

The Evolving Role of the Pharmaceutical Distributor

(Sources: An article by Beth Longware Duff for Drug Topics Magazine, and an article by Robert Mauch for The PharmaLetter)

In the pharmaceutical ecosystem, the pharmaceutical distributor is key to the success of the entire pharmaceutical supply chain. They go far beyond the transport of products from Point A to Point B. Distributors take legal ownership of pharmaceutical products and assume the financial risk of carrying that inventory, as well as selling the product and collecting payment. This leads to a reduction in capital and operating expenses for the supply chain at large, allowing manufacturers to focus on their core function of developing critically important medicines.

According to a recent report by the Healthcare Distribution Alliance (HDA), distributors save the healthcare system US\$33-53 billion annually in the U.S. alone.

Additionally, distributors serve as licensed authorized trading partners, helping to abate challenges such as drug diversion, counterfeiting and importation of unapproved drugs, all of which pose a real and present threat to the drug supply chain. In the European Union, The European Medicines Verification System has been instituted to assist with verifying the efficacy of all medications within the supply chain, and in 2004 the Verified-Accredited Wholesale Distributor (VAWD) program was developed in the U.S. to help protect the public from the threat of counterfeit drugs. More recently in the U.S., the Drug Supply Chain Security Act (DSCSA) was enacted in 2013 to create one federal traceability system solution for prescription medications. DSCSA requires pharmacies to transact only with authorized trading partners as defined by the law.

So that distributors can stay ahead of market trends impacting their role within the supply chain, they are evolving in how they do business to ensure they can continue to deliver value now and into the future. There are five major trends that potentially impact how distributors work with the manufacturers and their customers.

Navigating new provider customers. Expect distributors to continue to invest in a diversity of services their provider customers and trading partners need to succeed. Major distributors will need to navigate these new provider customers and possess the infrastructure and expertise to supply new product launches to these entities.

Personalized care, which places an emphasis on wellness and individualized patient treatment, is a global industry projected to grow at a compound rate of 11% annually between 2017 and 2024. This presents significant opportunities for distributors offer manufacturers and providers a broader suite of services, including wellness products beyond pharmaceuticals along with patient-centric support and adherence programs.

Going straight to patients. Additionally, the industry has already started to pivot toward medicines designed and produced for specific patients, creating a need for direct-to-patient shipments.

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In Brief...

- ◆ **Walgreens Boots Alliance** announced that *Richard Ashworth* has been appointed to the position of President of Walgreens, which was previously held by WBA co-COO *Alex Gourlay*. Ashworth has been president of operations since 2017. As Walgreens president, he will oversee strategic development for the company as well as full responsibility for its leadership. Gourlay will focus more broadly on his role as co-COO.

- ◆ The **Healthcare Distribution Alliance (HDA)** announced that it has named *Chip Davis* president and CEO effective March of 2020. Davis will oversee the organization's day-to-day operations and work with the HDA board to set the strategic vision to guide the organization going forward. Davis was most recently president and CEO of the Association of Accessible Medicines.

- ◆ **AstraZeneca** announced the expansion of its facility in Sydney, Australia. The company pledged US\$133 million and has been pouring money into the site as demand for its respiratory meds has grown in China and elsewhere. The news follows closely the company's announcement of US\$520 million into R&D and manufacturing in France.

- ◆ **Bayer** announced that it will transform a large part of its

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IFPW Welcomes the Canadian Association for Pharmacy Distribution Management

IFPW is pleased to announce that the Canadian Association for Pharmacy Distribution Management (CAPDM) has joined the IFPW member family.

CAPDM represents Canada's pharmaceutical distributors who provide an indispensable service of supplying pharmacies, hospitals and clinics with life-saving medicines and healthcare products. They are the authoritative voice and advocates for Canada's pharmacy supply chain, and function as liaison with governments to help form regulations and best practices, as well as help set pharmacy supply chain standards in Canada.

CAPDM also works tirelessly as a driving force in developing a new framework to compensate for a changing regulatory landscape, increased operating costs, and shrinking revenues due to the rapid decrease in pharmaceutical product pricing. CAPDM is actively engaged with governments and stakeholders to find a path forward to sustain Canada's gold-standard pharmacy supply chain that Canadians can rely upon every day.

IFPW looks forward to working with CAPDM and hearing their unique perspectives on the wholesale distribution industry.

The Evolving Role (cont.)...

This is one of the next substantial opportunities for specialized logistics and commercialization services. Distributors are already working with select pharma partners to implement these strategies across multiple geographies. New approaches to cold chain supply, regulatory compliance and more will be necessary.

New technologies. Data privacy needs have expedited the implementation of emerging technologies such as blockchain and artificial intelligence (AI). These technologies set the stage for distributors to play a greater role in securing the supply chain, expanding patient access and improving health outcomes. Tools such as AI even accurately predict patients at risk of non-adherence, enabling clinical interventions before problems arise.

Working with new players. Distributors are also watching non-traditional competitors like Google, Apple and Amazon as they make their way into the healthcare arena. These new players cannot simply step in and replicate the complex role of a distributor with the relationships, adaptability and years' worth of experience that have enabled distributors to fill this role with great efficiency, security and in a cost-effective manner. However, distributors can leverage their resources and networks to work alongside these new players to increase patient access to innovative new products and delivery methods.

Evolving to create value. Finally, with continued focus on pharmaceutical list prices, future legislative policies and regulations have the potential to impact the entire healthcare supply chain. The fact is that patients everywhere are struggling to afford medications. Addressing this industry challenge will require concerted collaboration efforts. All stakeholders in the global supply chain will need to work together to provide the most value and effective solutions.

Ultimately, to remain relevant in a rapidly changing industry while continuing to provide unmatched value to both manufacturers and provider customers, distributors will need to stay flexible, agile and open to new thought processes needed for success.

Why Pharmacies Are About To Be Hit Hard By Disruption

(Source: An article by Enrique Dans for Forbes Magazine)

Pharmaceutical distribution varies from country to country, but all of them are subject to factors that make genuine competition in the sale of prescription drugs a complex matter. There is the need to verify that the patient requesting a given medicine has obtained the corresponding prescription from a doctor, as well as other aspects related to how the medicine is acquired, if it is totally or partially subsidized and by whom, as well as other issues. The retail pharmacy business can vary greatly from large drugstore chains to traditional pharmacies seen often in European countries. Many of these traditional pharmacies are owned by a qualified pharmacist with their regulated margins and who, until a few years ago, sold only pharmaceutical and related products.

Recent moves made by Amazon seem to predict significant disruption in the pharmaceutical sector. In June of 2018, the e-commerce giant acquired PillPack for just under US\$1 billion, resulting in tumbling stock prices of companies such as Walgreens, CVS, Boots and Rite Aid. PillPack, which had also previously worked with Walmart, was a little-known startup that had obtained a license to sell prescription drugs in all U.S. states. It was designed

to be digital in its operation, something quite unique to the retail pharmacy industry.

Digitizing this system is not a particularly complex process. It involves verifying the prescription and processing it properly. PillPack took the process one step further by profiling the customer, handling their inventory, grouping treatments to improve adherence and eliminate confusion. By managing margins and subsequently prices, it can offer many advantages to a behemoth such as Amazon. A visit to the pharmacy may seem quite routine, but the idea of placing an order over the internet is very appealing. PillPack now operates fully in the United States and has been introduced in Singapore, Taiwan, The UAE and the European Union.

The impending disruption through e-commerce options such as those offered by Amazon through PillPack will press forward, challenging the retail pharmacy industry to find ways to replicate and improve upon these digital processes that are currently in use at Amazon. Amazon's clear intention is to distribute prescription drugs and they are preparing the human resources and administrative procedures to assist in their success. An Amazon spokesperson said, "We are always considering ways to delight customers in all markets we serve."

In Brief (cont.)...

small molecule research unit in Berlin to **Nuvisan**, a Germany-based contract research and manufacturing organization, through a partnership announced in early February. The unit will serve as a base for a new center located on Bayer's research and development campus in Berlin. Bayer and Nuvisan said they will work together in building the new center. Transfer is expected in mid-2020. The partnership comes amid a wider restructuring of Bayer's R&D operations.

- ◆ Pharmaceutical manufacturer **Novartis** is collaborating with **Amazon Web Services (AWS)** to enhance its manufacturing and delivery operations for medicines. AWS is the world's most widely adopted cloud-based platform. The multi-year strategic collaboration will use AWS's cloud services and data analytics platform for the redevelopment of manufacturing, supply chain and delivery operations by building an enterprise-wide data and analytics platform. The artificial intelligence and machine learning services will increase the innovation and cost-effectiveness of Novartis at a global level.

- ◆ Drug pricing debate has dominated Washington for years, and now President *Donald Trump's* latest budget shows how his administration plans to approach the issue in an election year. The budget proposes some moderate reforms, including some that pharma might even support. Trump is also considering an executive action to force lower prices in *Medicare Part B*, one the industry would surely oppose.

- ◆ **Merck & Co.** announced it will spin off its women's health, biosimilar drugs and older products into a separate publicly traded company as it tightens its focus on growth drivers like cancer drug *Keytruda* and vaccines. The new company's assets currently make up around 15% of Merck's total sales and around half of its drugs that treat people. Merck will retain its animal health business, as well as drugs used for acute care in hospitals such as *Biridion*, which reverses the effects of anesthesia.

(Sources: BioPharma Dive, Company Press Releases, FiercePharma, GuruFocus and Yahoo Finance)