Pressure to reduce costs is squeezing wholesalers from two directions

Full-line wholesalers fear being caught between drives to squeeze cost out of the drugs bill. **Michael Thompson** reports

Full-line pharmaceutical wholesalers are innocent victims, caught in the crossfire between Government and manufacturers as they seek to minimise cost and maximise profit, according to British Association of Pharmaceutical Wholesalers chairman, David Coles. He said that recent changes had been thick and fast — the Pharmaceutical Price Regulation Scheme, the generics tariff and on top of those, unilateral actions taken by some individual suppliers.

The result had been a loss of £300m in annual revenues across the full-line wholesale industry. This was seriously damaging in an industry that ran on wafer thin margins and threatened wholesalers' ability to provide comprehensive supply services.

"We know that much of this comprehensive activity is already uneconomic, but we carry the burden of the integral cost of the total service we provide. Squeezing our revenue and margins inevitably calls into question the long tail of unprofitable products we carry," Mr Coles warned.

David Coles: cost squeeze places question mark over full-line wholesaling

As well as the obvious impact on the economics of wholesaling, the cumulative effect of these changes had been to create unintended disturbances to product supply. This had made it difficult to predict and manage product mix at the wholesale level. More seriously, it had also led to product shortages.

"All of us have been the unwitting victims of out-of-stocks caused by turbulence from regulatory change. Unavailability of products from suppliers has been running at historically high levels, leading suppliers feeling obliged to offer apologies in the trade press," Mr Coles said. "This is something that goes to the core of the role of full-line wholesalers."

Wholesalers took pride in the high levels of service they provided, Mr Coles went on.

"It is totally frustrating when this is threatened by regulation and decisions which we pointed out beforehand were likely to have these consequences."

Warning that there might be worse to come, Mr Coles said that the small print of the new Pharmaceutical Price Regulation Scheme talked of the need for a review of wholesale margins.

"For those of us on the receiving end of everything that has happened this year, this borders on the incredible," Mr Coles stated.

Demonstrate value to offset the squeeze

Wholesalers need to quantify the value they bring to the overall delivery of health care, Martin Sawer, BAPW executive director said.

A major part of the new Government's agenda would be the drive for ever increasing value and cost-effectiveness, particularly as it intended to halve the annual increase in health care spending after 2008.

"Wholesalers must demonstrate value, not just to the health care sector, but to the UK economy. We talk of delivering over 250,000 times a week, twice daily, on time, as well as when needed. What we need to do is try to quantify this and things such as order consolidation, patient compliance assistance, bearing credit risk for customers, operating recalls on behalf of the NHS and providing emergency logistical support when needed."

Mr Sawer said that an objective of the BAPW for this year was to demonstrate to policy makers and people in the wider health care environment the value that wholesalers bring to health care.

The **British Association of Pharmaceutical Wholesalers**' 2005 conference took place at Hoar Cross Hall, Staffordshire, on 8 June

Noose tightening on medicines distribution

The new pharmacy contract, coupled with the renegotiated Pharmaceutical Price Regulation Scheme and new pricing system for generic medicines, mean that the Government now has accurate information on how much manufacturers charge for medicines and how much community pharmacies are paid for them.

This means that the Department of Health has a hold on both ends of drugs distribution, with wholesalers left in the middle, said Sue Sharpe, chief executive of the Pharmaceutical Services Negotiating Committee. The only information missing related to the parallel import market.

"Bit by bit, the noose is tightening on the whole sector," Mrs Sharpe said. "The noose is DoH information and its thirst to control the totality of the medicines supply chain."

Turning to issues that face community pharmacy more directly, Mrs Sharpe said that she was worried about progress on the new pharmacy contract.

"An enormous number of pharmacists didn't find anything cataclysmic happening on 1 April and are not really in progress towards full implementation by October. This was particularly true of independent pharmacies that did not have the management structures of the multiples.

GSK-style distribution likely to increase

Fee-for-service distribution schemes, such as that operated by GlaxoSmithKline, are likely to become more common in the future, the meeting heard.

Alexander Ritter von Weinzierl, an IBM management consultant, predicted this as one of the key changes likely to happen in drugs distribution. Fee-for-service schemes would not replace conventional distribution channels, but hospitals, in particular, would want to use them in order to reduce their stockholding. There would also be more pan-European distribution networks.

"Wholesalers operating on a fee-for-service basis allow manufacturers to retain ownership of goods until they reach the end-user, while making use of wholesalers' distribution and order processing capabilities," he said. Mr Weinzierl also predicted a rise in e-pharmacies across Europe.