

RETHINKING THE MODEL

COST-PLUS PRICING HELPS BOOST PATIENT CARE AND BUSINESS STABILITY | **BY SAMMANAS**

Kevin Day, PharmD, had yet to be born when his dad purchased his Cincinnati pharmacy in 1990, though he was well on his way.

He remembers spending time in his father's independent community pharmacy as young as 4 or 5 years old, counting change and riding along with his grandfather to help with home deliveries. His dad's business was where he made his first paycheck.

When in college, Kevin considered careers in architecture and engineering, but found himself missing the community-centric environment he'd grown up in.

He appreciated the relationships his father had built through helping patients on a daily basis, whether by catching mistakes, making recommendations, or coaching people through diagnoses or drug use for disease.

"The number of people who still tell me 'Oh I know your dad,' or 'I knew your dad,' or 'Your dad used to care for my mom,'" he said. "The impact that that had, that shaped them, is something that struck me. And that was appealing to me, to have people be appreciative of what we were doing."

SECOND-GENERATION PHARMACIST

Kevin is now a second-generation pharmacist, having purchased Day's Pharmacy from his father about four years ago. The close community ties have remained robust under his ownership – an hour

prior to his interview for this article, Kevin says, a patient had walked in and handed him some muffins.

"She wanted to bake, but she didn't want to eat them because I keep coaching her about eating so much sugar. So, she brings them to me instead," he says (while noting that they tasted pretty good).

But while the importance of community relationships has stayed the same, the situation facing pharmacies has not. As an owner, Kevin grew pessimistic about the current prevailing business model for independent community pharmacies. While he wasn't concerned about his doors closing in the near term, he believed that under the insurance-based reimbursement model, pharmacies like his had no obvious path to financial success on a 15-or-so year time horizon.

"I just felt like we are on a path as a profession, that the insurance-based reimbursement model was just going to get bleaker and bleaker, and harder and harder every year," Kevin says. "I didn't want to be spending all my time and effort just trying to keep my business going."

He also found himself frustrated by the state of patient care.

"I was getting so pissed that my patients were just getting ripped off, right? Because they come in and they're like, 'Yeah, I got this new insurance from my new job with a \$600 copay.' That's what it says to charge," Kevin says.

“
I just felt like we are on
a path as a profession,
that the insurance-
based reimbursement
model was just going
to get bleaker and
bleaker, and harder
and harder every year.
”



Even if customers don't pay much more than a \$20 copay for medications costing hundreds of dollars, Kevin noted, under the current insurance model the employer foots most of the bill. If that's a local employer, that's still money out of the community's pocket, he says.

A NEW APPROACH

After years of building experience as an owner, and buying his second location, Kevin decided to take a leap of faith and switch to a cost-plus pricing model.

Under cost-plus pricing, pharmacies buy medications directly from a wholesaler and sell them to customers while charging a dispensing fee, thus disconnecting medication pricing from any company or insurer contracts. That also means they don't take insurance, even if a customer has it.

The upside is that pharmacies can charge much lower prices for many medications than would be possible for patients using insurance who have not yet hit their deductible. It also generates more predictable revenue per transaction for the pharmacy than insurance reimbursements.

Advocates for cost-plus pricing – and there are more every day – point out that the existing insurance model forces patients to pay high prices that can affect their well-being and force them to choose between their needs. They also say the current assembly line approach leaves no time for adequate patient care.

Cost-plus pricing, they say, is a win-win: pricing is more transparent and often lower, increasing health care access for communities, and pharmacies can charge the prices they deem appropriate to help shore up their financial stability.

Cost-plus pricing evangelists also say it can reduce the burden of staffing, as team members spend less time resolving issues with insurance companies, doing audits, and performing other non-patient care-focused tasks.

OLD WAYS CAUSE CONFLICT

Kevin says there is a conflict under the traditional insurance-taking model between patient care and business success.

“In the model that most pharmacies run, those patients who are getting way overcharged are subsidizing your entire business and subsidizing your entire community’s health care,” he says.

“This is why pharmacies are thinking about [switching to cost-plus], because you need something to offset the losses. In cost-plus pricing, you no longer have the losses. Everything’s the same – you just fill a script, and you get paid,” Kevin says. “And you’re not worried about that next year when reimbursement is going to change and your volume is no longer going to be enough to pay your bills, which has been true for pharmacies for the last 10 years.”

Cost-plus pricing also means better patient care for Kevin’s pharmacies.

“I just want the easiness and the freedom of it, so we can focus on the patients and not worry about prior authorizations and the crud that happens in the insurance marketplace,” Kevin says. “I don’t want to be stuck in the muck. Instead, I want to be taking care of people.”

MAKING THE SWITCH

Kevin’s two pharmacies changed over to the cost-plus pricing model at the beginning of 2024. He was direct with his patients about the choice he had to make.

“I was able to say, ‘look, we’re at a place here where one of two things is going to happen: We’re going to close, because this is dumb; or we’re going to make a really big change,’” he says.

Most people were supportive of the decision.

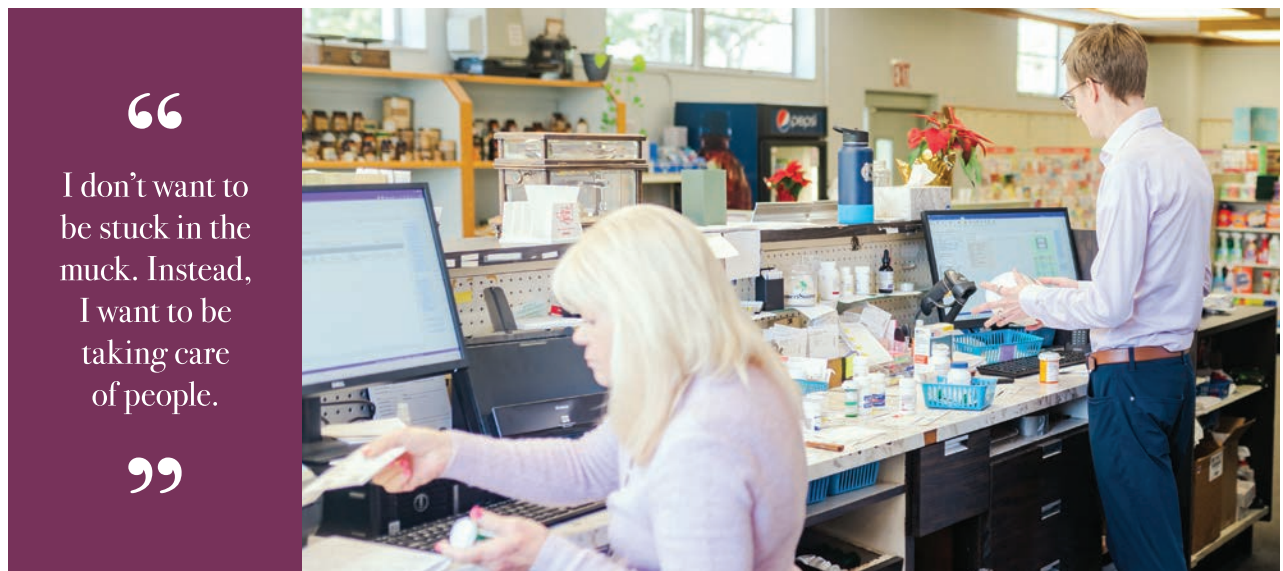
“Far and away, the most common response was, ‘Good luck, we’re glad you’re going to be here. How can we help,’” he says. “There are lots of people who understand that community pharmacies that are focused on being really good for patients are going away.”

Then there were those that he couldn’t keep on as patients – dozens cried, he says. Some had other, less appropriate reactions.

“The entire range of emotions is on the table. I had two people threatening me – not in a quite real way, but in an anger way – so that seemed reasonable. Like, .01 percent or so out of about 200-odd is not bad,” Kevin says.

His father, too, has been supportive.

“If you ask him directly about how he thinks I’m doing, the answer for the most part is, ‘He’s a smart kid, and I trust him,’” Kevin says.



“

I don’t want to be stuck in the muck. Instead, I want to be taking care of people.

”

CHALLENGING TRANSITION

The switch did not come without problems. Many customers stayed with Kevin's pharmacies through the changeover – but not everyone. His stores lost nearly 40 percent of patients in the transition, well past his expectation of 30 percent.



"These are people that we care about. These are family members, neighbors, teachers, friends, former employees, right? These are human lives, not just numbers for us," Kevin says.

**IT NO LONGER
MATTERS IF I'M
THE CHEAPEST
OR EVEN IF
I'M REMOTELY
CLOSE TO THE
SAME PRICE.**

I just have to be affordable enough for somebody who wants really good care.



And, he said, while about two-thirds of patients had an option that would have saved them money if they stayed with Kevin's pharmacies, not all of them did.

"There are so many people who pay thousands and thousands of dollars a year on insurance premiums, so that they can have cheap copays on drugs. But if they stopped doing that, and then paid hundreds of dollars a year, but had really high deductible plans and then bought really cheap drugs, they'd be up thousands of dollars," Kevin says. "We helped several families do that, but most of the families that were in that scenario didn't take that option."

Now, the dust has settled. When Kevin explains his pricing model to customers, he often does it by showing them their future savings directly. Several times recently he showed customers that he could save them \$20 or more over a three-month period compared to the year prior.

RESPONDING TO SKEPTICISM

Kevin says that while community members who he already works with trust him and usually take the cheaper option, potential new customers are more skeptical. When they find out he doesn't take insurance, Kevin says, he has a very short window to convince them to do business with him.

"Probably the biggest challenge right now is getting people to think it will work for them too. We have people again who have saved hundreds of dollars, and I am quite confident they are telling people about it," he says. But that word-of-mouth isn't driving business as quickly as he expected it to.

"We're getting people calling saying, 'My neighbor just told me that you saved them a ton of money, what's the deal,'" Kevin says. "But there's also a little bit of, 'It's too good to be true, there's a catch.'"

Kevin believes that rebuilding his customer base is one aspect of a larger change that will help guarantee the long-term sustainability of his business, and he's working through that challenge.



Fast Facts: Day's Miami Heights Pharmacy, Day's Pharmacy – Glendale

Established: Day's Miami Heights Pharmacy acquired in 2020 and Day's Pharmacy – Glendale acquired in 2022.

Management: Kevin Day

Products and services: Includes conventional prescription filling, medical supplies, medication therapy management, immunizations, home delivery, adherence packaging, and individualized care planning.

NCPA member since: 2014



While he does talk shop with his family on occasion, Kevin doesn't consult them regularly. But his brother, who holds a marketing degree and works in high-end retail, has been helping him think the issue through.

"There's so many factors that contribute to a story that will sell. Even just getting the right vehicle in the right place at the right time, that's a little bit of luck," Kevin says.

COST-PLUS PRICING, CUSTOMIZED

One purportedly baked-in downside of cost-plus pricing is that by not taking insurance, pharmacies miss out on serving patients with low copays. Kevin does it differently.

At his locations, the pharmacy rounds up every price to the original whole dollar amount and tacks on a \$10 dispensing fee, per standard cost-plus practice. His cheapest prescription is \$10.95, and the most common price charged is \$12.95.

At any other cost-plus pricing pharmacy, that would deter many patients covered by Medicaid who often have copays in the lower single digits. But Kevin has localized his approach by continuing to serve as an Ohio Medicaid provider, offering those customers more options to get the lowest prices possible. He says that was possible due to the state's approach to health care pricing.

"Ohio Medicaid has a really fair and transparent model for how pharmacies get paid, thanks to advocacy work by the Ohio Pharmacists Association and NCPA," Kevin says.

While Kevin takes Ohio Medicaid, he doesn't use its payment model, which has a publicly available but complicated definition of cost called the "Ohio average acquisition cost."

"I decided not to do that because there's a few too many complexities," he says. "So, my cost-plus pricing is built on that mindset of transparency and ease for everybody, including my team."

Kevin uses a last-cost-paid model; if a price changes after he puts the medication on his shelf, he will continue charging what he paid – even if a wholesaler were to quadruple the price the day after he purchased it.

That holds if a price goes down, too – he will continue to charge what he paid until he has to repurchase the drug, even if it might deter customers from grabbing it off the shelf.



Kevin noted that he charges invoice cost and gets rebates from his primary wholesaler.

"[That's] why I do cost plus 10 instead of cost plus 12. I am very much a believer that \$12 is the cost of dispensing, I get that. That's where I'm averaging, post-rebate, in the \$12, \$13 range," he says.

CARVING HIS NICHE

When describing his idiosyncratic model, Kevin was clear that he hasn't designed his model to offer the cheapest prices around. But, he noted, cost-plus pricing means what he charges for many drugs are often noticeably lower compared to his competitors.

"It no longer matters if I'm the cheapest or even if I'm remotely close to the same price. I just have to be affordable enough for somebody who wants really good care," he says.

That "really good care" is at the core of Kevin's plan to lean into his new pricing model. He's positioning his business as providing patients the reverse of the slow, confusing, and expensive chain pharmacy experience.

"We want to be the complete opposite of that, to really be a driver of excellence so our patients can have not only the best experience, but the best care and the best results and the best ability to thrive for themselves and a health-based mindset," Kevin says.

"It really is the niche that we're trying to build. To be not just better than the chain, but a lot better," Kevin

says. "As everybody else goes more and more mediocre across the team, whoever is the best will win. This is true in construction, it's true in gardening, it's true in so many places that quality does matter, so that's what we're super focused on."

But while confident that the cost-plus pricing model can work for him, Kevin knows that he has more work to do to stick the landing.

"I'm in a space of, I need it to work in this marketplace, in Cincinnati, relatively quickly, right? Because we're not at a space where I can just float here forever, waiting for people to recognize that we're doing really cool work," he says.

His confidence and drive to succeed, Kevin says, also come from a deep-rooted faith in the goodness of people and their need to be cared for.

"I have a lot invested, literally, figuratively, and emotionally in it working, I get that," he says. "But as a hopeful, optimistic human, I believe politics will eventually not be a disaster of humanity yelling at each other."

"If I'm wrong on saying something like, 'there will be a strong marketplace for high-quality care and high-quality pharmacy delivery mechanisms,' then we should all hang it up and go home. That has to be what we're focused on, what we're all about. And, to me, there's no question that it will work ... but I'm obviously biased," Kevin says, chuckling. ■

Sam Manas is NCPA associate director of communications.