

## Adding Ancillaries: Dispensing drugs

**This is the 15th and final article in a series on specific ancillary services that can boost your bottom line and keep your practice busy in a competitive market.**

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In October 2003, after two years in private practice, Snellville, GA, internist Bruce Sabin decided that there had to be a better way—other than urging and warning—to get patients to fill prescriptions and follow medication regimens. That's when he hit on the "bring the mountain to Muhammad" solution of dispensing drugs from his office. He hasn't been sorry.

"Now patients aren't skipping out on meds because they're too busy to fill a script or the drugstore is too crowded," says Sabin, who adds that he's seen improvements in patients' blood pressure, cholesterol, and diabetes numbers. Another number that Sabin likes is his income from this ancillary service: He nets from \$5,000 to \$6,000 a month.

"Physician dispensing is a convenience for patients and can be a major ancillary profit center," says Jeffrey J. Denning, a practice management consultant in La Jolla, CA. But it's hardly a no-brainer. "Dispensing requires staff to be trained in how to handle transactions and educate patients about their meds. And you have to maintain strong security over the inventory."

The easiest way to launch your own in-office dispensary is to contract with a commercial distributor. These vendors supply prepackaged drugs, replenish inventory, and have software systems that allow you to record patients' prescriptions and process insurance claims. Leaders in the field are Physicians Total Care (PTC), Allscripts Healthcare Solutions, and DRx.

You can also order stock bottles of medications from distributors that supply pharmacies, and dispense them on your own. But that's more work, and you'll need to contact a healthcare attorney to make sure you don't run afoul of regulations that govern in-office dispensing. No matter which route you take, here are some guidelines.

### Equipment

The basics are a cabinet or two and a computer. Most states require that controlled substances be stored under lock and key. "We suggest that doctors who sell drugs, even if they limit their inventory to noncontrolled substances, store the drugs in lockable cabinets and allow access only to selected people, much as a retail pharmacy would do," says Greg Cull, president of Allscripts' Medication Services Group.

If you use a commercial distributor you'll need to purchase the vendor's software, plus you might have to upgrade your computer and purchase a label printer, a bar-code scanner, and other hardware.

### Space

Unless you decide to dispense drugs on a large scale, your existing office space should suffice. FP Azar Korbey, who sells over 250 kinds of meds from his office in Salem, NH, stores them on four shelves along one wall. Some practices set up a "dispensing station"—staffed by a nurse and consisting of cabinets, a desk, and requisite computer equipment—where patients can pick up their meds.

### Staff/training

In most cases, a nurse or medical assistant can oversee your drug dispensary. She should have a good knowledge of drug side effects and interactions, so that she can educate patients about these, and about how to take the drug correctly.

Both Allscripts and PTC conduct on-site training sessions that involve setting up the hardware, installing the software, and showing the individuals who'll be doing the dispensing how to use the system. If you're not working with a vendor that will supply the requisite training, you can hire a pharmacy consultant to teach your staff drug-dispensing basics.

### Costs

Your current PC will probably suffice, but if you choose to have a dedicated computer specifically for drug dispensing, expect to spend around \$2,000 for a PC, label printer, and bar-code scanner. You'll need the printer and the scanner in any event; they'll run you about \$425 total. In addition, PTC charges a one-time software licensing fee of \$4,995 per site, plus a monthly support fee of \$175, says company president Warren Moseley.

Allscripts doesn't provide a breakdown of startup costs, but to get the system up and running you'll need to spend from \$4,000 to \$5,000 for a five-year license on the software, an installation fee, training costs, and a handheld prescribing device, says Cull.

To determine initial inventory, keep track of your writing habits for a few weeks. A dispensing company might suggest a formulary based on its experience with physicians in your specialty, and the inventory will be refined over time. "It takes about six months to get the inventory to where you can maintain it on a routine basis," says Moseley. Both Cull and Moseley estimate that your initial inventory will cost from \$2,000 to \$5,000.

Vendors suggest you keep no more than a two-week inventory on hand to lessen the possibility that you'll have to return or discard expired drugs.

### Charges

These, of course, vary widely depending on the drug and type of practice, but most meds dispensed from a doctor's office are those that are frequently prescribed and relatively inexpensive (to the physician and the patient). David Schechter, an FP and sports medicine physician in Los Angeles, generally dispenses to cash-paying patients at \$15 and up per prescription. Other physicians report markups of 50 to 75 percent, even on quantities that cost patients as little as \$5.

To help clients set prices, Allscripts gives them lists of average retail prices charged by pharmacies in their area. Drug plans that reimburse for scripts dispensed from a physician's office (not all do) pay what they'd pay a pharmacy. You collect the copay in your office and the balance is sent to you by the drug plan.

Some of the dispensing companies—Allscripts, for instance—collect payment from managed care companies and send the proceeds, minus a service fee, to physician clients. PTC clients collect payment from third-party payers directly, but the company's software contains an accounting system that allows it to collect monthly fees from its clients.

### Potential revenue

Physicians using the PTC system earn about \$6 per script. Cull puts possible net earnings at \$5,000 to \$15,000 a year per physician, depending on your specialty and other variables. But some doctors earn several times that, Moseley says. Last year, Korbey's three-practitioner office (two physicians and an NP) made approximately \$36,000 from dispensing medication.

### Other concerns

Prescription drug dispensing must meet certain requirements to warrant an exception to Stark rules, the law that prohibits self-referral. The most important of these is the in-office exemption, which is explained in "[Adding ancillary services: Boosting the bottom line, Nov. 4, 2005](#)".

You'll be on safer antikickback ground if you make sure to offer patients a choice, says Allscripts' Greg Cull. That is, you can tell patients you'll give them a script to take to a local pharmacy, or they can purchase the prescribed medication from your practice.

While it's always illegal (under federal law) to sell drug samples, depending on the specifics of your state laws, it may be inappropriate to sell more drugs than a patient immediately needs, says Lawrence W. Vernaglia, a healthcare attorney in Boston. For example, if you sell a six-month supply of birth control pills, that might push the in-office dispensing operation into the realm of operating a retail pharmacy, requiring separate state licensure.

You probably don't need additional insurance coverage if you offer this service, Vernaglia notes—unless the dispensing starts to resemble a pharmacy business. Still, be sure to confirm with your insurance agent that you're covered for any liabilities associated with drug sales.

Most states regulate in-office dispensaries just as they do pharmacies. But state law in Montana and Utah effectively bars physicians from selling drugs that they prescribe, and several other states restrict this ancillary service. For instance, in New Jersey, physicians can't dispense more than a seven-day supply and can't mark up the price by more than 10 percent of what they paid for the meds. Ask your attorney or state medical board about state and federal dispensing rules where you practice, especially if you plan to sell controlled substances.