

# Turning Expired Drugs into Gold –

Integrated  
Automation  
Takes  
Reverse  
Distribution  
to the Next  
Level

Article Contributed by Tom Banbury,  
Director of Logistics Services, 3PL LLC



Expired drugs are a fact of pharmacy life. Fortunately, many pharmaceutical manufacturers offer credit terms on the return of goods past their shelf lives. For the past 25 years, reverse distribution service companies have aided pharmacies in the disposition of this expired product, returning goods to manufacturers and recovering credit due to their customers.

Traditional manual returns processes allow a significant amount of credit to fall through the cracks, however. With the cost of certain drugs rising by at least 20% annually, it's in the best interest of pharmacies to recover as much of the loss on expired product as possible. Now a new level of reverse distribution service promises to narrow the gap, using technology to automate the returns process and maximize credit recovery.

## The Traditional Approach to Pharmaceutical Returns

Before the advent of third-party reverse distribution services, the burden of processing expired goods fell directly on the pharmacies. This daunting task included sorting products from hundreds of manufacturers; capturing lot numbers, expiration dates and quantities; obtaining current returned goods policies from each manufacturer; staying current with ownership of drug product lines; requesting returned goods authorization forms; and packaging and mailing product back to manufacturers.

"All of those administrative hurdles challenged the typical understaffed pharmacy to process product in a timely fashion," said Michael Zaccaro, president of Pharma Logistics. "As a result, they often missed post-expiration credit deadlines."

In the early 1980s, pharmacies started contracting with third-party companies to handle returns of expired goods. Returns companies now send staff into the pharmacy to inventory, package and ship drugs to their reverse distribution warehouse. At the warehouse, product is sorted by manufacturer, proprietary software determines whether or not it's returnable and returned good authorization requests are generated. From there, the returns company estimates how much credit the pharmacy will receive and bills them at a percentage of that expected credit – typically, 9-13%.

Today, more than 60 privately-held companies provide this core level of reverse distribution services – from large sophisticated operations designed to handle pharmacy chains and hospital purchasing groups, to small, one-person shops that work with a few loyal, independent retail pharmacies.

## Technology Ups the Credit Recovery Ante

Most pharmacies now take reverse distribution services for granted as a commodity, a relatively low, necessary expense that defrays the hassle of returning expired goods and puts some money back into their coffers.

However, the most efficient traditional returns vendor only recovers up to 65% of the value of the expired drugs. "That 35% left on the table adds up," Zaccaro said. "If \$100,000 worth of product is returned on an annual basis, the pharmacy loses \$35,000. Instead of focusing on what they pay a returns company in fees, pharmacies looking to maximize the bottom line should consider how to recoup more of that loss."

A new breed of reverse distribution companies can help pharmacies maximize their credit recovery. In addition to providing the standard returns service, these companies use technology to automate processes and generate meaningful data that has the potential to increase profitability on expired product. Specifically, this integrated, technology-based approach can maximize credit recovery by:

- Expediting the returns process
- Automating credit reconciliation
- Presenting better alternatives to existing purchasing patterns

## A Faster Turnaround

When it comes to recovering credit for expired drugs, time is literally of the essence. The sooner the product gets back to the manufacturer, the sooner the pharmacy will realize the credit. If the returns process takes too long, the pharmacy may miss the expiration date and not receive the credit due.

An integrated, automated reverse distribution system expedites the pharmaceutical returns process by allowing field representatives and the processing center to share data. "With this type of system, an on-site rep electronically sends returns information to the center ahead of the shipment," Zaccaro said. "The warehouse knows what to expect and can plan staffing and processing accordingly. There's no rekeying of data after product arrives and no scrambling for resources and scheduling time. An order that would have taken weeks to process can get turned around in a few days."

Automated order entry also enables the pharmacy to more easily request return goods authorizations from manufacturers that require them. Again, fast receipt of an authorization allows faster shipment of expired goods and faster recovery of credit on those goods.

## Credit Reconciliation Made Automatic

Credit reconciliation is another area in which automated returns processing can offer dramatic improvements. Returns companies have traditionally provided pharmacies with paper-based reports that list the dollar amount of the credit they should receive from manufacturers. As credit memos from each manufacturer come in through the wholesaler – which can take anywhere from three weeks to nine months – the pharmacy manually records the actual amount received.

“With the cost of certain drugs rising by at least 20% annually, it's in the best interest of pharmacies to recover as much of the loss on expired product as possible.”

Unfortunately, the typical resource-strapped pharmacy rarely has the time to administer such a tedious tracking process. The result: fuzzy returns audit trails and unrealized credit.

With an automated credit reconciliation system, the returns vendor electronically sends credit memo information to a wholesaler, which then matches up expected credits with actual credits received. As the credits come in, the wholesaler transfers that data electronically to the returns company. From there, the returns company automatically posts the data to a website and notifies the pharmacy of the posting via email.

"The pharmacy can easily see how much it was credited by manufacturer, without doing any extra work – the equivalent of a third party reconciling an individual's checkbook," Zaccaro said. "Yet another administrative burden lifted from the shoulders of the pharmacies with a higher assurance that more credit will be recovered."

## Data that Optimizes Purchasing Decisions

While expediting the returns process and simplifying credit reconciliation are important, an integrated, automated reverse distribution system offers another, even more compelling benefit: data that can optimize future purchasing decisions.

"Expired, non-credit-worthy drugs are fundamentally the result of purchasing errors," Zaccaro said. "The pharmacy either purchased too much of the items in question or purchased the wrong products. Instead of rooting out the causes of these purchasing errors, the traditional reverse distribution process only bandages the wound – and that strategy dooms the pharmacy to repeat the same mistakes."

An automated returns system uses data collected at the end of a returns cycle to present the pharmacy with more efficient purchasing options that maximize credit recovery. Armed with a database that lists drugs by generic cross-reference and therapeutic code, the reverse distributor identifies those that treat the same symptoms as the pharmacy's expired goods. In this way, the returns company can note alternative products that have better credit policies than those purchased by the pharmacy.

For example, a chain pharmacy may wish to negotiate a direct contract for aspirin at \$1.99 per bottle. However, the

chain's returns processing system shows that the manufacturer does not accept returns, rendering any expired product non-credit worthy. The chain might be better off buying the aspirin at \$2.00 per bottle from a manufacturer that offers credit on expired goods.

In the same vein, the returns system will reveal the true cost of buying repackaged drugs from wholesalers. For example, pharmacies may save \$5 dollars per bottle up front on repackaged product purchases; but unfortunately, repackaging companies do not accept returns. The reverse distribution company can run the product against the manufacturer's returns policy and present information that will help the pharmacy determine the better value.

"Up-to-date, item-specific software systems are key to providing pharmacies with the highest level of returns information," Zaccaro said. "If the system only relies on manufacturer policies, the pharmacy could miss out on significant credits. For example, a manufacturer that claims to not accept returns may actually sell some products outside of that standard returns policy. The system must be sophisticated enough to identify such differences and handle an unlimited number of policies for each manufacturer in order to maximize credit recovery."

## Squeezing More Value Out of Returns

For 25 years, traditional reverse distribution companies have relieved the pharmaceutical industry of the administrative minutia of dealing with returns. However, a significant amount of credit is still not being realized.

New technology-based systems can now better maximize recovery of credit on expired drugs, expediting the returns process and providing accurate, automated credit reconciliation. By evaluating actual purchasing data against returns policies and alternative options, pharmacies can adjust purchasing and stocking patterns to optimize future credit opportunities.

"As the cost of pharmaceuticals continues to escalate, pharmacies need to explore ways to better contain overall costs," Zaccaro said. "Working with a reverse distribution vendor that embraces automated returns processes can go a long way towards returning more expired drug credit back to the bottom line, where it belongs." **F**

