of any part of this Agreement would violate any federal, state or local law, rule or regulation, or put Wholesaler in jeopardy of violating any federal, state or local law, rule or regulation regarding either Controlled Substances or any other regulated products or activities;** or (ii) **Wholesaler receives a complaint, notice, warning letter or other communication from a governmental agency alleging noncompliance with any laws, rules or regulations in relation to Wholesaler distribution of the Merchandise (including without limitation Controlled Substances) under this Agreement or to a Customer's actions or omissions with respect to either Controlled Substances or any other regulated products or activities.**

FORCE MAJEURE

Except for the obligation to pay money, a party **will not be liable** to another party **for any failure or delay** in performance caused **by fires, shortage of materials or transportation, government acts, acts of terrorism, or any other matters** beyond the first party's reasonable control, and **such failure or delay will not constitute a breach of this Agreement.**

RIDERS?

Wholesaler Services

- Auto Shipments
- Fee based programs
- Additional programs

WHERE IS THE BETTER?



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

WHEN IS BETTER REALLY DIFFERENT

Cost of Goods

- Brand Rx discount from “cost” or WAC
- Generic Rx Invoice pricing

Cost of Inventory

- The cost minus rebates & discounts of all purchases

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory
GCR=	24.16%				

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory
GCR=	24.16%				

Brand	\$135,000	-5.00%	-\$6,750	\$128,250	
Generic	\$43,000	35%	-\$15,050	\$27,950	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$163,200</u>	Cost of Inventory
GCR=	24.16%				

+\$3,500

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory
GCR=	24.16%				

Brand	\$135,000	-5.00%	-\$6,750	\$128,250	
Generic	\$46,440	35%	-\$16,254	\$30,186	
OTC	\$7,000			\$7,000	
	<u>\$188,440</u>	Inc GRx 8%		<u>\$165,436</u>	Cost of Inventory
GCR=	25.60%			+\$1,264	

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory

GCR= **24.16%**

Brand	\$135,000	-5.50%	-\$7,425	\$127,575	
Generic	\$46,440	35%	-\$16,254	\$30,186	
OTC	\$7,000			\$7,000	
	<u>\$188,440</u>	Inc GRx 8%		<u>\$164,761</u>	Cost of Inventory

GCR= **25.60%**

+\$1,939

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory

GCR= **24.16%**

Brand	\$135,000	-5.50%	-\$7,425	\$127,575	
Generic	\$43,440	35%	-\$15,204	\$28,236	
non Src	\$3,000			\$3,000	
OTC	\$7,000			\$7,000	
	<u>\$188,440</u>	Inc GRx 8%		<u>\$165,811</u>	Cost of Inventory

GCR= **24.34%**

+\$889

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory

GCR= **24.16%**

Brand	\$135,000	-5.00%	-\$6,750	\$128,250	
Generic	\$43,440	35%	-\$15,204	\$28,236	
non Src	\$3,000			\$3,000	
OTC	\$7,000			\$7,000	
	<u>\$188,440</u>	Inc GRx 8%		<u>\$166,486</u>	Cost of Inventory

GCR= **24.34%**

+\$214

WHEN IS BETTER REALLY DIFFERENT

^ Brand	\$135,000	-4.00%	-\$5,400	\$129,600	
Generic	\$43,000	30%	\$12,900	\$30,100	
OTC	\$7,000			\$7,000	
	<u>\$185,000</u>			<u>\$166,700</u>	Cost of Inventory

GCR= **24.16%**

Brand	\$135,000	-5.00%	-\$6,750	\$128,250	
Generic	\$43,440	35%	-\$15,204	\$28,236	
non Src	\$3,000			\$3,000	
OTC	\$7,000			\$7,000	
	<u>\$188,440</u>	Inc GRx 8%		<u>\$166,486</u>	Cost of Inventory

GCR= **24.34%**

+\$214

IS THE BOTTOM LINE BETTER?

- | | |
|------------------------------|--------------------------|
| 1 Brand Rx Cost of Goods | 5 Payment Terms |
| 2 Generic Rebates | 6 OTC Costs |
| 3 Generic Invoice Prices | 7 Up Front Money |
| 4 Special Priced items | 8 Misc Rebates/Dividends |
| 9 Other Incentives (goodies) | 10 Program Fees |

COST OF INVENTORY!

IS THE BOTTOM LINE BETTER?

- | | |
|------------------------------|--------------------------|
| 1 Brand Rx Cost of Goods | 5 Payment Terms |
| 2 Generic Rebates | 6 OTC Costs |
| 3 Generic Invoice Prices | 7 Up Front Money |
| 4 Special Priced items | 8 Misc Rebates/Dividends |
| 9 Other Incentives (goodies) | 10 Program Fees |

COST OF INVENTORY!

“LOOKING FOR SOMETHING BETTER”

“Most People Mess Up Something Good,
By Looking For Something Better
Just To End Up With Something Worse”

-Unknown

YOUR COMPANY
YOUR BOTTOM LINE
AMERICAN ASSOCIATED PHARMACIES **2018**



THANK YOU

