Case Study: Manufacturer Reverses Revenue Loss and Increases Productivity With Automated Chargeback Processing
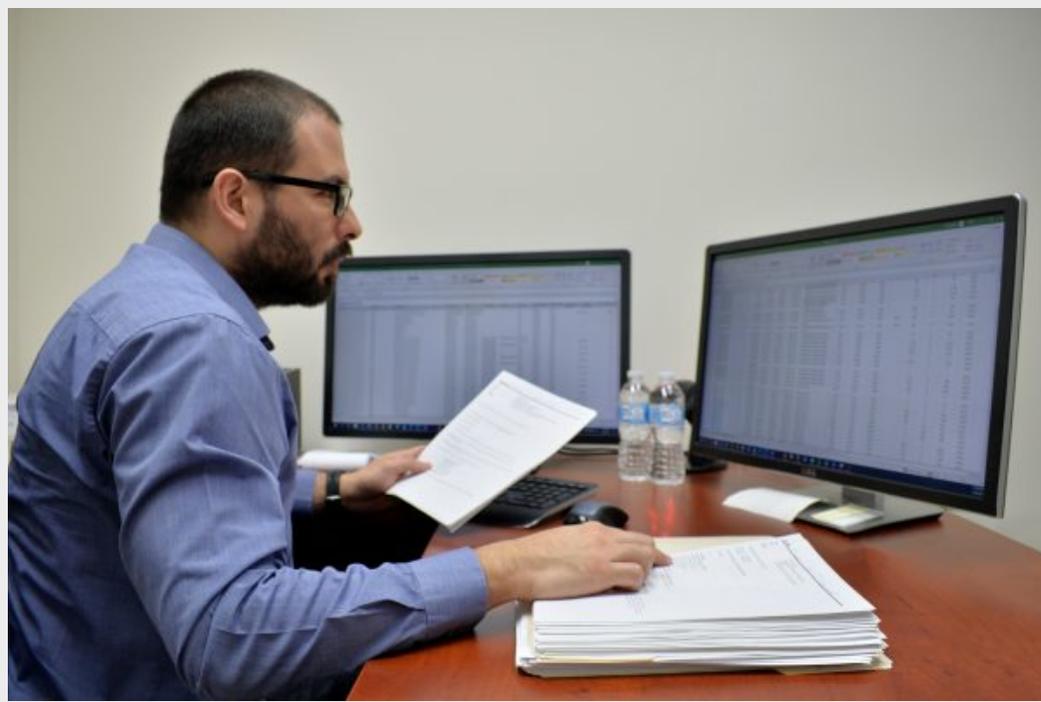

INTRODUCTION

Pharmaceutical development and manufacturing are complex processes. When a medication is approved for commercial use, the sales pathway between the manufacturer and patient involves multiple parties. Each step adds contract terms that specify requirements for price, storage, fulfillment and payment. The manufacturer must actively engage with all parties to minimize revenue loss.

Chargebacks are an important component of the payment process that can reduce revenue loss when managed properly. This financial instrument is used to request credit from the manufacturer after a wholesaler sells the product below the purchase price they originally paid. Managing the flow of information for chargeback requests and record-keeping is a considerable challenge for manufacturers.

WDSrx, a pharmaceutical logistics services provider, partners with MDH Insight, an industry leader in chargeback processing, to support clients with automated solutions for managing chargeback information flow and credits. A WDSrx client that took advantage of this solution reduced chargeback expenses and gained productivity by re-allocating labor to focus on sales instead of complicated record-keeping.

CHALLENGE

Monitoring chargeback activity is a complex process involving multiple stakeholders prompting manufacturers to outsource this function for productivity gains

A WDSrx client and manufacturer of prescription pain medication dedicated considerable resources to handling chargebacks as an in-house program. As their volume increased, the challenge of maintaining oversight of the chargeback process became more difficult leading them to find a more efficient solution.

The efficient processing of chargeback requests requires supervision of different types of transactions between multiple parties. A chargeback request is generated when a wholesaler sells a product to one of their accounts at a contracted price below the original purchase price they paid to the manufacturer. The original purchase price is referred to as the WAC (Wholesale Acquisition Cost).

The chargeback request totals the difference between the WAC and the contracted price multiplied by units sold. As 90% of all orders for prescription drugs and medical supplies are now fulfilled by wholesale distributors, the volume of chargeback requests may be considerably high for manufacturers.

The scope of the problem for the WDSrx client was compounded by the multiple data points and contract details that affect chargeback requests. Contracts with wholesalers, Group Purchasing Organizations (GPO), government programs (FSS, DOD, 340B) and retailers adhere to different terms for contract price, eligible entities, start and end dates. A detailed record with a history of price changes for the drug was kept to confirm allowable chargeback amounts based on the wholesaler invoice date.

The flow of documents and data for manufacturers to manage chargebacks involves multiple sources of pricing and contract information. Wholesalers email daily reports to manufacturers showing chargeback amounts already deducted from accounts payable amounts. Each line in the report must be checked in order to separate valid chargeback requests from exceptions. Credit memos are created and accounting systems are updated to reflect approved requests. The wholesaler is notified of exceptions for investigation. Detailed records are then sent to the wholesaler and timely reports about relevant activity are prepared and delivered to government regulatory authorities.

In most cases, chargebacks comprise the largest percentage of discounts requested by wholesalers so accurate administration is vital to good business practices. This manufacturer was devoting increasing time for processing and validating deductions taken by the wholesaler as well as agreeing or disputing chargeback requests.

Consequences are significant for inaccurately processing chargeback requests. Manufacturers that choose to accept all wholesaler chargeback requests are most likely forfeiting revenue by assuming every transaction is legitimate and accurate. Inefficiencies in chargeback processing may not recognize duplicate deductions taken for the same transaction, incorrect pricing resulting in larger payouts than required or invalid sales where the wholesaler creates a chargeback request for an invalid transaction.

Faced with this situation, the manufacturer met with WDSrx to establish a chargeback processing solution to streamline the entire process and minimize revenue leakage.

SOLUTION

During an initial meeting with WDSrx to discuss their increasing chargeback processing responsibilities, the manufacturer stressed their fiscal responsibility to assure maximum revenue from business operations and how the chargeback process created a potential source of revenue loss for the company.

The WDSrx client account team outlined the complete solution for chargeback processing known as EmpowerRM® developed in collaboration with MDH Insight to manage contracts and chargeback processing. Placed between manufacturers and wholesalers, the managed service connects with all parties to automate chargeback tasks for manufacturers and provide real-time visibility, detailed analytics and report

generation.

Handling chargeback processing from the same service provider responsible for warehousing and fulfillment adds efficiencies because relevant direct sales data and order information is immediately available to calculate rebates and verify accuracy of inventory levels.

To convert from their prior system, the manufacturer completed an eight-step process that had them up and running on the EmpowerRM ® solution within 30 days. First, the company profile was set up in the program followed by the manufacturer completing the setup forms with their master data. After enabling integration of EDI capabilities, details about existing contracts, products, customers and historical data were input from the setup forms. Testing and training were conducted to ensure the proper function of all features. Finally, the testing environment migrated to the 'live' platform where processing began immediately.

RESULTS

Manufacturers gain synergies consolidating chargeback
processing,warehousing,fulfillment and reverse logistics under the management of
a logistics services provider such as WDSrx.

Soon after onboarding was completed, the client was able to view details about each chargeback transaction including those approved or appealed with specific justifications.

The EmpowerRM® platform automatically checked each line in every chargeback request, separated valid chargeback requests from exceptions, handled exceptions based on guidance from the manufacturer.

created credit memos in the accounting systems, communicated with the wholesaler and provided timely reports to government regulatory authorities.

The labor and time commitment devoted to chargeback tasks reduced considerably for the manufacturer after transitioning away from their previous solution. This additional benefit enabled them to re-allocate resources to higher revenue-generating responsibilities including sales.

After one year, the new system uncovered over $641,000 in chargeback discrepancies and exceptions the client was able to successfully dispute. The resulting efficiencies justified the switch to the new program and also accounted for significant savings that can be expected to maintain in future.

"Adapting new technology and changing from existing platforms is an organizational challenge," states the manufacturer's Chief Supply Chain Officer. "The demonstrated benefits of the collaboration with WDSrx and MDH Insight along with their ability to better manage the chargeback process has contributed to our regulatory efficiency and made a positive impact on our bottom line."

Adds MDH Insight President Matthew Hoenig, "The EmpowerRM® solution continues to develop in collaboration with WDSrx. Pharmaceutical manufacturers want to minimize revenue loss as a result of inaccurate or incomplete chargeback procedures. With key deliverables requested by manufacturers regularly considered for system updates, the program is built to maintain our industry leadership position."

The platform is scheduled to migrate to a fully web-based solution to increase ease-of-use, provide advanced analytics and deploy predictive analysis with artificial intelligence for manufacturers and wholesalers to realize further chargeback processing efficiencies.

In a business environment where efficiency translates directly to increases in productivity, pharmaceutical manufacturers are critically evaluating operational and administrative processes and systems to achieve these goals. Working with WDSrx, one manufacturer migrated to an automated chargeback processing solution that reduced revenue loss, re-allocated resources more effectively and created additional benefits by integrating inventory, order fulfillment, pharmaceutical returns and reverse logistics.

CAPABILITIES

Creating the most efficient chargeback processing solution for pharmaceutical manufacturers to minimize revenue loss requires collaboration within WDSrx and with strategic partners to achieve desired objectives:

Pharmaceutical Warehousing and Fulfillment: When products fulfilled from WDSrx facilities are the same items being monitored for chargeback processing, real-time details including lot number and other vital data are shared within the same validated computer systems to streamline information flow and increase data integrity.

Reverse Logistics: When a wholesaler returns an item for credit they often request reimbursement with the current WAC price at the time of return. When a WDSrx facility that fulfilled the original order also receives the return, instantaneous record checks verify correct chargeback processing or reimbursement amount for the original purchase price.

Financial Services Management: Utilizing a suite of financial services offering order-to-cash, chargeback processing, government pricing administration and financial reporting based on real-time inventory activity, WDSrx provides comprehensive business management for conventional and virtual manufacturers.

Information Technology: Advanced computer systems and a robust technology backbone at WDSrx exchange relevant data between warehouse management systems, EDI vendors and the EmpowerRM® platform to provide reliable and redundant availability of vital documentation. Data redundancy and high-level security are built into the solution.

For further information contact Lawrence Hotz, WDSrx Marketing Director at lhotz@wdsrx.com *and 561-998-3885 x304.*

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