

Wholesale: ripples made by Pfizer

Last year, Pfizer announced it would introduce a direct-to-pharmacy scheme. Moreover, from March 2007, all its prescription medicines would be delivered by a sole distributor, UniChem. **Debbie Andalo** looks at the effects of this business model on the wholesale market



Pfizer's decision to allow its medicines to be supplied by a single distributor only (UniChem) has stung the pharmacy sector (*PJ*, 7 October 2006, p413). Criticism has come from all quarters — wholesalers, pharmacists and the organisations that represent them, and from others who have an interest in the movement of medicines across the EU and the wider global market. There are concerns that this scheme, direct to pharmacy using a single distributor, undermines both the ability of community pharmacy to do its job and the supply chain. "Since Pfizer's solus distribution model was implemented in March, several surveys of community pharmacists have taken place and each one has demonstrated that this particular model has created problems for community pharmacy," says Steve Dunn, group managing director of AAH Pharmaceuticals.

Examples of issues that pharmacists have raised include worse cut-off times for ordering, reduced discounts, no set delivery times and pharmacy-level quotas creating availability problems for Pfizer medicines, as well as an increase in paperwork and bureaucracy. This is hardly an attractive outcome particularly at a time which pharmacists can and should offer more services to patients, Mr Dunn adds.

City business finance consultants Deloitte, however, can see some value in the Pfizer decision, both for the drug manufacturer and the wider pharmacy community. Dean Arnold, a partner at Deloitte and its head of health care for Europe, admits the decision is a double-edged sword for UK community pharmacists. He says: "It will give community pharmacists a little less choice in the market

place but it depends what they are trying to achieve. Under the traditional model, pharmacists' reward was their ability to arbitrate [negotiate] effectively in the market place — there was a need for multiple wholesalers and, through competition in the market, they could get the best price. The wholesale market absolutely benefited them. The Pfizer decision takes some of that away, but the decision is also in line with what the Government is doing with the community pharmacy contract where it wants to reward them for being really good pharmacists rather than really good traders."

Raj Nutan, pharmacy business manager at the National Pharmacy Association, agrees that Pfizer's decision forces community pharmacists to confront their future role. He says: "I think the question for pharmacists over the next five years is 'will I get paid for supply or more services?'"

Wholesalers

Wholesalers, both regional and national, however, are alarmed by the repercussions of the Pfizer decision. They claim that it was taken unilaterally with little account of the effect it would have on the wider pharmacy and wholesale market and that up to 15 per cent of potential income disappeared overnight.

Kamal Kotecha is managing director of full-line wholesaler PIF Medical Supplies Ltd, which distributes medicines to 250 community pharmacies within a 40-mile radius of Nottingham. Mr Kotecha, who has been in the business for 21 years, admits: "We are obviously worried. We have lost a lot of sales — down about 13 per cent, which is quite sig-

nificant — as well as services to our customers. We have lost high-value, fast-moving products like Viagra and Lipitor. The decision also meant that other manufacturers have had a look at their own models to see if they should go single-handed too. A lot of smaller wholesalers, like ourselves, are worried because the margins in distribution are so low and we try to give a good service to our customers. It's a massive problem, but while we keep talking about Pfizer it's really what has happened since that decision which is more important." In April, AstraZeneca announced that it would, in future, use only AAH Pharmaceuticals and UniChem to distribute its products. Although the company decided in July to postpone the change pending further consultation, other manufacturers have not been so hesitant. In July, Napp Pharmaceuticals Ltd said it would, from October, only distribute its drugs via AAH, Phoenix Healthcare Distribution Ltd and UniChem. Four days later, Sanofi-Aventis announced the same trio would take over its product distribution from November. Mr Kotecha says: "If you consider that around four or five manufacturers are responsible for around 80 per cent of the medicines market how can we stay in full-line wholesaling? There is still a market in short-line wholesaling, just for the fast moving drugs, but we are being squeezed."

Mr Kotecha's company also runs 13 community pharmacies in the region. After the Pfizer drug distribution contract was given to UniChem, the pharmacies were given a 10.30am deadline for placing their daily orders. But this was too early — few patients with prescriptions from morning surgery

Comments from Pfizer

Pfizer started planning a direct-to-pharmacy scheme, that is how to change the supply of its products, three or four years ago, according to Pfizer trade director David Watson. He says: "In the previous model we had little visibility of how our medicines were being sold and distributed to pharmacies in the UK. We were selling them to wholesalers who were selling them to pharmacies (and to anyone else) and there was no control over the pricing of these products. At the same time, between 2005 and 2006, there were three separate cases where counterfeit Lipitor had found its way into the supply chain and had been sold through full-line wholesalers. One case involved 120,000 packs of medicine.

"The whole integrity of the supply chain was of great concern. If you ask most patients and pharmacists where they think their medicines come from, I don't think they will know that medicines are being traded pretty much around, through dozens of different pairs of hands and companies — there is little visibility about where medicines are and where they have come from. We got very frustrated about how the supply chain worked for the security of Pfizer products."

When we came to make this change we went through an exercise to see how we could deliver our products in the UK. We could have gone out to DHL to deliver our products but chose to use wholesalers because of their experience in moving medicines. We launched a competitive contractual process in 2006 and invited three wholesalers, AAH Pharmaceuticals, UniChem and Phoenix Healthcare Distribution Ltd. That was almost two years ago now. We thought we would end up with all three but we found then that AAH and Phoenix were both pretty resistant, so we ended up with an agreement with UniChem which could, from a logistics point of view, deliver our products."

Making waves Mr Watson recognises that wholesalers have accused Pfizer of damaging their business model and competition but says that, like any other business, Pfizer is not immune from competition. He adds: "I think in the future we will see more wholesalers having logistical contracts with companies. Our logistics contract is with UniChem. We were looking at how it could provide twice daily deliveries to every pharmacy in the UK and it meant buying new vans, for example." Pfizer is "very pleased" with its direct-to-pharmacy scheme has operated since it went live in March. "The number of orders filled, or filled on time, is 99 per cent — that is probably better than a lot of wholesalers can achieve," he explains. "The key role for pharmacists in the NHS is to dispense medicines. We are obliged to make sure that we have enough medicines available for pharmacists — that was an issue in the months before the new system was introduced. If anybody has issues with our service we usually have them call us and do our best to resolve things. [There have been some cases] about cut-off and delivery times — not product availability. Pharmacists who buy from wholesalers will always have a cut-off time. If somebody had a cut-off time from their wholesaler for Pfizer products which was noon in the past and

now their cut-off time is earlier under direct-to-pharmacy they will complain about it; but it's not as if our cut-off times are worse than anyone else's," he adds. The company has carried out a definitive review of cut-off times and says there is no difference between UniChem customers and non-UniChem customers. Rather, cut-off times depend on van routes and the distance between the wholesaler and pharmacies. "If a pharmacy says its cut-off time is now later we would do our best to change it. We are looking at this." Mr Watson emphasises that the main concerns are about delivery times — not product availability.

Conspiracy theory As for the argument that Pfizer's decision was prompted by what may happen in the US market, Mr Watson brands this as a "conspiracy theory". "It is not legal to import products into the US. As far as the European market is concerned, Pfizer can't stop people buying products and trading them across Europe. But in the UK a proportion of pharmacists' business model is about trading medicines. It isn't an issue that is discussed very often — the reality is there are pharmacists doing quite a lot of trading in medicines. There is nothing wrong with that — it isn't an offence — but we cannot allow the random supply of our medicines because otherwise we can't make sure that there is sufficient product available," he says. Under the new system Pfizer routinely monitors its sales to pharmacies. "In about half a per cent of cases we have had to say that only a certain amount of product will be available to them. It has caused a huge amount of debate and it's become very aggressive; it's been about the impact that we have made on the future of trading in the UK. What we have done is not going to stop that (ie, pharmacists trading in medicines). They can still get Pfizer products from Pfizer from going abroad or from the grey market, that is from each other. But this is all about a company making sure that its medicines are routinely available," he comments.

Discounts And as far as discounts are concerned, Pfizer says it offers between 8.5 and 11.5 per cent, which according to Mr Watson, is standard discount. "We thought long and hard about it. We had a lot of discussion with the Department of Health before we announced it — it had two conditions, that we had to make sure that our medicines were available to every pharmacy and that it shouldn't cost the NHS any money. I think we have met both of those conditions and the DoH is comfortable with our discount scheme. I can't see that it will have any impact on the [NHS] drugs prices. We also had discussions with the PSNC before we announced our discount scheme. The discount is what we can afford and matches [the conditions] we agreed with the DoH," he says.

Finally, Mr Watson echoes the sentiments of Raj Nutan, pharmacy business manager at the National Pharmacy Association, who says that Pfizer's decision forces community pharmacists to confront their future role. "I think there is a big issue around the funding for pharmacy and what the role of a pharmacist is," Mr Watson concludes.

would reach the pharmacy by that time. The solution for Mr Kotecha was to increase his pharmacies' wholesale contract with UniChem in order to achieve a later cut off time. He says: "We felt we had to give more custom to UniChem to get a later cut off time, which is now 12.15pm, even though it has meant a loss to the wholesale side of our business."

David Pay is managing director of full-line wholesaler Sangers, which delivers to around 200 pharmacies across the south east. He says the Pfizer decision wiped out 15 per cent of the company's turnover in dispensed patented drugs over night. "We knew something was happening, but not that they would plump for a single supplier. This is a huge catastrophe for the industry. The big pharmaceutical companies are penalising the regional wholesaler. We have been disenfranchised and the service is going down," he says. Under the old system if a product was in short supply pharmacists would try to get the drug from an alternative wholesaler. That option has now gone. He says that pharmacists just place their order and hope the manufacturer will supply the number of lines they asked for. In addition, the consequences of the new Pfizer system impacts on all parts of the supply chain: "Patients will have to wait longer for medicines, you can't guarantee you can get the product and now there is no choice who you are getting it from." The company's general manager Steve Burns says there is a real danger that, as other drug manufacturers restrict the number of wholesalers they use for distribution, pharmacists will have little option but to take their business to one of the larger national companies.

He says: "We just have to hope that our customers remain loyal and don't switch to one of the main suppliers. But there does come a point where the numbers don't add up. We can look at the amount of discount we can offer, but we are losing turnover while our costs are more or less the same. There will come a point where customers may have to consider switching their accounts. But the discount isn't everything. It's also about the time between the cut off and when the product arrives in the pharmacy."

It is not only the regional wholesalers that have had to scrutinise the way they operate. David Cole is deputy chairman of Phoenix, which has contracts with 2,000 pharmacies across the UK. The company put in a tender for the Pfizer contract last year but Mr Cole says it was deliberately half-hearted — the company's motive was to gain an insight into potential changes in the market rather than to make a serious bid. "I can't say we were particularly enthusiastic about what Pfizer said it wanted to do. We tendered in an unenthusiastic way, I suppose you could say that we were fishing," he says. Since then, however, Phoenix has tendered seriously and won distribution contracts for both Napp and Sanofi-Aventis. The company has also won a third distribution contract but is refusing to give details ahead of a public announcement.

While Mr Cole is critical of the Pfizer decision — “I can’t see how what Pfizer has done is defensible at all” — he is in favour of the changes that the decision has brought to the wholesale industry. He argues: “The contracts with Napp and Sanofi-Aventis are a different model to the Pfizer one. They still involve selling to wholesalers, it’s just that the number of distributors in the market place has been reduced and we, as wholesalers, still sell on to pharmacists. The three of us — Phoenix, AAH and UniChem — between us control 92 per cent of the distribution market. This may mean that 8 per cent is being squeezed out but then pharmacy has always been a fast moving market.”

UniChem’s view is that it is imperative that the distribution of pharmaceutical goods remains within the sector. “It is for this reason that UniChem entered into the agreements with Pfizer and AstraZeneca, to ensure that such a change did not result in a move to logistics providers outside our sector, and that the wider interests of pharmacy remain at the forefront of supply,” Mark Stephenson, supplier relations director at UniChem, explains. “Much of the initial emphasis has been placed on the Pfizer distribution arrangements, particularly as UniChem was appointed on an initially exclusive basis. Pfizer’s original intention was not for a solus supply arrangement and while certain parties have been, and continue to, work hard to highlight their perceived ‘failings’ of this particular model, the primary concern for UniChem has been to ensure the safe and continuous supply of Pfizer medicines to patients,” he says. Mr Stephenson adds that it is essential to adapt to a changing market and to seek to influence the change for the benefit of both wholesale and pharmacy.

Conspiracy theory?

The reason Pfizer gave for its decision to use UniChem as its sole UK distributor was to protect its supply chain from counterfeit medicines. This was greeted with some scepticism. The Pharmaceutical Services Negotiating Committee said that the decision was more likely influenced by Pfizer’s desire to kill off parallel trading. Wholesalers and organisations involved in the legal movement of medicines across EU borders still believe that was the main reason behind the move.

Richard Freudenberg is general secretary of the British Association of European Pharmaceutical Distributors, which represents companies involved in EU parallel trade. He believes that Pfizer is attempting to suppress the export of its products from the UK to the EU. He thinks the company may also have had an eye on the US, where there are moves to open up the drug market to cheaper imported drug from overseas. He says: “What Pfizer has done means it can control the supply chain of its products from start to finish — from the manufacturer to the end user. That wasn’t the case before. In the past, if there was an excess in the supply chain every wholesaler could, if they wanted to, export

Direct-to-pharmacy timeline

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| November 1991 | GlaxoSmithKline (then Glaxo) agency scheme begins |
| October 2006 | Pfizer announces direct-to-pharmacy scheme with UniChem as sole distributor UniChem managing director David Coles resigns as British Association of Pharmaceutical Wholesalers chairman Office of Fair Trading says it will look at whether to review Pfizer’s plans |
| November 2006 | Alliance Boots (UniChem’s parent company) clashes with the European Association of Pharmaceutical Full-line Wholesalers (GIRP) |
| December 2006 | Pfizer announces discount terms <i>The Times</i> reports that Astra-Zeneca, Lilly UK, Novartis and Sanofi-Aventis are looking to change their distribution schemes |
| January 2007 | Sangers (NI) announced as subcontractor to deliver Pfizer medicines on behalf of UniChem in Northern Ireland |
| March 2007 | Eight wholesalers lose their attempt at a High Court injunction of the Pfizer scheme Pfizer DTP scheme goes live 5 March Novartis confirms it is planning its own DTP model |
| April 2007 | OFT announces a “short market study” into UK medicines distribution UniChem leaves BAPW AstraZeneca announces a DTP scheme with AAH Pharmaceuticals and UniChem as agency partners |
| June 2007 | Period for submission of evidence to OFT closes 1 June Alliance Boots leaves GIRP |
| July 2007 | AstraZeneca delays implementation of DTP scheme Napp Pharmaceuticals restricts medicines supply to three wholesalers — AAH, Phoenix Healthcare and UniChem — to begin 1 October Sanofi-Aventis restricts supply to the same three wholesalers — to begin 1 November |

the products. The danger now is if this direct-to-pharmacy route is not just restricted to the UK but becomes extended to Greece, Spain and Italy, which is the traditional [source] for parallel [imports].” If that happens, Mr Freudenberg warns, the market for parallel importing would dry up and patients would suffer because they would lose access to cheaper medicines. He says: “I also think Pfizer was trying to prevent a cheaper supply chain going to the US, but the excess supply in the European market will only scratch the surface of any demand from the US.”

Mr Arnold sympathises with Pfizer. He says it is easy to dismiss the company’s concerns about counterfeit medicines as “disingenuous” and he points out that Pfizer, like other pharmaceutical giants, has seen its reputation “bruised” in recent years because of “vilification”. He says: “The general pharmaceutical companies have not necessarily been seen as folk who are delivering wonderful new medicines but have been seen as pill suppliers who are profiteering.”

The damage that counterfeits could have on Pfizer’s reputation — both politically and commercially — are a genuine concern, according to Mr Arnold. “It’s a genuine worry for them — if a whole batch of counterfeit medicines got into the supply chain and killed patients. It’s the kind of thing which keeps ministers up at night.” Mr Arnold does,

however, accept that Pfizer’s desire for greater control over its drug supply chain through the EU and beyond to the US, was also a key factor. In 2005, the company introduced a dual pricing system for its products in Spain where exported products were given a higher price tag. This, according to Mr Arnold, was also a way of rationalising who handles its drugs. “The mechanism may have been different to what is being used in the UK but the strategy was the same — to take greater control of the supply chain and distribution.” Mr Arnold says it is reasonable for Pfizer to look for a multitude of reasons before it brought the new system in to the UK: “When you do something as bold as this you have to look at multiple reasons.” The problem for Pfizer and other manufacturers is that the parallel trading market means they are unable to keep track of where their medicines go. Mr Arnold says: “Pfizer distributes its medicines in one country and they show up in another. While that is the nature of the EU, the company doesn’t have any insight into that and it’s very unsettling. That lack of transparency creates real problems for the business.”

While wholesalers may still be coming to terms with the ramifications of the Pfizer decision and the announcements by other manufacturers to change their drug distribution models, community pharmacists are also feeling the impact of the changes. An online sur-



vey by the PSNC carried out in June revealed that 72 per cent of pharmacists said their cut-off times for Pfizer products had deteriorated and 73 per cent said they were now less able to predict delivery times under the new system. Increased paperwork created by extra invoices was a problem for 88 per cent while 84 per cent said their services to patients had suffered. Some 5 per cent of respondents said they had switched to UniChem for the supply of non-Pfizer products since the new system was introduced. Lindsay McClure, head of information services for the PSNC, says: "It was a quick, online survey so that we could get more feedback on the impact of the Pfizer decision." She says pharmacists have now inherited a quota system for Pfizer products. "Pfizer always had quotas under the old system for wholesalers, but now those quotas have been passed down to pharmacists and they don't have the medicines they require, which is having an impact on patients." There is still anger within the PSNC at Pfizer's decision: "There had been a feeling from the drug manufacturers for some time that the wholesale system needed to change. But it is a system which has worked well for pharmacists — there has been a choice of wholesaler and it meets the needs of the patients. This decision has decreased both choice and competition," Ms McClure says.

Discounts

The Pfizer decision has also had an impact on pharmacy budgets. Phoenix claims that the amount of discount on Pfizer products passed on to pharmacists has gone down by 2 per cent since the new system was introduced. The NPA also estimates that discounts have got smaller. Mr Nutan believes there are winners and losers under the new system: "The average discount is about 9 per cent and I think Pfizer looked at the average claw back and has gone for a discount of around 8.3 per cent to 8.5 per cent, banded up to 12 per cent. There will be a lot of pharmacists who will be worse off because they are getting less discount on Pfizer products but also because they no longer have the volume advantage with wholesalers because their Pfizer business, which is worth around 17 per cent, has

been taken out of the equation. At the same time wholesalers not in the Pfizer system are having to rejig their discount factor which will also affect [pharmacists]."

The NPA and the PSNC still want to hear from pharmacists who have been affected by the Pfizer decision because they plan to continue feeding the information back to the Office of Fair Trading, which announced in April that it was launching a market study into the distribution of medicines in the UK. This was prompted by the 500 letters of complaint it received and 40 letters from MPs following the Pfizer announcement. While the industry has wholeheartedly welcomed the study, there are concerns that it has come too late and may be ineffectual. The OFT report is not expected until the end of the year and, by then, according to Phoenix, 38 per cent of the drugs distribution market will have changed. Mr Cole says: "It's too late — you can't put the market back as it was. If the Department of Health was openly concerned about what was happening the OFT would have said earlier 'Right no more changes or announcements until after our investigation'."

He hopes, however, that the OFT will come forward with a recovery package and says: "If it can't reclaim the money for the pharmacists then it will have to be [reflected] in the price which Pfizer gets for its medicines." Sangers on the other hand, believes it will be taxpayers who eventually pay for the financial repercussions of Pfizer's decision. Mr Pay says: "It's going to lead to higher drugs prices for the NHS. If the pharmaceutical companies are squeezing the discount and making extra profit then it's going to fall back on the taxpayer if the drugs bill goes up."

While the OFT report is only months away it could be at least another two years before all the issues raised by the Pfizer decision are resolved. It is possible that, with such a complex market to look at, the OFT will decide to refer the matter to the Competition Commission for its own investigation. Inquiries by the commission commonly take two years to complete. According to Deloitte, the OFT outcome is difficult to predict. Mr Arnold says: "It's difficult to judge other than to say it will take very much an economic view." He adds

that it is going to be challenging. The OFT may recognise that Pfizer is using a wholesaler as a distributor and this new business model is reasonable, open to a competitive market and that it has created a new environment which creates an opportunity for wholesalers to do business in a different way. On the other hand, Pfizer may have difficulty if the OFT judges its scheme as restricting competition because it relies on one wholesaler.

"It is important to emphasise that there are other options open to manufacturers as we have seen recently. AstraZeneca has chosen a DTP scheme, but by selecting more than one agency partner, the AstraZeneca scheme will ensure that flexibility and choice is maintained for the customer and result in minimal disruption. Napp and Sanofi-Aventis have chosen to continue with the wholesale model albeit with fewer wholesale partners," Mr Dunn says.

Future wholesaling

The direct-to-pharmacy supply which has caused such uproar is not a new idea. GlaxoSmithKline has been using it since the 1990s. "It's not a new model. It already happens in the grocery industry and in retail. Wal-Mart, for example, now goes direct in nine out of 10 cases — it doesn't use wholesalers. It's the reason in some ways that the company has been so effective. Wal-Mart says 'we will put 10,000 of your products in our stores and this is the price we will pay for it'," Mr Arnold adds.

Despite the recent changes, UniChem does not envisage specific changes in terms of the individual relationships that it has with its customers. "We also believe that the development of closer relationships with suppliers as a result of these changes to medicines distribution will enable them to fully understand the important role that community pharmacy plays in meeting the needs and expectations of the patient," Mr Stephenson adds.

According to Mr Dunn, the co-existence of mixed models — direct-to-pharmacy, traditional wholesaling and hybrid schemes — will help the industry become more vibrant and offer more choice. He comments: "Manufacturers are seeing how much value wholesalers offer and considering, possibly for the first time, the previously untapped opportunities and efficiencies that wholesalers can offer. Manufacturers, wholesalers and community pharmacy can and should work in partnership to identify new ways of strengthening and developing the supply chain to the benefit of all. The challenge will be how we can work together more closely to develop new models to help [manufacturers] achieve their aims, match supply to demand and get closer to customers. This is not to say that new models or change will not be controversial, and some models are far better than others." He concludes that many manufacturers will continue to use the traditional wholesale model because it is the one which best meets their requirements. Moreover, wholesaling will continue to have a successful future.