Would you ever pay $20 for a Starbucks Coffee?

Troy Trygstad, PharmD MBA PhD

Disclaimer(s)

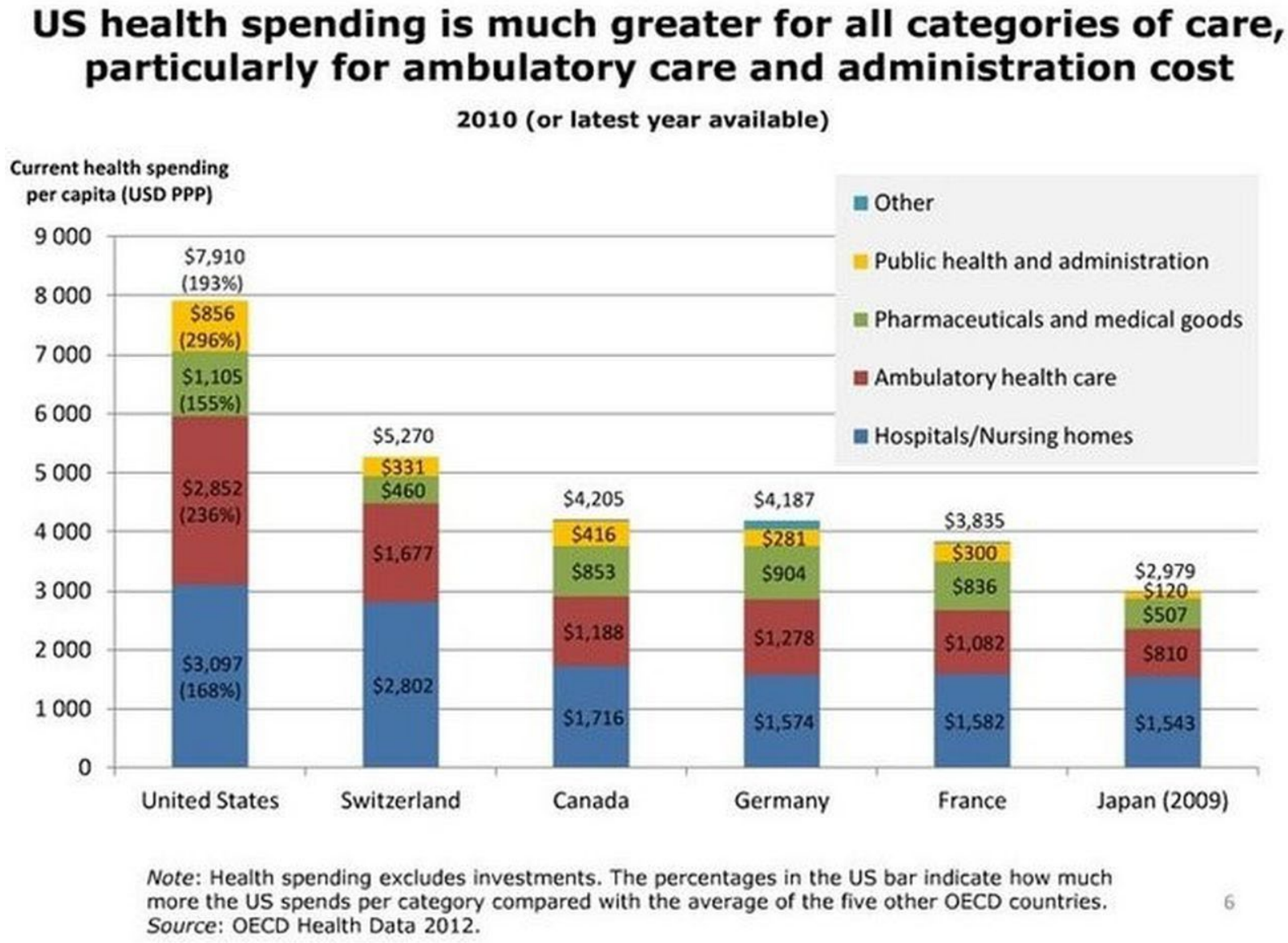
- I practice community pharmacy on nights and weekends
  - *I'm pro pharmacist and primary care*
- I lead a nationwide clinically integrated network of 3,300 pharmacies
  - *4th largest "chain" by single signature in the United States*
- I'm also a pharmaceutical health policy/health services researcher by training
  - *View the world through the lens of economics*

Agenda

- Where does the money go?
- Drugs are expensive (sometimes).
- Pharmacy is not expensive.
- The disconnect.
- The $20 Starbucks Coffee
- “Rents”.
- Benchmark pricing.
- Value Based Contracting.
- Pharmacy Quality Networks.
- Results.

Where does the money go?

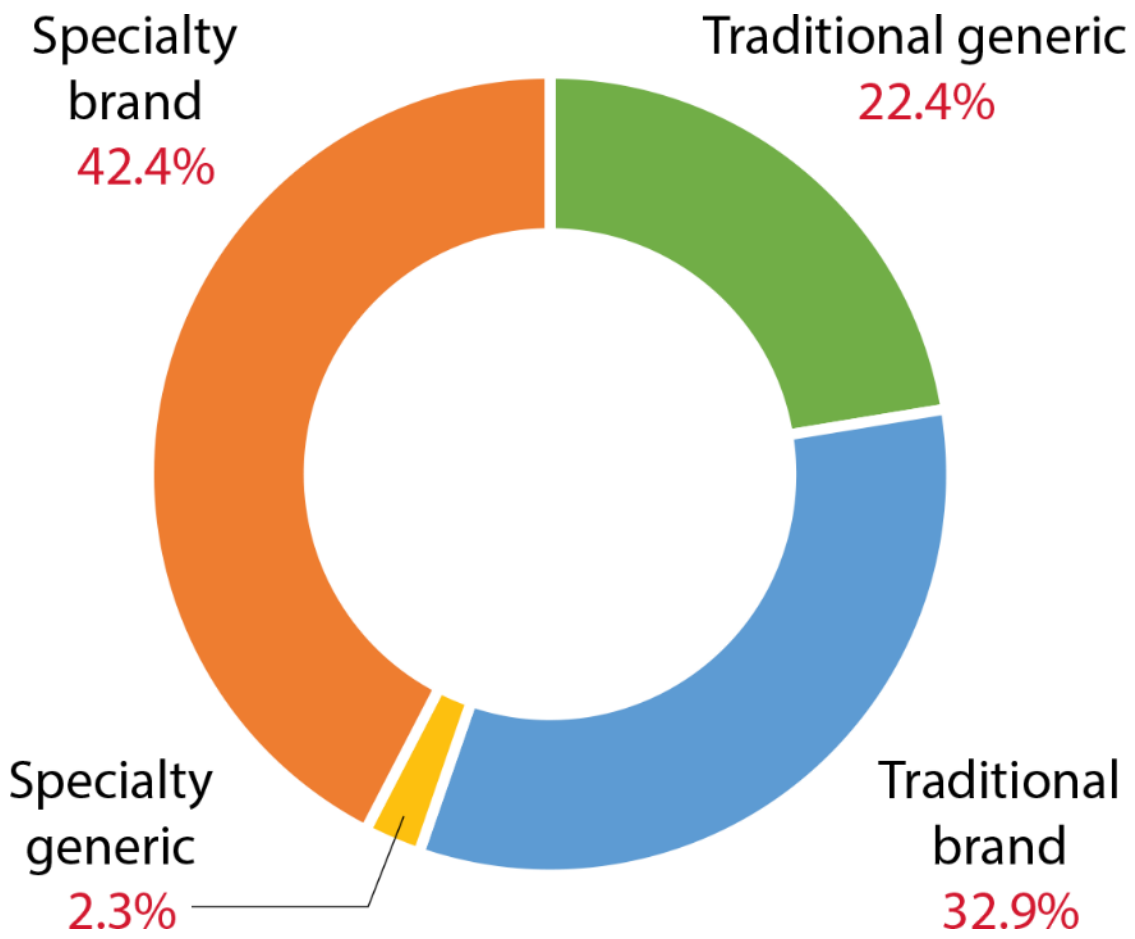
(Hint: it's worse with non-Rx categories)



Where does the money go?

(Hint: Pareto would blush)

- Source: Express Scripts, "2018 Drug Trend Report," February 2019

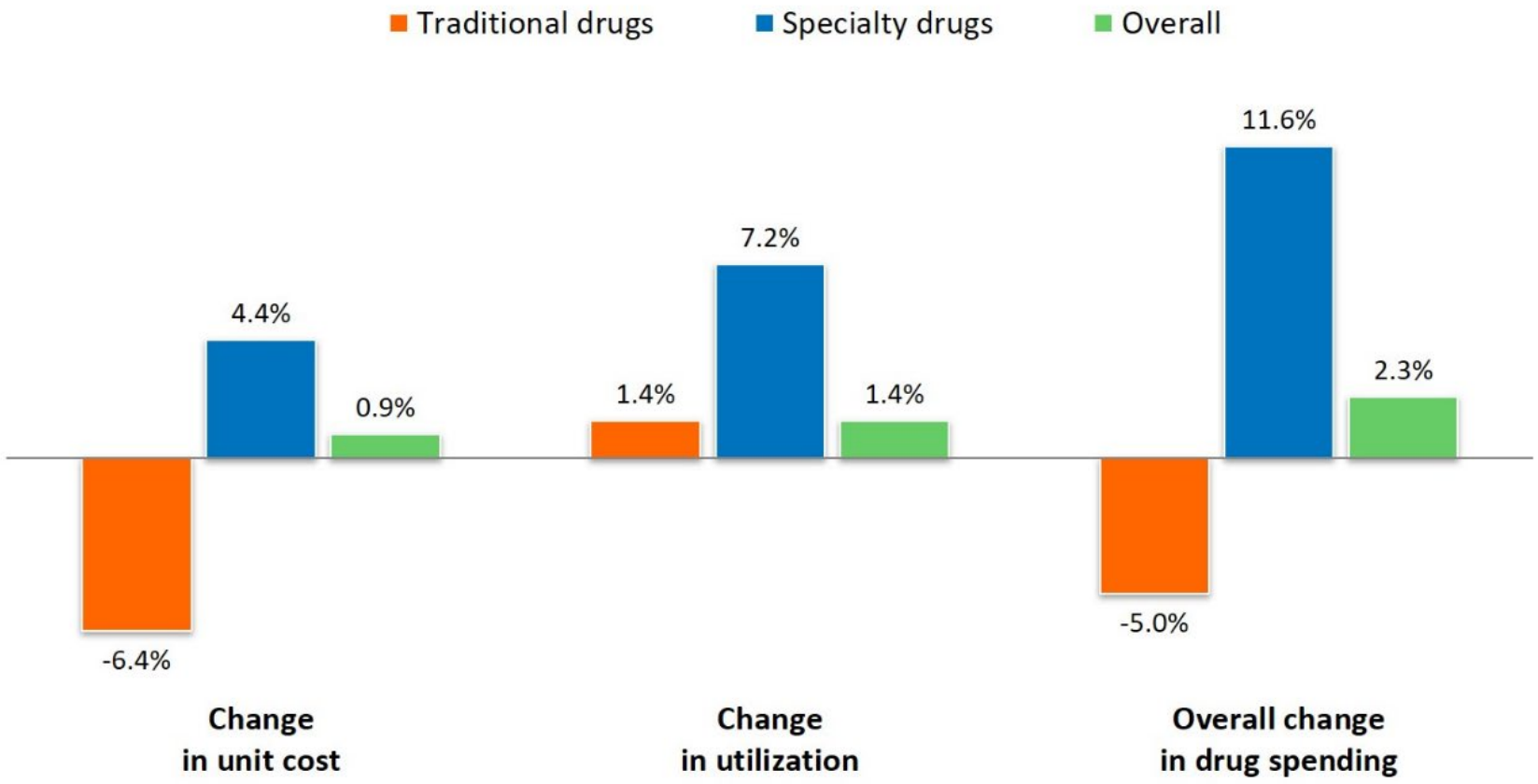


https://www.managedcaremag.com/archives/2019/9/specialty-drug-spend-soars-can-formulary-management-bring-it-down-earth

Drugs are expensive.

(Some of them, but not many)

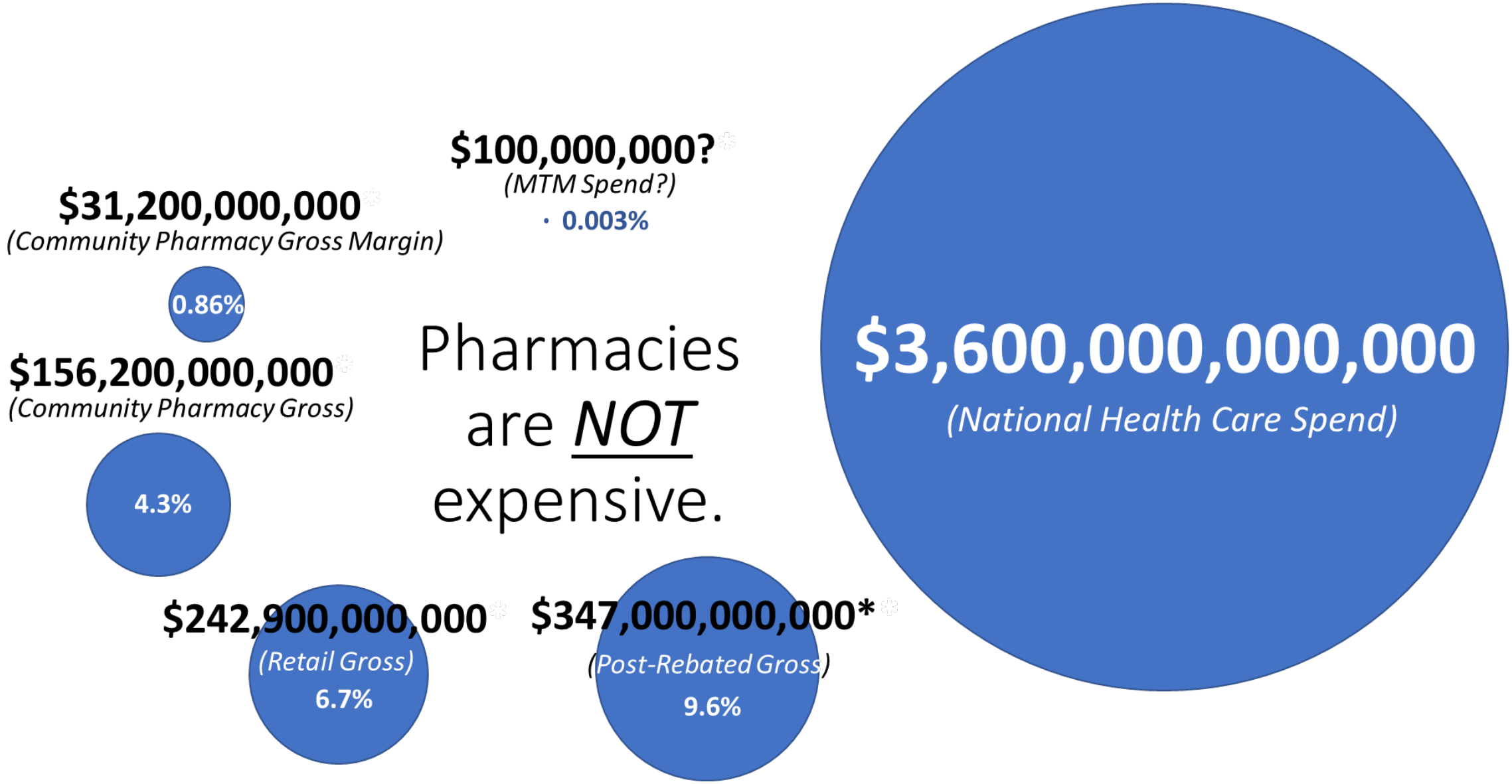
Express Scripts, Components of Change in Net Drug Spending, Traditional vs. Specialty, 2019



Source: Drug Channels Institute analysis of Express Scripts drug trend report. Figures are for Express Scripts' commercial clients and include the effect of rebates.

Published on *Drug Channels* (www.DrugChannels.net) on February 25, 2020.

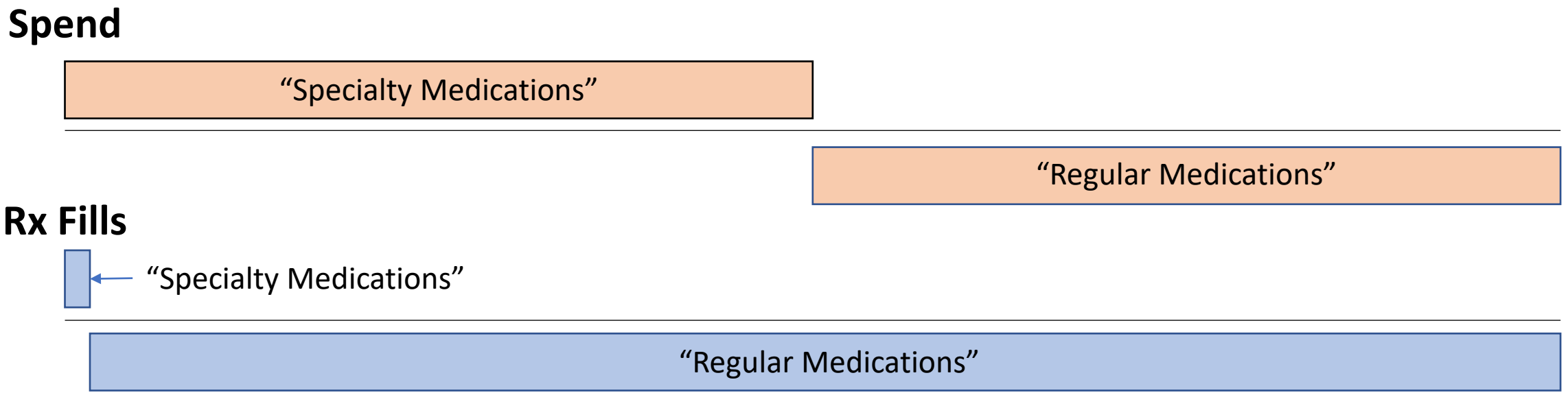
DRUG CHANNELS INSTITUTE



IQVIA Institute. Medicine use and spending in the US: a review of 2017 and outlook to 2022. https://www.iqvia.com/Institute/Reports/Medicine-Use-And-Spending-In-The-Us-Review-Of-2017-Outlook-To-2022. Published April 19, 2018. Assumes 3.5% inflation for 2 years after 2017.

The disconnect(s).

(Small number of fills, big % of cost)



PBM Business Models

(business model migration over time)

Administration Phase (70s, early 80s) – profits by administrative efficiencies

Generic Conversion Phase (late 80s, 90s) – profits by brand to generic conversions

Rebates Phase (early, 00s, 10s) – profits by drug rebates, some b2g

Spread Phase (late 00s, 10s) – profits by drug rebates, **spread pricing**

Vertical Integration Phase (late 00s, 20s) – profits by channeling, profit-shifting

Ever pay $20 for a Starbucks Coffee?

(If you bought it from a PBM you might)

WE PROUDLY SERVE

EXTRAS

ADD FLAVOR ~REGULAR OR SUGAR FREE~	.50
ADD ESPRESSO SHOT	.80
ADD SOY	.60

BREWED COFFEE	TALL	GRANDE	VENTI
REGULAR OR DECAF	1.85	2.10	2.45
ESPRESSO			
CAFFE LATTE	3.15	3.75	4.15
CAFFE MOCHA	3.65	4.25	4.65
CAPPUCCINO	3.15	3.75	4.15
CARAMEL MACCHIATO	3.75	4.45	4.75
VANILLA LATTE	3.65	4.25	4.65
WHITE CHOCOLATE MOCHA	3.75	4.45	4.75
CAFE AMERICANO	2.25	2.75	3.25

	SOLO	DOPPIO
ESPRESSO	1.75	1.95
ESPRESSO CON PANNA	1.85	2.05
ESPRESSO MACCHIATO	1.85	2.05

HOT TEA	TALL	GRANDE	VENTI
TAZO CLASSIC CHAI TEA LATTE	2.75	3.25	3.45
TAZO CHOCOLATE CHAI TEA LATTE	3.25	3.75	3.95
TAZO VANILLA CHAI TEA LATTE	2.75	3.25	3.45
TAZO HOT TEA	2.25	2.45	2.65

EARL GRAY • AWAKE • ZEN • CALM • REFRESH • WILD SWEET ORANGE • DECAF LOTUS DECAF TAZO CHAI • GREEN TEA • PASSION • CHAI • GREEN GINGER

ICED COFFEE & TAZO ICED TEA	GRANDE	VENTI
ICED CAFFE	4.65	4.95
ICED CAFFE AMERICANO	2.65	3.15
ICED CARAMEL MACCHIATO	4.65	4.95
ICED FLAVOR LATTE	4.45	4.95
ICED COFFEE ~WITH OR WITHOUT MILK~	2.65	2.95
TAZO ICED TEA	2.45	2.95
TAZO ICED TEA LEMONADE	3.25	3.75
• BLACK • GREEN • TROPIC • PASSION •		
TAZO ICED CLASSIC CHAI TEA LATTE	3.95	4.25
TAZO ICED CHOCOLATE CHAI TEA LATTE	3.95	4.25
TAZO ICED VANILLA CARAMEL CHAI TEA LATTE	3.95	4.25

FRAPPUCCINO BLENDED BEVERAGE ~COFFEE~		
COFFEE	3.95	4.45
CARAMEL	4.65	4.95
MOCHA	4.65	4.95
WHTE CHOCOLATE MOCHA	4.65	4.95
JAVA CHIP	4.65	4.95

FRAPPUCCINO BLENDED BEVERAGE ~CREME~		
VANILLA BEAN	3.95	4.45
STRAWBERRIES & CREME	4.65	4.95
MOCHA	4.65	4.95
DOUBLE CHOCOLATY CHIP	4.65	4.95

OTHER FAVORITES	TALL	GRANDE	VENTI
HOT CHOCOLATE	2.75	3.25	3.45
WHITE HOT CHOCOLATE	3.25	3.75	3.95
STEAMER	2.75	3.25	3.45

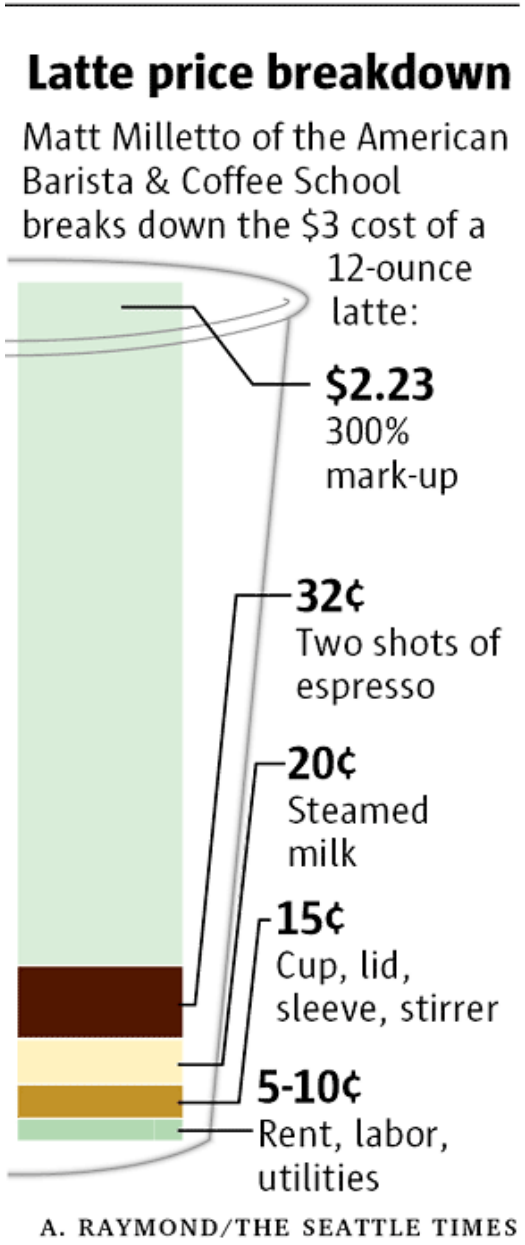
Ever pay $20 for a Starbucks Coffee?

(Coffee is very cheap to procure and produce)

Cheap 16 oz Coffee Cost		
Coffee grounds	$	0.08
Filter	$	0.01
Electricity	$	0.01
Water	$	0.00
Coffee maker	$	0.01
Cost for 16 oz:	**$**	**0.11**
	Dr. Penny Pincher	

Ever pay $20 for a Starbucks Coffee?

(If you bought it from a PBM you might)

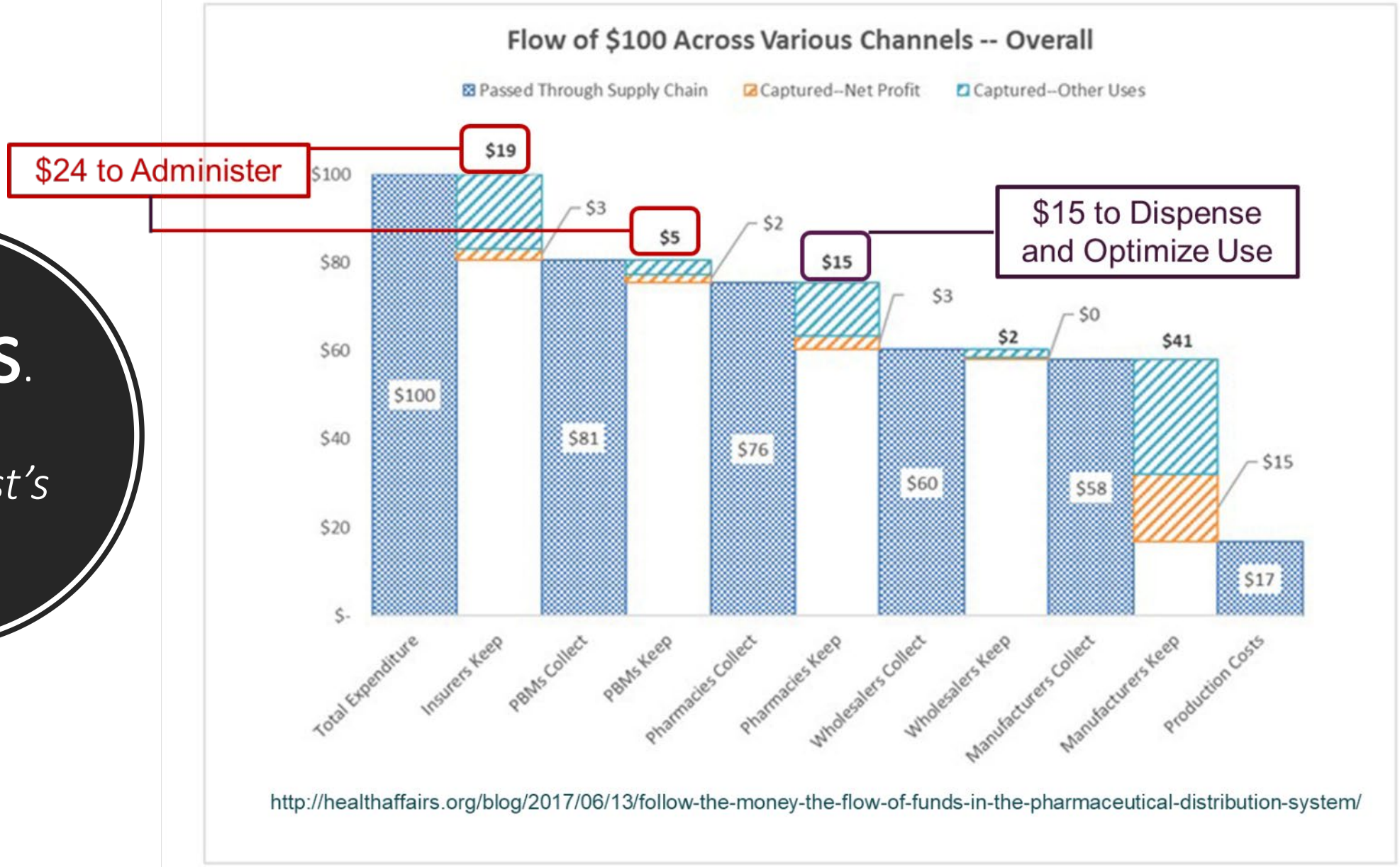


+ $2-$17+

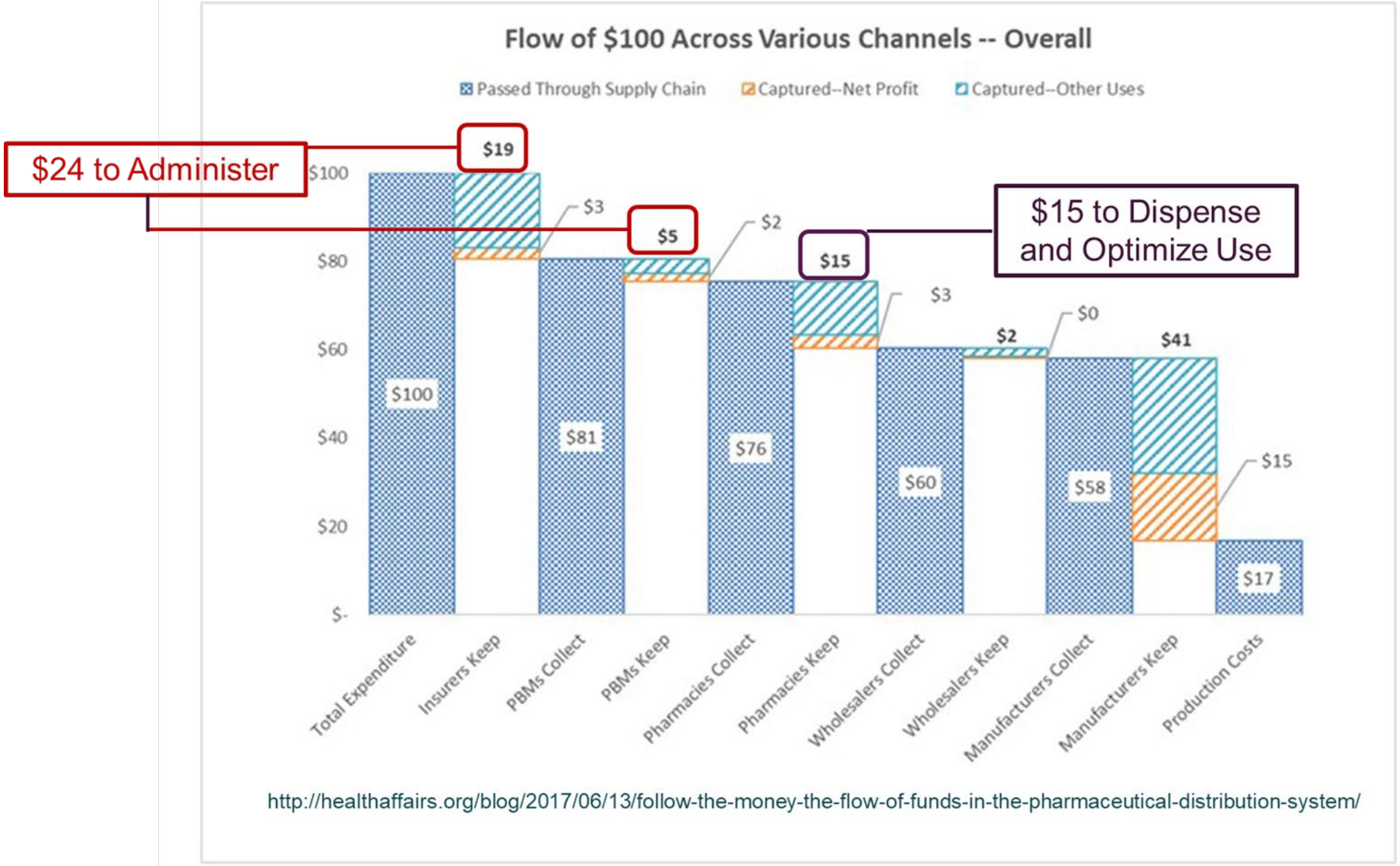
To Administer

Rents.

(Economist's view)



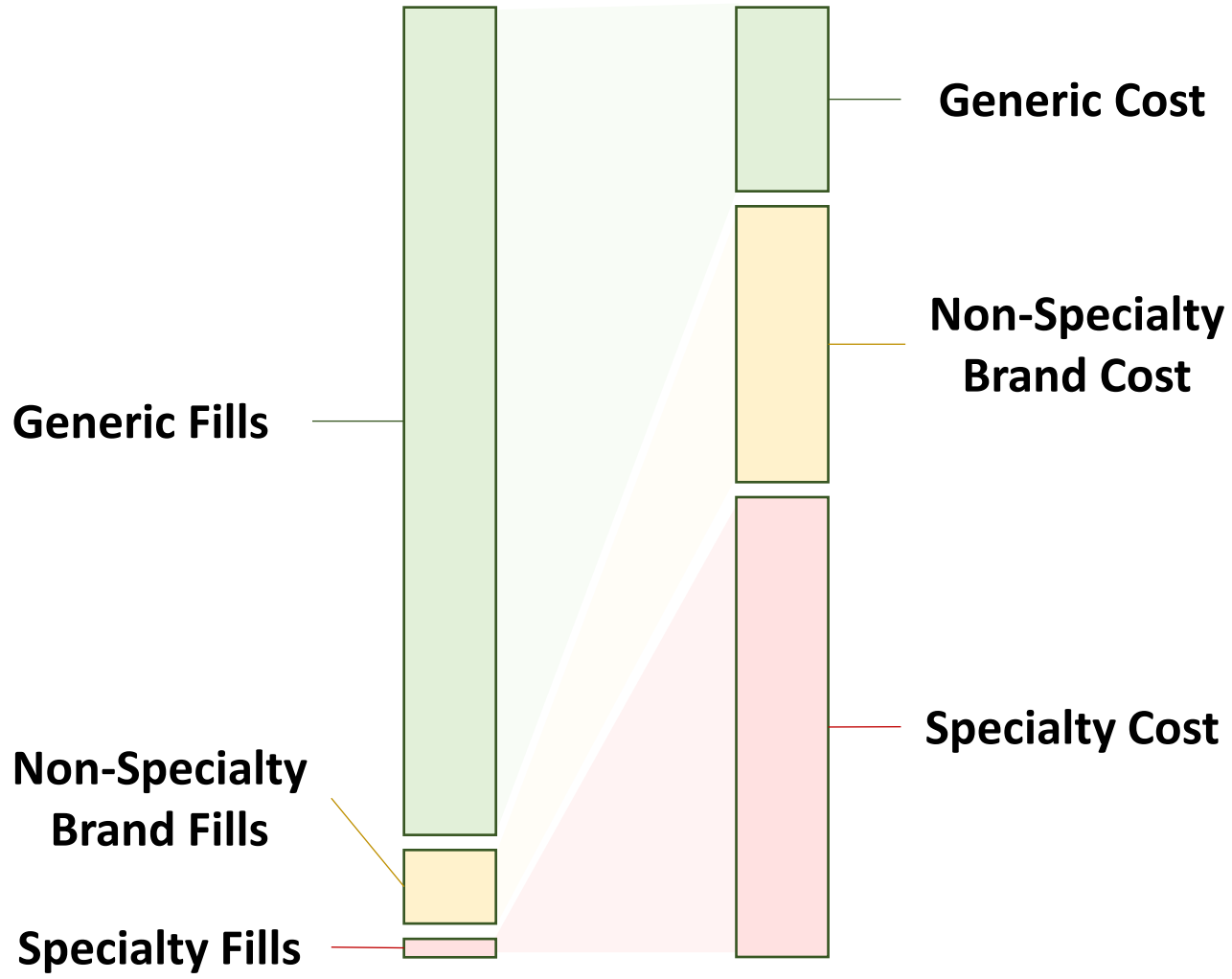
http://healthaffairs.org/blog/2017/06/13/follow-the-money-the-flow-of-funds-in-the-pharmaceutical-distribution-system/



http://healthaffairs.org/blog/2017/06/13/follow-the-money-the-flow-of-funds-in-the-pharmaceutical-distribution-system/

10% of Fills are 80% of the Cost

(This imbalance has changed the PBM industry)



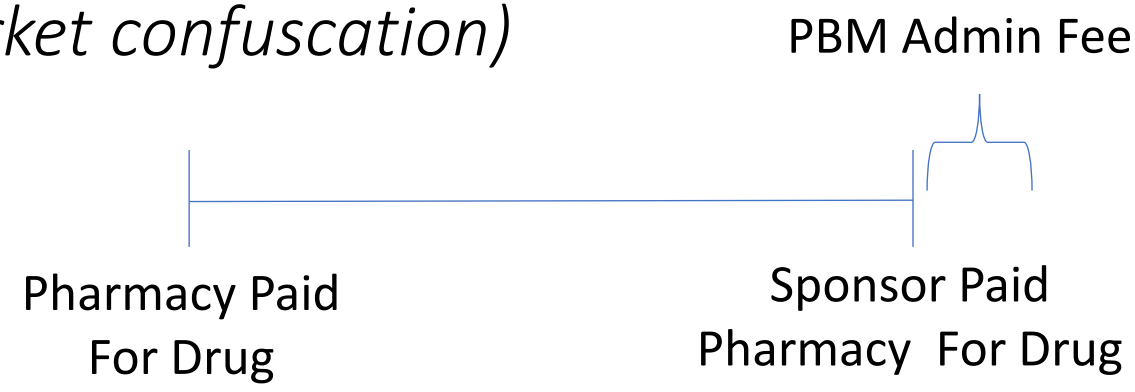
Drawn to Scale for 2021

From Transparency to Opacity

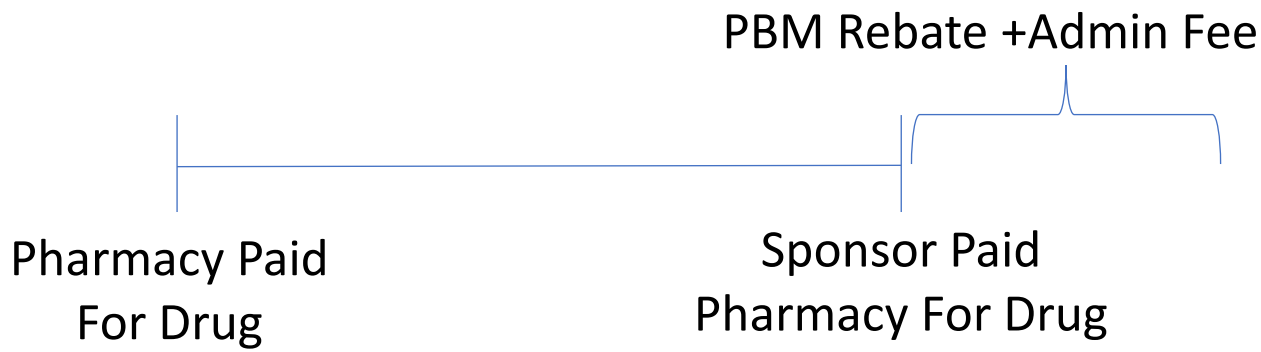
("Rents" require market confuscation)

Administration Phase (70s, early 80s)

Generic Conversion Phase (late 80s, 90s)

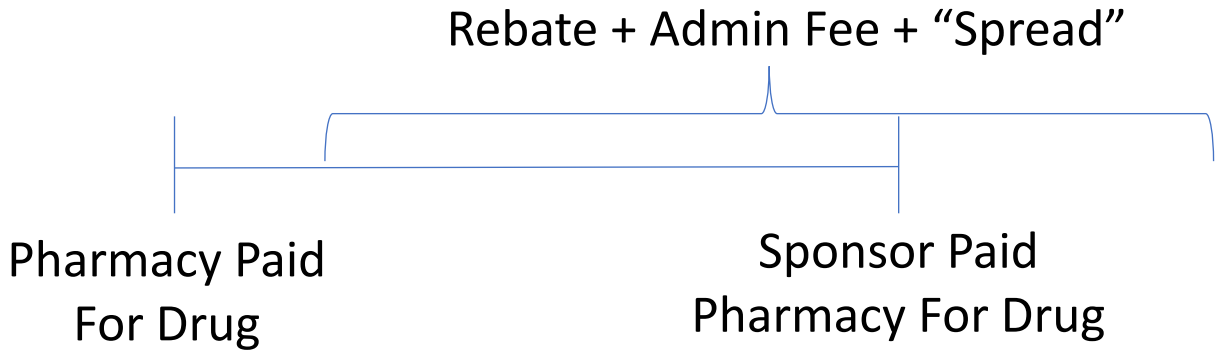


Rebates Phase (early, 00s, 10s)



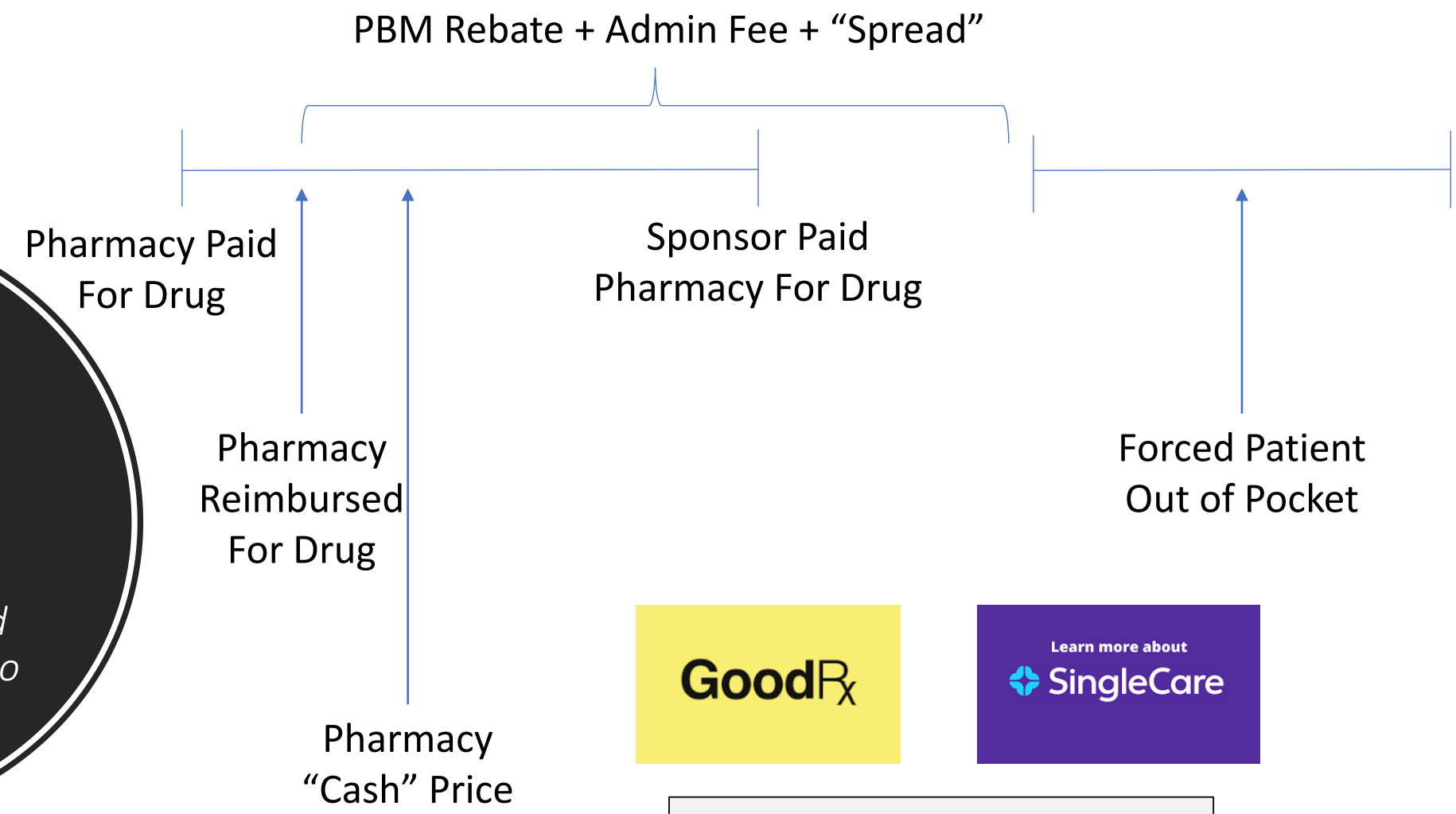
Spread Phase (late 00s, 10s)

Vertical Integration Phase (late 00s, 20s)



The rise of discount cards.

(How is it that insured individuals elect NOT to use their insurance?)



GoodRx

Learn more about SingleCare

…and many others… including now ***In-House*** PBM/Insurer Cards!

Benchmark Pricing

(NADAC)

MILLIMAN WHITE PAPER

NADAC-plus: An emerging paradigm in pharmacy pricing?

Kevin Pierce, ASA, MAAA
Andrea Sheldon, FSA, MAAA

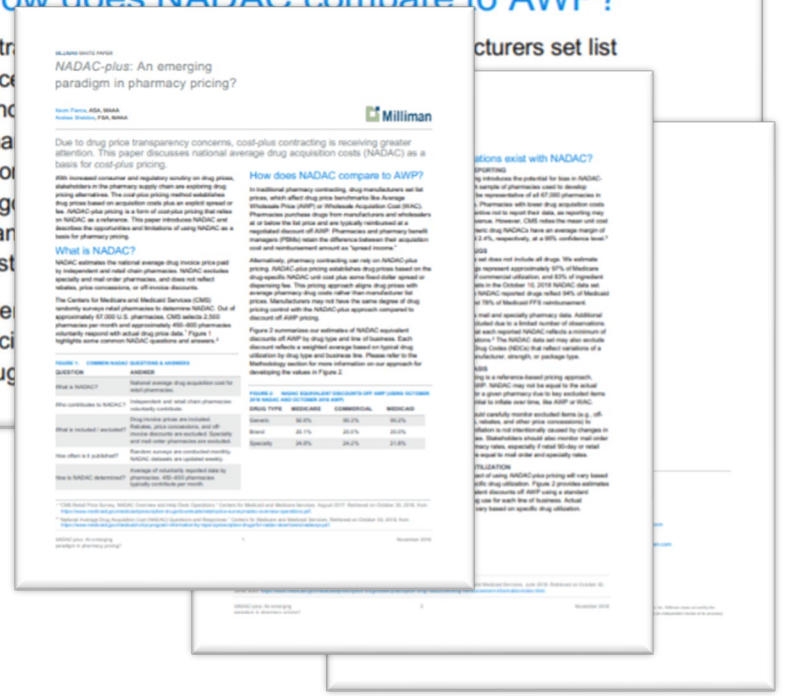
Milliman

Due to drug price transparency concerns, *cost-plus* contracting is receiving greater attention. This paper discusses national average drug acquisition costs (NADAC) as a basis for *cost-plus* pricing.

With increased consumer and regulatory scrutiny on drug prices, stakeholders in the pharmacy supply chain are exploring drug pricing alternatives. The *cost-plus* pricing method establishes drug prices based on acquisition costs plus an explicit spread or fee. *NADAC-plus* pricing is a form of *cost-plus* pricing that relies on NADAC as a reference. This paper introduces NADAC and describes the opportunities and limitations of using NADAC as a basis for pharmacy pricing.

What is NADAC?

NADAC estimates the national average drug invoice price paid by independent and retail chain pharmacies. NADAC excludes specialty and mail order pharmacies, and does not reflect



Recommended Read

https://milliman-cdn.azureedge.net/-/media/milliman/importedfiles/uploadedfiles/insight/2018/nadac-plus.ashx

Benchmark pricing.

(NADAC)

Average **W**holesale **P**rice

*("**A**int' **W**hat's **P**aid")*

FIGURE 1: COMMON NADAC QUESTIONS & ANSWERS

QUESTION	ANSWER
What is NADAC?	National average drug acquisition cost for retail pharmacies.
Who contributes to NADAC?	Independent and retail chain pharmacies voluntarily contribute.
What is included / excluded?	Drug invoice prices are included. Rebates, price concessions, and off-invoice discounts are excluded. Specialty and mail order pharmacies are excluded.
How often is it published?	Random surveys are conducted monthly. NADAC datasets are updated weekly.
How is NADAC determined?	Average of voluntarily reported data by pharmacies. 450–600 pharmacies typically contribute per month.

utilization by drug type and business line. Please refer to the Methodology section for more information on our approach for developing the values in Figure 2.

FIGURE 2: NADAC EQUIVALENT DISCOUNTS OFF AWP (USING OCTOBER 2018 NADAC AND OCTOBER 2018 AWP)

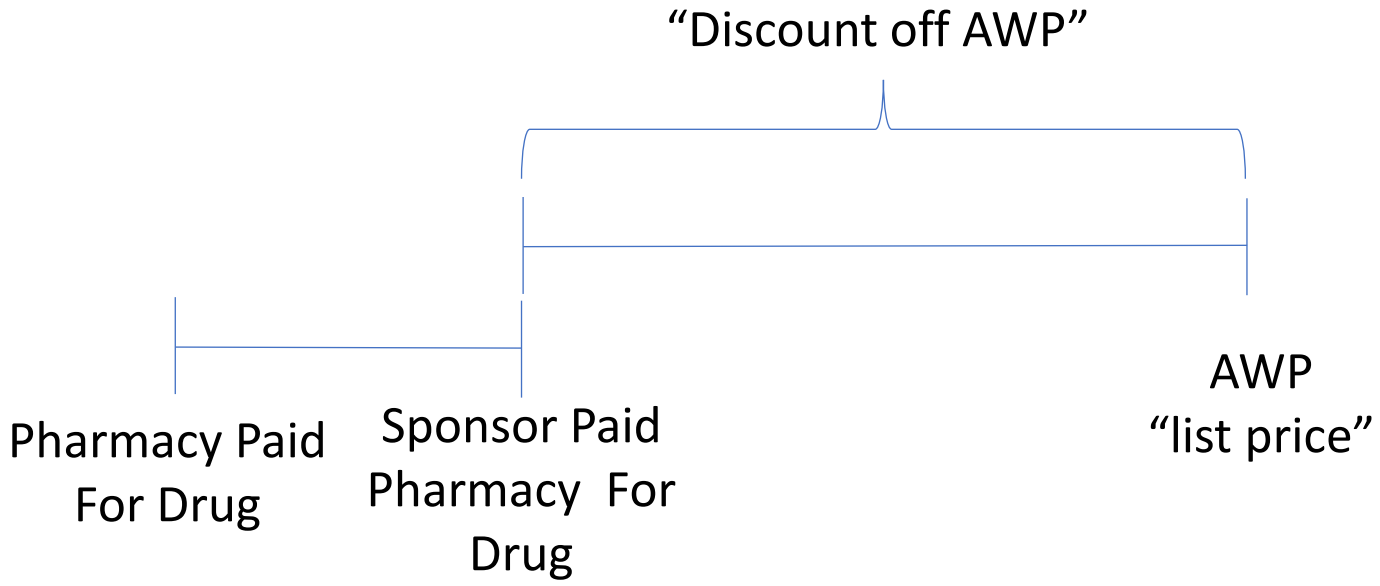
DRUG TYPE	MEDICARE	COMMERCIAL	MEDICAID
Generic	92.6%	90.3%	90.2%
Brand	20.1%	20.0%	20.0%
Specialty	24.8%	24.2%	21.8%

[1] "CMS Retail Price Survey, NADAC Overview and Help Desk Operations." Centers for Medicaid and Medicare Services. August 2017. Retrieved on October 30, 2018, from https://www.medicaid.gov/medicaid/prescription-drugs/downloads/retail-price-survey/nadac-overview-operations.pdf.

[2] "National Average Drug Acquisition Cost (NADAC) Questions and Responses." Centers for Medicare and Medicaid Services. Retrieved on October 30, 2018, from https://www.medicaid.gov/medicaid-chip-program-information/by-topics/prescription-drugs/ful-nadac-downloads/nadacqa.pdf.

https://milliman-cdn.azureedge.net/-/media/milliman/importedfiles/uploadedfiles/insight/2018/nadac-plus.ashx

AWP *(or other benchmark)* Model vs. NADAC Model



Typical Pharmacy PBM Contract: "AWP – 82% + $1.00 Dispensing Fee"

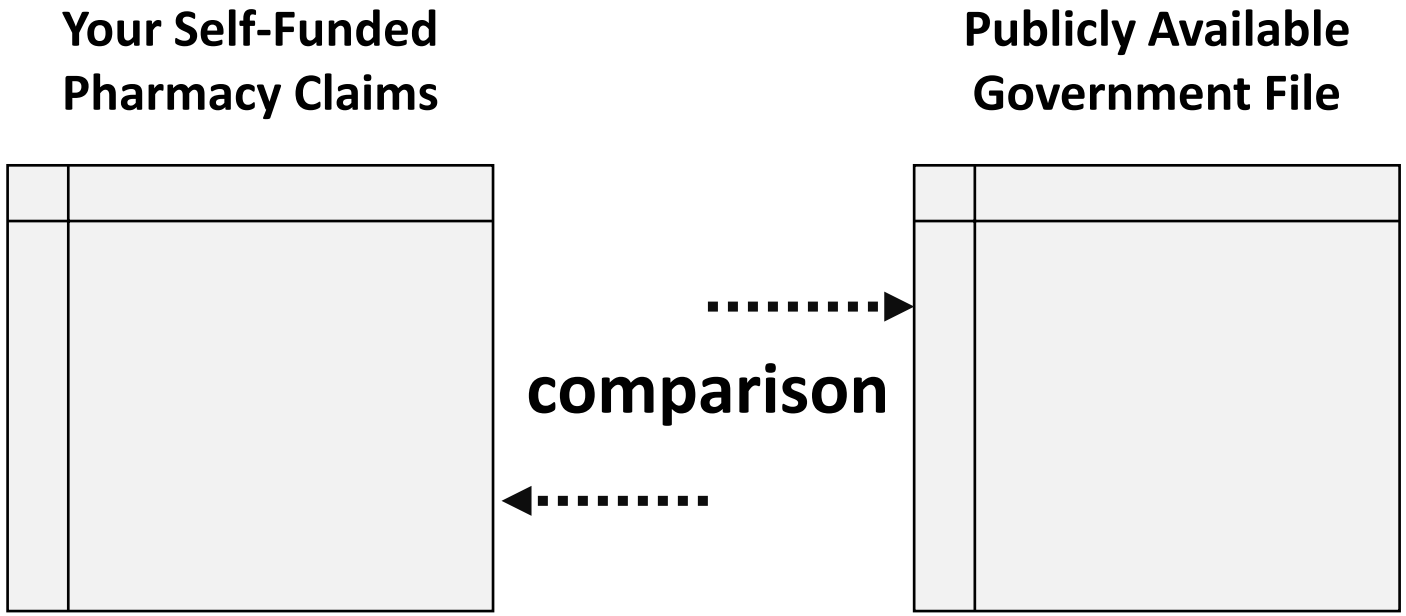
NADAC PBM Contract: "NADAC + $8.50 Dispensing Fee"

The Difference?: A better benchmark of what the pharmacy paid for the drug and nearly all of payment is for the service.
Otherwise – you have no idea whatsoever what you are actually paying for the Coffee!

Imagine if Visa or Mastercard charged you a $17 transaction fee on a cup of coffee

You can check what you pay against NADAC

(How much are you paying for the transaction?)



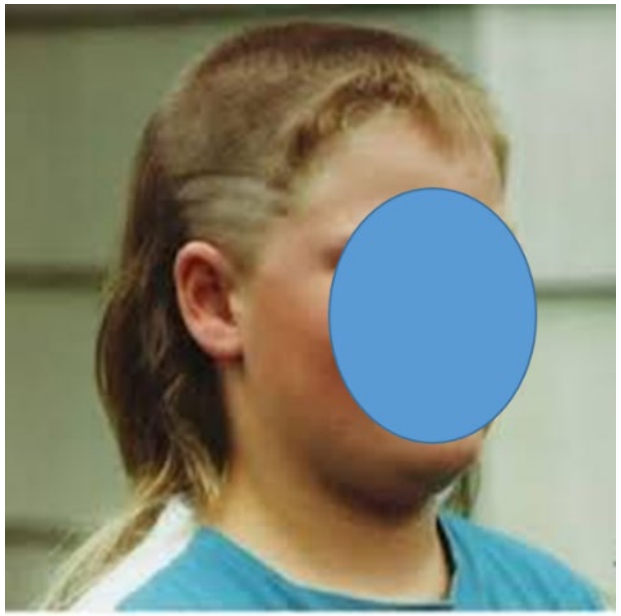
https://healthdata.gov/harvest_source/datamedicaidgov

Value based contracting.

(Why did this trend miss Pharmacy Sector?)

Good Haircut

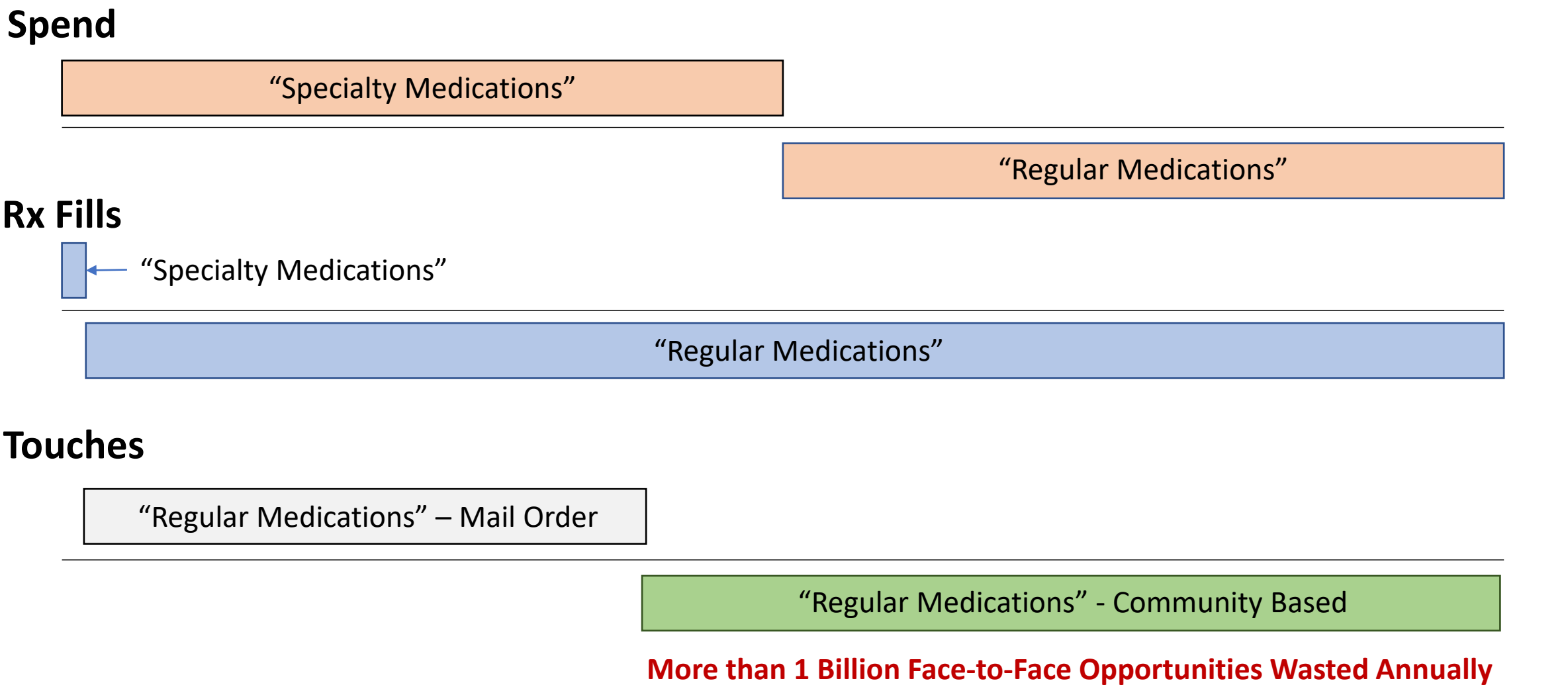
Bad Haircut



….Same Reimbursement

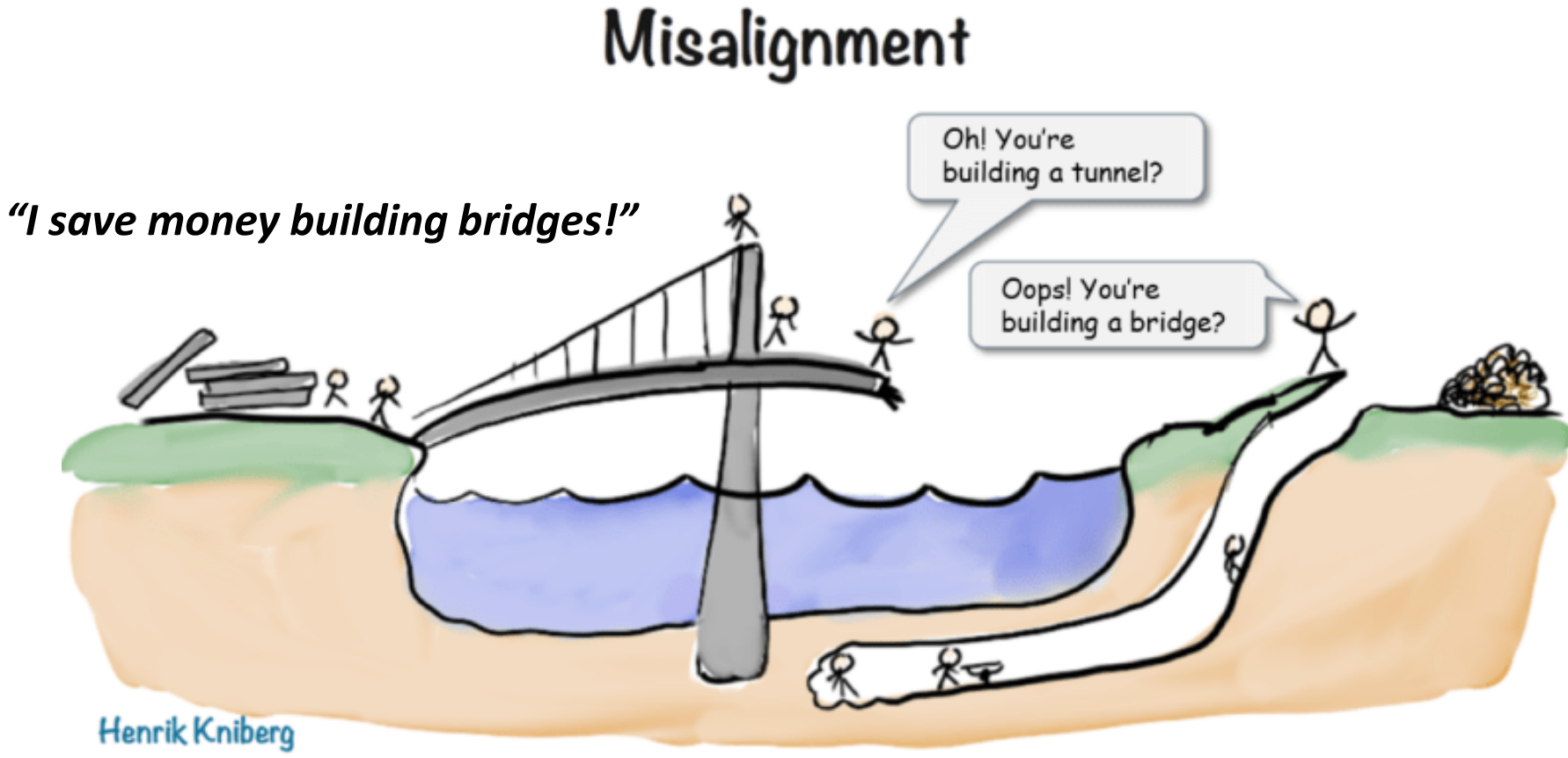
(not related at all to medical outcomes…)

From a Retail Spread Business to…
…A Services-Based Business



How did pharmacy get here?

(Lack of Alignment…)

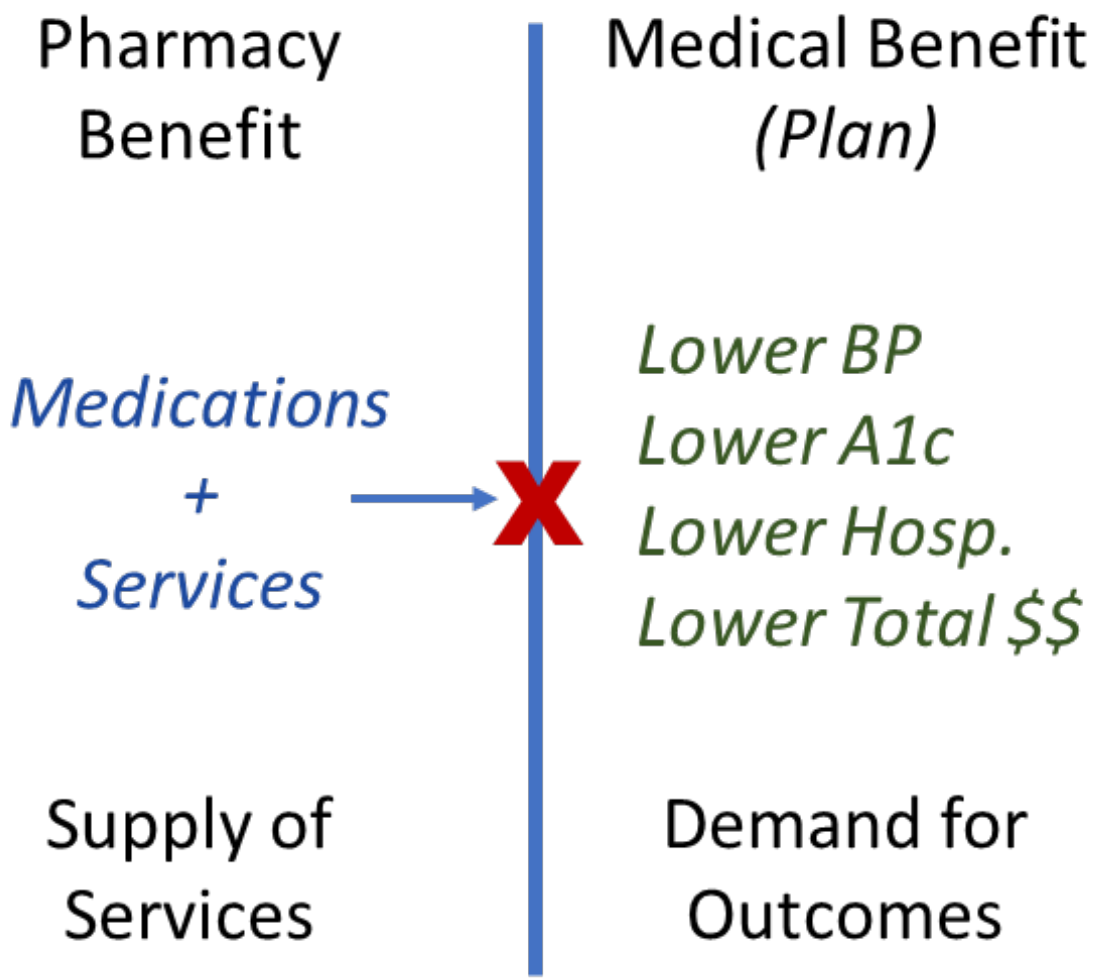


"I save money building bridges!"

"I get paid to build tunnels!"

Why can't pharmacy play?

(Left out of Outcomes-based VBP conversation…)



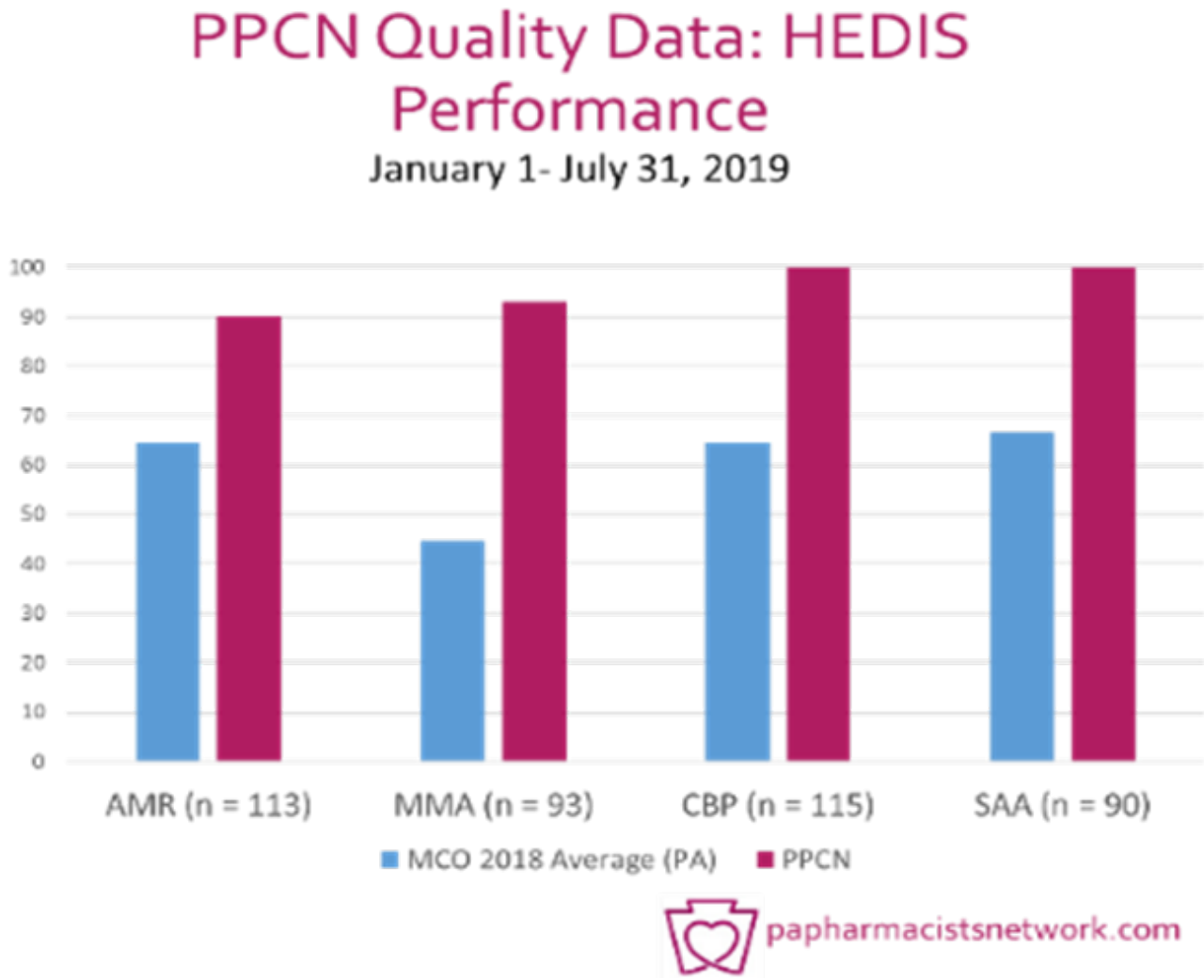
What does a Services-Based VBP program targeting clinical outcomes look like for pharmacies?

- **Example Diabetes Program (Targeted Pts.)**
  - Intervention
    - *Patient goals*
    - *Medication Reconciliation*
    - *Problems – medical problems, drug therapy problems, and health concerns*
    - *Plan of Care*
    - *Report Lab results: A1c, fasting blood glucose, and blood pressure*
  - Data/Reporting
    - E*lectronic Care Plan*
- **Payment**
  - $60 & 80 PMPM
    - *25% Withheld*
      - *80% Threshold*
        - *Engaged (Care Plan)*
        - *A1c Reported*
      - *25% Threshold*
        - *A1c <9.0*
      - 50% Threshold
        - *A1c<9.0*

What does a Services-Based VBP program targeting clinical outcomes look like for pharmacies?

- **Example Asthma Program**
  - Intervention
    - *Whatever works*
  - Data/Reporting
    - *None from Pharmacy*
    - *Claims analysis of ED visits*
- **Payment**
  - $10 PMPM
  - Shared Savings Upside
    - *65% of Savings to Pharmacy Network*

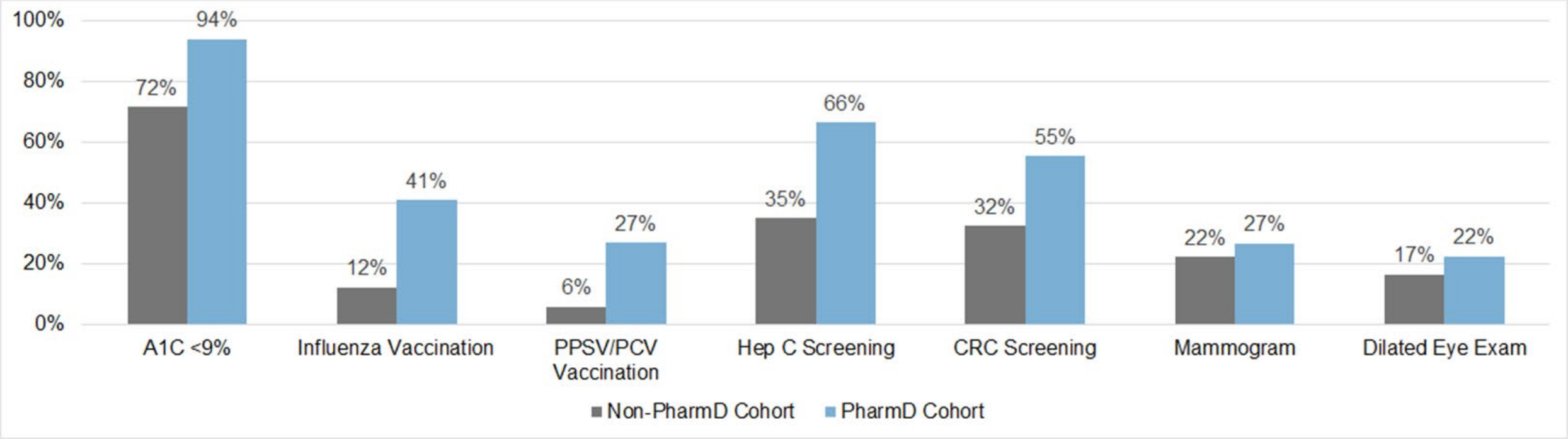
Results.



- **HEDIS: H**ealthcare **E**ffectiveness **D**ata and **I**nformation **S**et

Results.

Accountable Pharmacy Networks are not a Unicorn and Many Plans are Moving Toward Value-Based Pharmacy Contracting



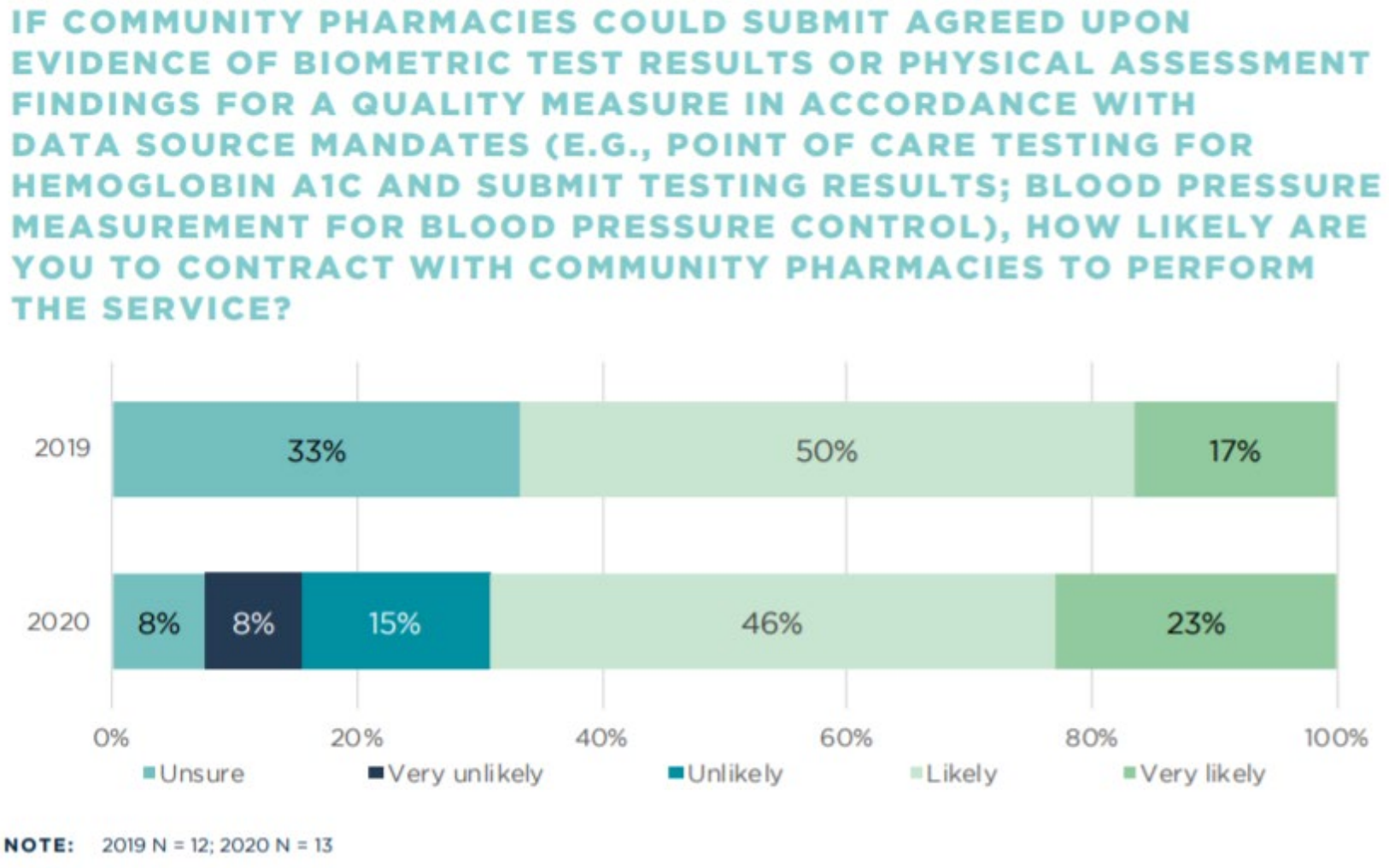
- Sinclair J, Bentley OS, Abubakar A, Rhodes LA, Marciniak MW, Impact of Pharmacists in Improving Quality Measures that Affect Physician Payment, Journal of the American Pharmacists Association (2019), doi: https://doi.org/10.1016/j.japh.2019.03.013.

The Future.

Accountable Pharmacy Networks are not a Unicorn and Many Plans are Moving Toward Value-Based Pharmacy Contracting

2020
INDUSTRY
TREND REPORT
IN PHARMACY QUALITY

https://www.pharmacyquality.com/wp-content/uploads/2020/11/PQStrendreportinPharmacyQuality2020.pdf



Questions?