ASK THE EXPERT:

Specialty Pharmacies

EVERSANA™

Howard Flushman, Senior Research Director

Q1: Howard, what strategic directions are institutions taking to access the specialty pharmacy segment?

HOWARD: First and foremost, the motivations for health systems and integrated delivery networks (IDNs) to develop SP business strategies are overwhelmingly economic; therefore, specialty pharmacy business strategies and tactics are foundationally a financial play. For the last five years, our research has shown that 340B product pricing and acquisition opportunities, plus the high need to recapture profit margins lost due to patients going to non-institutional SP dispensers, are far and above the highest-priority drivers for SP business development within institutions. Other notable (but substantively trailing) drivers include increasing payer contracting for improved local market access as well as increasing biopharma contracting to recapture access to limited-distribution drugs. Translating these motivations into operational strategies and tactics, parent IDNs and health systems are driving their SP operators to:

- build stronger, defensible and demonstrable cases for inclusion in biopharma-initiated LDNs;
- increase clinical monitoring capabilities;
- improve outcomes data collection and reporting; and
- strengthen and customize patient support services as needed for specific patient types and/or targeted therapeutic categories.

Q2: How will the evolution of institution-owned specialty pharmacies impact biopharmaceutical companies' network strategies?

HOWARD: Institutional SPs certainly have the potential to radically change industry composition and channel strategies for specialty product dispensing — but we are not yet close to that potential being realized! As we have monitored this business development evolution for the last five years, we have learned there are very notable differences in the business objectives, organizational structures, operational systems/services/capacities, data collection and reporting capabilities, and even local market share coverage between institution-owned specialty pharmacies and all other independent specialty pharmacies (inclusive of payer-owned, PBM-owned, wholesaler-owned, retailer-owned and truly independent SPs) operating in the same market, which will clearly influence and impact each biopharma company's network strategy decision-making. Our research has also produced a usable segmentation that differentiates the sophisticates (those who are capable enough to compete with the leading independent SPs in their respective markets) from the novices (those that clearly claim the name of SP but need significantly more time to realize the true capabilities of an SP). These differences must be recognized and evaluated right up front in order to answer one of the most fundamental questions a company faces in terms of network strategy development: What is the strategic priority and focus for including these SPs in the company's distribution network? In effect, are institutional SPs competitive enough to participate in overall distribution channel network strategies, or is their engagement more effective serving to build account relationships? Depending on the answer, the choice of which IDN-owned SPs to include, what they are tasked to do for the company and the level of expected performance will certainly produce different results.

Q3: What key factors should biopharmaceutical companies consider when working with institution-owned specialty pharmacies?

HOWARD: By 2024, biopharma should expect sophisticated institutional SPs to build more integrated, comprehensive coverage in specific therapeutic markets; pursue opportunities to demonstrate outcomes analysis and ability to engage in value-based contracts; demonstrate enhanced data reporting systems, performance indicators and monitoring capabilities;

and increase inclusion in payer networks. However, between now and then, IDN-owned SPs pose several challenges for biopharmaceutical companies that must be addressed — for example:

- Approximately one in three employ more than one organizational business model in their SP business growth strategy, particularly building separate SP operational units as part of the parent organization's larger Pharmacy Department, as well as building a wholly owned, independent business unit. As odd as this might seem, this presents a significant challenge for the biopharma company in terms of which unit is responsible and accountable to the company for the acquisition, dispensing and product management of contracted brands.

- Institutional SPs utilize a diverse range of specialty product reimbursement and acquisition rate models that vary significantly from that of their competitor independent SPs; closely related to this, they also strive to provide more sophisticated data reporting capabilities to support value-based contracting.

- A really critical issue for institutional SPs is that they typically gain only modest external business from both commercial and government payers because the real bulk of their patient load derives from their own employees and dependents, as well as their own IDN-owned plan members. Therefore, do not expect targeted institutional SPs to increase a company's share of local market capture. Rather, build product acquisition forecasts and service reimbursement fees on realistic assessments of current purchase and utilization experience.

- Further, institutional SPs commonly lack effective controls to influence physicians and enforce the use of their services. They prioritize different patient management services than that of independent SPs, and many fail to deliver key patient services despite asserting that patient care is the cornerstone of their SP business. Again, the key consideration here is what the business strategy or priority for including these in your network is in the first place.

All of these issues and many more must be considered and accounted for by companies when building the core rationale for strategic engagements with IDN-owned SPs.

Q4: How will the institution-owned specialty pharmacies affect the product distribution flow?

HOWARD: It's helpful to look at a few examples of points of impact affecting production distribution flow:

1. In acknowledging that 340B is the primary driver for IDNs to build internal SPs, companies must be vigilant in negotiating acquisition rates directly with SPs to control for misapplication of 340B discounts and require clear contract terms and conditions on how such discounted access is permitted and tracked while also enhancing and expanding audits of contract entity purchases for distribution and/or dispensing metrics to ensure the legitimacy of the applied acquisitions rates.
2. Companies engaging institutional SPs for office, clinic and HCP-administered products specifically must be prepared to contend with growing payer pressures over site-of-care choices and increasing payer interest for SP white-bagging direct-to-provider office locations—both of which will complicate the product flow process designed to enhance patient access.
3. Institutional SPs often offer a range of services that lean toward clinical and care coordination services rather than product dispensing and distribution and overall access. This becomes a critical concern when attempting to align the brand's needs at the current point in its product life cycle with the type of SP that would best serve those immediate and next-phase business goals and objectives.