



# Practical Tips to Address Returns Drivers

## HDMA's Practical Tips to Address Returns Drivers

### *Identifying ways to reduce unsalable returns and reduce supply chain waste*

#### INTRODUCTION

Reducing the quantity of returned pharmaceutical products is a significant opportunity for manufacturers, distributors, and pharmacies to individually reduce costs, improve business efficiencies, and help address a piece of the growing environmental challenge from product waste. Most trading partners underestimate the true cost of returns. The projected value of all Rx products returned in the U.S. for which manufacturer credit is requested is between \$2.6-\$4.2 billion (1% to 2% of manufacturer selling units), the vast majority of which are either "out dated" or "short dated" (72%).

One retailer reports a 65% to 85% recovery rate of the total value of their returns. Resulting credit loss to the retailer is estimated \$0.4 to \$1.5 billion.

The costs do not reflect the handling, transportation, and storage costs associated with these returns. HDMA has worked with its members and additional retailer advisors to create a series of practical tips for a company to consider -- individually or in conjunction with its trading partners -- to reduce unsalable returns. Read your area for tips; read your trading partner's areas for perspectives. Then move ahead with implementation.

The following suggestions were developed by the HDMA Returns Task Force, which comprises manufacturers and distributors of healthcare products as well as returns processor/service providers. This article also includes input from retail pharmacy for a broader perspective.

Each "tip" is intended as a practical suggestion for a company to consider, either individually, or in conjunction with its trading partners. Some of these "tips" implicate requirements of the Food and Drug Administration (FDA) or possibly other regulatory bodies. A company undertaking a review of its returns processes should assure that any changes are undertaken in consultation with appropriate personnel and in accordance with applicable regulatory requirements.

#### **The First Step to Getting Started**

"Think outside the box" and challenge your current policies and practices. Do not assume that the status quo is the best solution for your company and your trading partners. The business has changed and continues to evolve rapidly, requiring reexamination of practices and processes. Conducting "root-cause" analysis of product returns is an important first step for all trading partners. This analysis should include product cost, transactional cost, and disposal cost.



## Practical Tips for Manufacturers

### Goal: Reduce the Quantity of Returns

As part of their investigations into these tips, it is recommended that manufacturers conduct detailed cost/savings analyses. A **manufacturer** could consider the following “tips” if it wishes to increase its attention to and management of pharmaceutical returns.

1. **Lengthen your minimum ship life requirement.** Upon investigation, you may find that most of the products that you ship with short lives are returned by customers. It may be more cost-effective to deal with distressed inventory in-house.
2. **Conduct tests on products with high expiration rates to identify opportunities for shelf life extensions.** You may find that some of these products’ performance and safety are not affected by adding several months to their shelf life.
3. **Reduce production batch sizes.** Some products may age for a considerable length of time before you ship them, causing the end of the batch to become short-dated and at risk of being returned. Smaller batches could result in less inventory to age.
4. **Produce products that are being phased out in smaller batches.** Regardless of the reason for the phase-out, shelf-life of the last shipments is important to control to minimize expiration and return.
5. **Investigate opportunities to change bottle count/packaging.** Some products may be packed in quantities resulting in residuals, also known as partials, which are often returned for credit and/or destruction. Look at credit data for partials, if available, and prescription quantities to find these opportunities. For example, automated dispensing is widely used in retail pharmacy for efficiency but can result in waste when dispensing patient prescriptions for 30-count bottles from stock bottles of 100-count. Consider unit-of-use related packaging sizes.
6. **Investigate opportunities to change case package sizes and minimum order requirements.** Consider changing a product’s case package size when it reaches patent expiration and faces generic competition. For slow-moving products, reducing the minimum order requirement may reduce returns.
7. **Investigate opportunities to make it easier for retailers and pharmacists to read/process expiration dating on product packaging.** Consider including standardized coding such as the NDC/UPC number, lot number, and expiration date. Use a standard-based bar code symbology that is machine readable and implement in a phased-in, go-forward process. Use easy to read formatting, font and color.

8. **Manage the complete lifecycle of products with multi-functional teams.** Include all functions that can impact returns (e.g., manufacturing and sales) so they can be aware of how their actions influence the quantity of returns from new product launch to mature product.
9. **Include realistic forecasts for returns during new product launch planning.** Forecasts may need to be adjusted if launch timetable milestones are missed and inventory is aging.
10. **Consider investing in outside resources to learn about distributor expectations regarding returns.** This is especially important for smaller manufacturers who plan to go to market with a limited product offering and few internal resources.
11. **Look for ways to simplify your returns policy.** Some policies “grow” over time as companies acquire and divest products. Others become more complex as companies experience new situations and add new sections to their policies. Look for redundancy and possible opportunities to state only one situation (i.e., what is creditable) rather than both (i.e., what is creditable and what is not creditable).
12. **Review your returns policy to ensure it aligns with today’s business realities and keeps pace with changes in market conditions and the industry.** (e.g. e-prescribing, automation, repack.) Increase your company’s understanding of retailer inventory management and operation practices.
13. **Increase timely communication of any return policy changes and their rationale to trading partners.** Understanding the reasoning behind changes will make implementation easier for trading partners. Allowing adequate implementation time is also critical.
14. **Communicate more details about product changes to trading partners.** For example, communicate the specific date for policy transfer for an acquired product, using specific lot numbers. Timing for rollouts of improved products and generic introductions are also important to communicate in detail, as are formulary changes. Differences in sales force deployment and physician detailing should also be communicated.
15. **Look for new ways to be involved in managing inventory levels at wholesale and retail.** For example, provide the opportunity for wholesalers to increase order frequency. Monitor orders to look for ways to reduce days of supply on-hand. Look at wholesaler and retailer recommendations for back order release policies. Use the 855 P.O. Acknowledgement and 856 Advance Ship Notice to communicate expected ship dates.
16. **Work with trading partners to improve patient medication adherence.** By learning what techniques encourage patients to pick-up filled prescriptions (e.g., e-prescriptions),

manufacturers may be able to make adjustments in packaging or operations that result in more patients using medications as prescribed and fewer “amber bottles” left unclaimed.

**17. Collaborate with distributors and retailers on pilot programs to address root causes of returns.**

Provide incentives to trading partners that implement programs that can reduce returns based on pilot project learnings.

**Goal: Improve Efficiencies in Reverse Logistics and Credit Processes**

A **manufacturer** could consider the following business processes and tips if it wishes to examine how it might improve efficiencies in the management of pharmaceutical returns.

1. **Adopt EDI 180 transaction sets for returns.** Using EDI may reduce credit cycle time and credit process.
2. **Manage wholesaler DC returns and pharmacy returns through different processes.** Since wholesaler DC returns are often simpler to reconcile, credit cycle time could be reduced for wholesaler DC returns if separate from other returns.
3. **Include a time limit on Return Authorizations by when product must be returned.** Negotiating a time limit on receipt of the physical return may incentivize trading partners to return products in a timely manner. This could reduce the challenges of reconciling extremely old RAs.
4. **Investigate the opportunity to destroy some product earlier in the return supply chain.** Appropriately timed, proper destruction might reduce downstream handling charges and processing fees. Destruction should be documented through audits, certificates of destruction or other appropriate measures.
5. **Use EDI 812 transactions.** Use of EDI may reduce the backlog associated with processing paper forms, credit cycle time and labor.
6. **Proactively collaborate with distributors to use EDI 852/867 data.** Using EDI may help with inventory management processes and targets.
7. **Take special steps to ensure that the most current policy price is on debit memos.** Routine communication of price tables between trading partners and returns processors, where feasible, can facilitate returns processing. If permitted under applicable agreements, provide manufacturer pricing tables by lot number to return processors to facilitate processing.

**Consider instituting a monthly communication on short-dated shipments and products if they exist and cannot be changed.** This allows distributors and retailers to manage inventory through special processes and communications to avoid returns.

## **Practical Tips for Distributors**

### **Goal: Reducing Unsalables and the Quantity of Returns**

It is recommended that **distributors** conduct detailed cost/savings analyses as part of their investigations into these tips. While trading partners' movement to fee-for-service agreements has reduced excess inventory, other steps may be taken to address returns. A **distributor** could consider the following business processes and tips if it wishes to examine how it might improve efficiencies in the management of pharmaceutical returns.

#### *Inventory Management and Purchasing*

1. **Collaborate with customers on demand forecasting.** More advance communications with customers may result in more accurate estimations of sales demands for a given time period.
2. **Review inventory algorithms for excess.** Doing so may allow a re-balance of target inventory levels. Collaboration between purchasing and operations is needed.
3. **Engage in discussions with manufacturers to rebalance inventory.** Analyze customer use/demand patterns for products. Use this information in manufacturer discussions and make adjustments to agreed upon inventory targets. This inventory "rebalancing" can reduce returns.
4. **Discuss minimum dating requirements with manufacturer trading partners.** Factor in customer requirements for minimum dating for upstream communication. Customers usually do not accept products with less than 6 months dating.
5. **Examine product areas (brand, generic, consumer) for opportunities to customize inventory philosophy for each.** Inventory levels for new product introductions, generic product introductions/conversions, seasonal products may all vary.
6. **Monitor demand variables and communicate between departments so appropriate action to pro-actively manage inventory may be taken.** These may include product going off patent with generic product introduction, product going off-contract and/or off-formulary, product being switched to OTC, etc.)
7. **Develop systems expertise.** If you have a replenishment system, be sure buyers are trained to maximize its functionality and provide continuing education when enhancements are made in order to maximize your ROI.

8. **Communicate with trading partners to reduce inconsistencies in processes related to dating expectations with the goal to maximize dating.** Distributors, retailers, and manufacturers may have different policies and processes for pulling products off the shelf (i.e. 6 months, 90-days). Discussing these policies with both retailers and manufacturers may result in more consistent policies and processes that streamline management of short-dated product and reduce returns.

### *Operations*

1. **Focus on product dating when rotating stock in warehouse inventory.** Shelves can be checked on specified schedules. Expiration dates may also be included in the warehouse management system to “age” case-level inventory. Explore systematic methods to measure and manage warehouse inventory, including serialization.
2. **Proactively manage short-dated inventory between DC locations based on different customer demand.** Use pharmacy-level demand to rationalize items to carry in the warehouse.
3. **Measure reclamation (units and/or dollars) as a percent of inventory.** Understanding the extent of the returns issue can help reduce expenses.
4. **Measure/monitor saleable customer returns for inventory trends.** Communicate with customers (terms negotiations) to facilitate inventory management.
5. **Train pharmacists on pharmacy management tools.** Help customers use pharmacy-specific tools and technology to manage inventory or cancel duplicate orders.

### **Goal: Improve Efficiencies in Reverse Logistics and Credit Processes**

A **distributor** could consider the following business processes and tips if it wishes to examine how it might improve efficiencies in the management of pharmaceutical returns.

1. **Understand manufacturer return policies elements and integrate returns policy elements into your systems.** Have a system in place for direct returns. Train all returns staff on returns policy changes.
2. **Centralize processes to streamline efficiencies in returns processing.** Analyze your returned goods policies and procedures across the operation. Are there ways to centralize the authorization process, return procedures, and/or credit procedures? Doing so may lead to lower costs.

3. **Negotiate with each manufacturer trading partner to align manufacturer’s policy with supply chain realities considering the impact downstream.** Inconsistent policies and processes between manufacturers, distributors, and retailers can result in more returns. Educating manufacturer trading partners about the downstream impact of policies may result in mutual benefit.
4. **Adopt electronic exchange of returns information (180/812 transaction sets).** Use of EDI may reduce credit cycle time, processing and reduce the backlog associated with processing paper forms.
5. **Analyze and consider how to create fewer touch points for unsalable waste.** This also can help address in-transit security.
6. **Address the disconnect between physical flow of customer returns via 3PL and the financial flow of returns dollars via distributor which affect cycle time of credit reconciliation.** Create ways to deal with the disconnect to address deduction issues.
7. **Collaborate with manufacturers, retailers and reverse processors on pilot programs to address root causes of returns.** Implement learnings to reduce returns.

### **Practical Tips for Retailers**

#### **Goal: Reducing Unsalables and the Quantity of Returns**

**Retailers** should consider conducting detailed “root cause” analysis to determine internal sources of returned goods. This will help determine where efforts should be focused to reduce costs associated with returns. A retailer could consider the following “tips” if it wishes to increase its attention to and management of pharmaceutical returns.

1. **Implement proactive stock rotation strategies within the company.** Conduct regularly scheduled inspections to identify excess inventory based on patient demand. Transfer excess inventory to other stores with higher demand. Create systems to allow visibility between the organization’s pharmacies to see inventory levels at nearby stores, especially for seasonal products.
2. **Work with trading partners to align shelf-life policies.** Educate trading partners on retailer short-date management (no receipt of product with less than six months dating with some exceptions, i.e., new biologics.)

3. **Work with trading partners to improve medication adherence by patients.** Communicate techniques you are using (e.g., e-prescriptions, auto fill) to encourage patients to pick-up filled prescriptions and educate trading partners on the potential implications relating to product returns. (e.g., packaging changes, two-stage labels.)
4. **Educate trading partners on technologies employed to increase the pharmacy's dispensing efficiency and implications for impacting product returns.** (For example, if a pharmacy uses automated dispensing machines for counting and filling prescriptions of 30 and the manufacturer packaging is a 100 count bottle, there will be waste by creating partials bottles that may or may not be able to be returned. Talking to trading partners may highlight opportunities for changes in policy, bottle counts or unit of use packaging.)

### **Goal: Improve Efficiencies in Reverse Logistics and Credit Processes**

A **retailer** could consider the following business processes and tips if it wishes to examine how it might improve efficiencies in the management of pharmaceutical returns.

1. **Collaborate with manufacturers to proactively communicate on near- and short-term issues related to their product portfolios. Examples of relevant issues include:** product life-cycle extension, formulary change, packaging change, patent expiration, new product challenges, government/FDA actions.
2. **Educate pharmacists on avoiding placing duplicate orders and how to cancel an order if a duplicate has been sent.** This is especially true for new or relief employees.
3. **Create systems to allow visibility between the organization's pharmacies to see inventory levels at nearby stores or communicate inventory in other ways.**
4. **Pro-actively manage auto fill and will call programs to reduce return-to-stock.** Consider label adhesiveness in order to re-label unit-of-use packaging and/or vials for re-use after return-to-stock.
5. **Have the best understanding of each manufacturer's return goods policy, its rationale and relevant details.** Create standardized systems to handling returns that encompass the majority of manufacturer policy elements. Analyze historical returns data to be able to understand the impact of a manufacturer's policy change.
6. **Create a post-audit review process of company returns.** Compare credit received against what was thought eligible. Review non-creditable return data to try to understand why credit was not given. Doing so may lead to policy and process changes that may reduce

returns. While post-audit review may be labor intensive and slow, significant upside has been shown.

7. **Collaborate with manufacturers, distributors and reverse processors on pilot programs to address root causes of returns.** Implement learnings to reduce returns.

By providing specific tips for your company to consider implementing, we hope these points highlight opportunities to remove costs and reduce returns throughout the entire supply chain.

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