

PHARMACEUTICAL COMMERCE

Business Strategies for Pharma/Bio Success

IT Could Give Unsaleable Product Returns an Efficiency Boost

New HDMA report highlights opportunities for EDI practices—and the promise of RFID

By Nicholas Basta

IF PEOPLE ARE CRITICAL OF INEFFICIENCIES in the physical distribution of pharmaceuticals today, they can be even more critical of the reverse distribution process. A small—but very avoidable—fraction of products are returned by retailers and institutional pharmacies due to overstock and out-of-date products. But the products can pass through two and even three hands before it gets back to the manufacturer, and at each point, must be examined, inventoried and recorded. Meanwhile, both the credits for the return, and the chargebacks or rebates that were granted for the original distribution, chase after the physical products through the returns network.

“The time it takes to reconcile all these credits can be 12-14 months, representing significant tie-ups of cash flow,” says Jamison Pound, business development manager at Guaranteed Returns Pound, (Holbrook, NY). “As an industry, we can do a lot better.”

“To realize the goal of reducing returns requires a holistic view of the supply chain,” says Jennifer Mauldin, EVP of CLS MedTurn

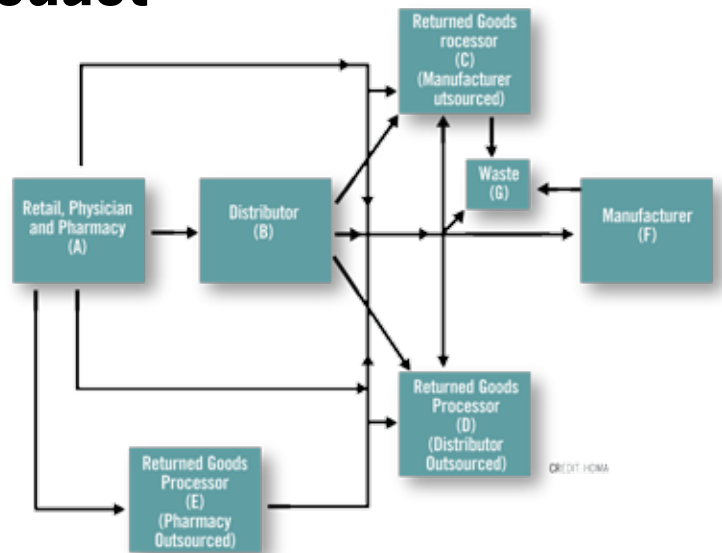


FIGURE 1. PHYSICAL FLOW OF RETURNED PRODUCT

(Winston-Salem, NC), “and to understand this holistic view one needs technology-driven applications that provide accurate, insightful, integrated and actionable information. We are striving to provide our clients this ‘view.’”

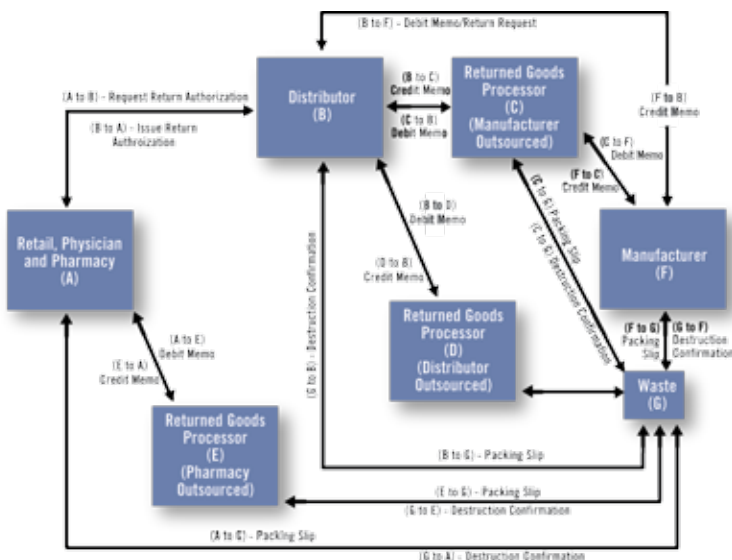
According to a newly published report from HDMA, “Unsaleable Returns in the Healthcare Supply Chain,” information technology, particularly better use of existing standards for electronic data interchange (EDI) can greatly reduce many of the inefficiencies.

The HDMA report notes that the cost of unsaleables can only be estimated, because no one is tracking the volume. At wholesalers, who are only a part of the reverse logistics chain, nearly \$600 million was spent just in processing costs. HDMA cites industry estimates of \$4 billion annually in the value of the products being returned. Guaranteed Return’s Pound, who has done his own study of the field, estimates the retail value of returns at \$5 billion, and the overall supply chain processing costs at \$4 billion, for a total of \$9 billion. And, it’s important to note, these costs are only for returns, which are evaluated separately from the thousands of product recalls that occur annually. As the old saying goes, a billion here and a billion there, and pretty soon we’re talking about real money.

Stericycle (Lake Forest, IL), a medical-waste processor which has risen to a leadership position in the industry through acquisitions (Pharmaceutical Commerce, June 2006, p. 1), touts an IT staff of 40 that are focused on building the IT system, and then updating myriad

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FIGURE 2. FLOW OF INFORMATION FOR RETURNED PRODUCT



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manufacturers' instructions and procedures for the reimbursement and disposal of product. The IT system supports a newly-contracted field force of several thousand individual contractors that Stericycle has a relationship with through a partnership with RQA, Inc. (Darien, IL), a computer-packaged-goods services company.

Potential IT benefits

Typically, returns start with retail pharmacies, who hire the reverse logistics processors to sweep their shelves of overstock, out-of-date or short-dated product. The returns only occasionally go directly back to the manufacturer; often they go to the wholesaler, or wholesaler's processing agent (Fig. 1). Some of the product is still eligible for resale or restocking elsewhere; some of it must be disposed or destroyed.

Then the data flow starts (Fig. 2). Credits for the returns are issued back up the supply chain, ultimately to be charged against the retailer's account. But chargebacks or rebates that went with the original delivery must also be reconciled. Product spends time in warehouse "morgues" waiting for authorizations for the next step; wholesalers are supposed to issue "negative chargebacks" that credit the manufacturer with a refund of its original discount. Claims reconciliation teams spend endless hours chasing all the data.

HDMA's Returns Task Force, the group that developed the study, identified 11 "industry opportunity areas" where process improvements could occur. Many of them have a strong IT focus:

- Multiple entities handle unsaleable returns, which adds costs, challenges accuracy, delays processing and adds variation to returns reimbursement. Solution: evolve from the current "two count" (which could also be a "many count") process of having the returns collector do an inventory of product, then shipping the product to another entity which also performs the inventory, to having a single entity do the inventory, then report relevant data. Key to this would be standardized use of EDI 180 forms, and data sharing between the trading partners
- The returns process is complicated and not standardized. Solution: develop standards and practices around the relevant EDI communications, and use auto-identification (i.e., RFID, barcode) where possible.
- incomplete shipments of returns can add incremental administrative costs. Solution: include shipping labels that incorporate batch count to each shipping unit; use a unique identifier for the return that ties it to a manufacturer and/or a debit or credit record.

HDMA cites EDI documents 850 (purchase order) and invoice (810) as being the basic communication between trading partners. Companies handling reverse logistics bring up documents 210 and 180, which are specific to that process. IT companies that process trading partner data, such as Edge Dynamics (Redwood City, CA) point to the 867 document as bringing additional clarity. "By tying an individual return (EDI 180) to a specific shipment or transfer

REVERSE LOGISTICS RESOURCES

Americares (americares.org)
Andlor Logistics Systems (andlor.com)
BuzzeoPDMA, Inc. (buzzeopdma.com) [1]
Carolina Logistics, Inc. (cls.inmar.com)
Capital Returns, Inc. (capitalreturns.com) [2]
Choice Logistics (choicelogistics.com)
Council of Supply Chain Mgmt Professionals (cscmp.org)
EXP Pharmaceutical (expworld.com)
GENCO (genco.com)
Guaranteed Returns (guaranteedreturns.com)
Intellareturn (intellareturn.com)
Med-Turn (medturn.com) [3]
myRMA (myrma.net)
National Pharmaceutical Returns (npreturns.com)
Newgistics (newgistics.com)
PharmaLink (pharmalinkinc.com)
Pharma Logistics (pharmalogistics.com)
Pharma Returns (pharmareturns.com)
Reliable Returns (reliablereturns.com)
ReTurn Inc. (returninc.com)
Return Logistics International (returnlogistics.com)
Return Products Management (rpmrlm.com)
Reverse Logistics Assn. (reverselogisticstrends.com)
Reverse Logistics Executive Council (rlec.org)
RxNetservices (rsnetservices.com)
Stericycle Pharmaceutical Services (stericycle.com)
Supply-Chain Services Inc. (supply-chainservices.com)

1. Div. of Dendrite International. 2. Div. of Genco (q.v.)
 3. Div. of Carolina Logistics (q.v.)

Adapted from HDMA "Unsaleable Returned Goods" report

(EDI 867) in advance of acceptance of the return, manufacturers can perform accurate validation and, in aggregate, build a clearer profile of returns in the channel," the company said in a recently published white paper.

Of particular interest in a scenario like this, where the product data precedes the returns movement (rather than follows it), is the ability to identify returns that are coming from a channel where they don't belong—product sold to a hospital, for

example, showing up in a retail setting. This is an example of drug diversion—which could be acceptable, or not. Manufacturers wouldn't know until they could compare the lot numbers with the invoice information. Using channel management software like Edge Dynamics, ValueCentric (Orchard Park, NY) or Axway (Scottsdale, AZ—see also "Securing the Controlled Substances Distribution Channel," on p. 1) improves the chance of identifying these diversions more quickly than the usual data-gathering and analytical methods.

"We've made million-dollar investments in our IT systems to reduce the 'days outstanding' status of the returns we process," says Larry Hruska, president of GENCO/Capital Returns (Milwaukee). "The new fee-for-service agreements with wholesalers have helped expose some of this data, which in turns cuts cycle time."

"Our view is that this business is better looked at as a financial service than a reverse-logistics service," says Chris Bosler, VP, marketing, at Stericycle. "We treat the returns like our customers' money, which is what it is." **PC**