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Q&A: Central-fill Innovation — Doyle Jensen, Innovation Associates

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Sometimes shifting trends in business, society or technology can seem to crystallize, giving business leaders who are paying attention a clear view of a market's future direction and forcing a fundamental realignment of their companies' strategy. Such was the case four years ago for Innovation Associates, a leading pharmacy technology provider and the company behind the PharmAssist robotic automation system.

Innovation's adaptation began roughly four years ago, when company leaders realized that the market for robotic dispensing systems at the retail pharmacy level had reached the point of near saturation. Both Innovation and the chain pharmacy retailers it dealt with began to realize that it made far more sense to invest the big bucks for robotic dispensing systems in a more cost-effective way: via centralized filling "hubs" that would offload the mechanics of prescription filling for many maintenance and high-use medicines.

In response, Innovation shifted its focus to helping pharmacy operators set up and automate their own off-site dispensing hubs, where their investments in pharmacy automation could be spread over a wider base of stores. In November, Drug Store News spoke with Doyle Jensen, EVP sales and marketing for Innovation and one of the architects of the company's new strategy.

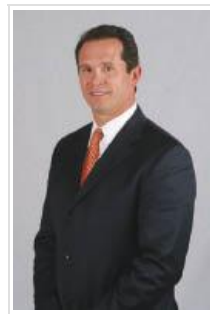
Drug Store News: First, give us a little history of the company and what led to the change in your business model.

Doyle Jensen: We were founded in 1974 as an engineering company ... in aerospace and other high-tech projects. The pharmacy applications began in 1993, when we were involved in the Las Vegas Medco [Health] facility. We launched exclusively into pharmacy in 1997, and unveiled our first retail pharmacy automation product at the NACDS [Pharmacy and Automation Conference]. In 2005, we entered the high-volume arena, building a number of central-fill facilities for the U.S. Air Force.

I joined the company four years ago, and ... we began to step back and strategically look at the market to see where it was going and how we should position ourselves. We saw a shift away from robotic installations at retail stores in the chain space.

DSN: How did this strategic revamp change the way you approached the pharmacy automation market?

Jensen: We invested heavily in high-volume systems. And we've done a lot of groundbreaking work for a lot of new customers. The market has changed. Four years ago, we looked at it and realized that if we're just in retail robotics, we're going to be out of business at some point, because there's not going to be enough



Doyle Jensen,

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business to support one company, let alone four.

There's not one retail chain among the top 20 in the United States that has an open [request for proposal] for robotic placements at retail. We saw the chains looking for higher returns on their technology investment and trying to reduce their fixed costs per prescription. Most chains today are at least in the process of evaluating central fill — if they're not already contracting, constructing or expanding their existing facilities.

DSN: So how should a chain approach this for the best return for its pharmacy automation investment?

Jensen: When you look at deploying technology, you have to look at your fixed cost per script. And when you move to a high-volume, central-fill model, you have a direct effect on that fixed cost, because the technology can be leveraged across such a broader population of prescriptions. When you process a prescription in a robot at a pharmacy, you've got a pretty large expenditure and investment sitting in that pharmacy that is going underutilized. For example, our retail robots can fill 240 prescriptions an hour. How many pharmacy chains do you know that do 240 scripts an hour in one store?

DSN: How much impact on dispensing costs can chains realize by shifting to centralized script processing and by investing their big technology bucks there?

Jensen: An efficiently run central fill can lower the labor cost per prescription to below a dollar. We see a labor cost between 30 cents and 70 cents per prescription. The total loaded cost, including capital, transportation of prescriptions to store and other variables can be \$1.80 to \$2.50 per prescription.

DSN: That obviously depends on how many stores the hub pharmacy is servicing.

Jensen: Exactly. And the lower end of that cost scale is with the higher-volume central-fill facility. We designed a system for a chain earlier this year — a very large facility, with 100,000-plus prescriptions filled per day — that had some of the lowest cost variables I've ever seen. Honestly, the labor cost [per script] was a quarter.

DSN: What about other costs like transportation?

Jensen: Your transportation costs generally can be consolidated with existing routes through your wholesaler — or you can piggyback on your existing distribution facilities and network. You're seeing your stores — or your distributor is seeing your stores — on a regular schedule already. You may have to augment that schedule with a daily delivery because you're going to have to have that. But different chains have approached that with different models.

DSN: Besides the obvious benefit — lowering per-script costs — what else does off-site dispensing bring to the chain?

Jensen: It's minimizing loss and waste, and inventory carry. In both of those areas, seldom-used inventory would be carried at the central-fill facility. Secondly, many meds today may not be commonly carried items. So the pharmacist fills a prescription for, say, 20 tablets out of a bottle of 100, and prior to ever getting another prescription from a patient for that rarely prescribed med, the bottle expires on the shelf.

DSN: That's probably a fairly common occurrence.

Jensen: It happens quite a lot. And there are other areas of waste: for instance, for a script written [dispense as written] for a specific brand. One pharmacy exec told me ... there's millions of dollars wasted every year across [his] chain just in specific brand requests. You have thousands of these bottles sitting on the pharmacy shelves, and when they hit their expiration date, they're done.

DSN: So you've got inventory just ticking away toward expiration at store level.

Jensen: The amount of inventory just sitting across hundreds or thousands of stores, versus just at central points, can mean you can do your order turns so much tighter. You won't have to carry 1,000-count bottles in 1,000 pharmacies. You can decrease that to, say, 100 pills per pharmacy, and carry the bulk of those prescriptions at the central site. And you can set up just-in-time inventory, because you know what your cycles are on a daily basis.

DSN: This also could make it more feasible for a chain to get into specialty pharmacy. It's a more efficient use of inventory dollars.

Jensen: Exactly. It allows the chain an effective expense model to get into specialty. [The chain] can enter that high-profit business by only carrying those meds at one point, whereas if it carried them in its stores, it's way too much inventory cost.

DSN: Is there a way for independents to compete in this model?

Jensen: The wholesaler model is changing drastically, ... [and at least one major wholesaler has] built a central fill and will offer that service to the independent pharmacies it supplies drugs to. Also, an independent that has multiple stores can employ this model in a smaller format, where you make one store your central fill for refills and distribute those out to other locations, and only buy technology for one location. Or could an independent collaborate with other independents in its trade area? Either way, it's spreading the cost over a number of stores.

DSN: Are there interim steps a smaller chain or independent can take at this point to upgrade its automation, short of adopting central fill?

Jensen: The other area of growth is in semi-automated technology. You do have chains that are actively investigating and deploying ... semi-automated pharmacy technology. It's low cost [and] low-footprint, the ROI model is easier to obtain and it's generally complementary to a central-fill operation.

DSN: Does Innovation have a product to fill that niche?

Jensen: Smart Cabinet was our entry to the market in 1997. Now we have a next-generation model. It's basically the same size and cost, but it's been technologically upgraded, with larger user interface [and] easier workflow process; we listened to our customers and made some modifications. It's basically [automating dispensing for] your top 50 movers, which generally comprise about 31% of your daily prescription fills in a pharmacy. So it's a tight formulary for your fastest movers.

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