

PDS Blog

Why Can't We Just Stop All These Rebates?

As a pharmacy owner, you want what is best for your business as well as your patients. To be there for them, you have to remain in business and make a profit! How do you make a profit? Buy low and sell high! But be careful, as this may result in a habit of price shopping for the lowest possible cost.

We've all been there, even outside of our work lives. We see a lower price and we click 'Add to Cart,' often without a second thought. However, did you look for additional shipping charges? How long will it take for the order to arrive? Is the seller trustworthy? If we don't answer these questions before we buy, the lower price might turn out to be more costly. The particular problem in the pharmacy business is that this price shopping approach, more often than not, can be not only detrimental to you as an individual owner but to the market as a whole.

Just like hidden fees and shipping costs can wipe out the benefit of a lower sticker price in everyday life, there are consequences to low invoice prices on pharmaceuticals. What are these consequences, and why are rebates better for everyone involved?

Rebates Often Result in Better Net Pricing

If Drug A has a competitive market price of \$30 from Wholesaler A, but Distributor B is offering the same item for \$23, this seems like a much better deal. However, if Wholesaler A offers rebates that average 40%, you would effectively pay \$18 for that drug after rebate. Directing generic pharmaceutical volume to a distributor and away from your wholesaler can also negatively impact the amount of the rebate and very likely the brand pharmaceutical discounts.

When planning your purchases, be sure to calculate based on the net price after rebate and overall effect on your bottom line. It may be more math to do, but it will be well worth it in the end.

Rebates Keep Your Reimbursements Up

Why doesn't Wholesaler A just offer Drug A for \$18? Wouldn't that be simpler? Why jump through the hoops? Good questions.

Smart wholesalers use rebates to protect you, themselves, and the market. Because reimbursements are calculated on the lowest available prices in the market, when distributors sell at "net" invoice prices it can negatively impact those reimbursements. The more distributors offer low invoice prices, the more the market price erodes, and the less your pharmacy receives

in reimbursement for that drug. If market invoice prices stay up - protected by the rebate system - so do your reimbursements.

It may sound counterintuitive, but purchasing inventory from a vendor that supports the market with a rebate structure is better for the health of your independent pharmacy business. AAP's member-owned warehouse subsidiary, API, uses a rebate structure to protect its members and customers and offer the lowest net prices in the market after rebate.

Think twice about purchasing from distributors that destroy the market and your profits with below-market invoice prices. With rebates, you can support yourself and the independent pharmacy community, and receive lower net prices at the same time.

About the Author

As a cooperative of over 2,000 member pharmacies with an independently owned warehouse and specialty pharmacy, the nation's 4th largest PSAO, and qualified preferred partners, American Associated Pharmacies (AAP) is so much more than a buying group. AAP provides the tools and resources needed for members to improve their bottom lines. Visit RxAAP.com/ProvelIt to learn more.

