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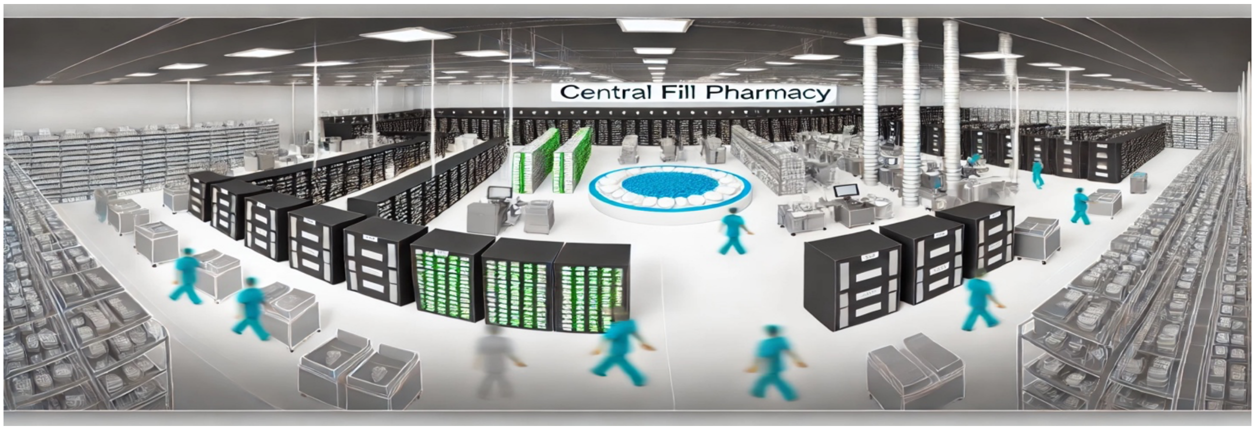
Contracting and Pricing Team-Led Transformation: Optimizing Central Fill Solutions for a Fortune 200 Pharmaceutical Client



Background

Our team was engaged by a Fortune 200 pharmaceutical company that was utilizing central fill solutions from a division within our company. This central fill division handled high-volume prescription dispensing, product fulfillment, and logistics services. However, the existing contracts with the pharmaceutical company had created a significant negative margin for our division. The contracts were poorly structured and lacked a clear understanding of the **cost inputs** required to service the client effectively, leading to substantial financial strain.

The central issue stemmed from inaccurate pricing models that failed to account for critical factors such as product costs, labor, logistics, and premium service offerings. Additionally, the business was offering value-added services that were not properly priced. This meant that while the division was delivering on complex and high-demand services, the financial return was inadequate.

The **contracting and pricing team** took the lead in reassessing the situation. Through a comprehensive review of cost structures, contract terms, and service offerings, we developed a new pricing strategy and renegotiated the contract with the client. This resulted in an additional **$10 million** in bottom-line profit for the central fill division, turning a negative margin into a profitable business line.

Challenges

Several factors contributed to the negative margins within the central fill solutions division:

- **Inadequate Pricing Structure**: The contracts were initially priced without a full understanding of the underlying costs associated with the central fill solutions. Key cost drivers like product acquisition, logistics, dispensing, and labor were either underappreciated or not accounted for at all.
- **Failure to Charge for Premium Services**: The business was providing specialized value-added services such as expedited logistics, detailed compliance reporting, and customized packaging, but these premium offerings were not reflected in the pricing model.
- **Lack of Visibility into Cost Inputs**: There was a lack of comprehensive analysis on how costs related to each service line. This led to a misalignment between the services provided and the revenue generated.

Solution: Contracting and Pricing Transformation

Our contracting and pricing team took a systematic approach to solving the financial challenges associated with the central fill solution. The goal was to renegotiate contracts and develop an accurate pricing strategy that not only reflected the actual costs of the services but also incorporated the value of premium offerings.

1. **Understanding the Existing Contract**:
    - The first step was conducting a detailed analysis of the existing contract between our company and the Fortune 200 pharmaceutical client. We reviewed the contract terms to understand the full scope of services being provided, including standard and premium offerings.
    - The team discovered several areas where services were being provided that were not properly reflected in the pricing, particularly in logistics and packaging.
2. **Identifying the Cost Inputs**:
    - **Product Costs**: We calculated the true cost of products being dispensed, which included sourcing, warehousing, and inventory management. These were not accurately captured in the original pricing.
    - **Labor Costs**: A detailed review of labor associated with prescription dispensing, customer support, and logistics management was conducted. The labor costs were underestimated in the initial contract, leading to significant margin erosion.
    - **Logistics and Distribution Costs**: The pricing model did not fully account for the complexity of logistics and distribution, including transportation, last-mile delivery, and any expedited shipping services that were being provided.
    - **Dispensing and Packaging Costs**: The process of filling prescriptions, ensuring compliance, and offering customized packaging was labor-intensive and required more accurate pricing to reflect the real cost of these operations.
3. **Developing a Bundled Offering**:
    - **Bundled Pricing Strategy**: The contracting and pricing team created a bundled offering that incorporated all key cost inputs into a single comprehensive service package. This new structure captured the true cost of product acquisition, labor, logistics, and value-added services.
    - **Incorporating Premium Services**: Value-added services such as expedited shipping, customized reporting, and specialized packaging were now given

appropriate price tags. The premium services that were once eroding margins were transformed into profitable offerings.

4. **Renegotiating the Contract**:
   - Armed with a detailed cost analysis and a revised pricing model, the team entered negotiations with the pharmaceutical client. We presented the financial case for the new pricing structure, backed by data on labor, logistics, and product costs.
   - The contract was successfully renegotiated to reflect the true cost of delivering central fill services, along with a margin that aligned with the business's financial goals.

Results

- **$10 Million in Additional Profit**: The renegotiation of a single contract with the Fortune 200 pharmaceutical company resulted in an additional **$10 million in bottom-line profit**. This was achieved by ensuring that the pricing reflected the true cost of services and by incorporating value-added offerings that previously eroded margins.
- **Shift to Positive Margins**: The division shifted from operating at a negative margin to profitability through accurate pricing, improved cost visibility, and better contract terms.
- **Improved Service Delivery**: The new contract allowed the central fill division to continue providing premium services while ensuring that these offerings contributed positively to the bottom line, rather than eroding it.
- **Sustainable Pricing Strategy**: The contracting and pricing team developed a replicable pricing model that could be applied to future contracts, ensuring that any additional clients could be serviced profitably.

Conclusion: Contracting and Pricing Team Driving Financial Success

The success of this initiative highlights the critical role that contracting and pricing teams can play in transforming the financial health of a business division. By taking a deep dive into contract terms, cost structures, and pricing strategies, the team was able to turn around a division that was previously operating at a loss and deliver significant financial gains.

This use case showcases the value that our **CFO services** can bring to businesses in need of **contract optimization**, **pricing strategy development**, and **financial transformation**. If your company is facing challenges related to poorly structured contracts, unprofitable service offerings, or a lack of visibility into cost drivers, our **CFO and financial advisory services** can provide the leadership needed to turn those challenges into opportunities for sustainable growth and profitability.