Logistic & Security Providers of the Healthcare Supply Chain

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#WIGDistrict2District
Healthcare Wholesale Distributors
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Healthcare Distribution Alliance (HDA)
Healthcare Distribution Alliance

HDA

- Founded in 1876 as the National Association of Wholesale Distributors
- Headquartered in Arlington, VA
- Represents 37 healthcare wholesale distributors

- **Each day** - member companies pick, pack, and distribute approximately **10 million** pharmaceutical and healthcare products to 180,000 licensed healthcare providers across the U.S.
THE ROLE OF A WHOLESALE DISTRIBUTOR
Pharmaceutical Distributors: A vital link in the healthcare supply chain

DISTRIBUTORS ARE SECURITY & LOGISTICS EXPERTS
A one-stop-shop for dispensing locations to acquire product from any properly licensed pharmaceutical manufacturer adding safety, efficiency and reliability to the healthcare supply chain.

More than 180,000 healthcare providers place orders for medicines with distributors.

Approximately 90% of distributors deliver essential prescriptions more than 5 days per week.
Supply Chain Without Pharmaceutical Distributors
Supply Chain With Pharmaceutical Distributors

On average, an HDA member purchases product from 1,400 manufacturers.
COVID RESPONSE

Wholesale distributors supporting supply chain sustainability during COVID-19
“The supply chain was resilient in responding to the pandemic, getting medicines safely and efficiently to patients with only minimal disruptions concentrated on COVID-19-related drugs.”

### Actions Taken to Respond to the Challenges

**Handling surges in demand of critical medicines**
- Demand volatility varied by medicine type; experimental COVID-19 treatments and COVID-19 ICU drugs had the greatest surges
- Pharmaceutical distributors managed high-demand product inventory through allocation programs

**Minimizing supply disruptions**
- Regular communication between partners, well-executed risk assessments, and the use of alternative shipping methods mitigated the risk of upstream disruptions, which were primarily driven by complications in shipping API from foreign countries

**Sustaining operations while preserving workforce safety**
- Companies leveraged prior emergency response expertise to get drugs safely to patients in need
- Organizations prioritized front-line worker safety and enacted robust business continuity plans to maintain operations

**Supporting the evolving public health agenda**
- Stakeholders in the pharmaceutical supply chain collaborated with federal, state and local governments to comply with emerging and shifting health regulations and ensure drug availability

### Performance Results

**Balancing supply and demand**
- The supply chain was largely able to balance supply and demand with disruption concentrated on COVID-19 related medicines

**Prioritizing critical needs**
- While hospitals did face some shortages of critical medicines, allocation programs and fast replenishment limited their lasting effects

**Adapting to change**
- While consumer purchasing behaviors changed during the pandemic, increasingly positive consumer sentiment reinforces that the biopharma industry adapted to change well

**Investing in opportunities**
- The industry invested in solutions to curve the challenges of the pandemic while also providing support to the community

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Source: Deloitte Analysis
VALUE OF DISTRIBUTION

Wholesale Distributors Deliver Savings and Efficiencies in the Healthcare Ecosystem
Distributors provide between $33 and $53 billion in savings each year to the healthcare supply chain.

**Providing core benefits to the pharmaceutical supply chain by:**
- Consolidating orders
- Delivering products
- Processing returns
- Maintaining infrastructure to manage customer relationships

**Amplifying value across the healthcare ecosystem by:**
- Increasing operational efficiency
- Providing inventory management
- Bearing financial risk

**Delivering Savings & Efficiencies**
Wholesale distributors purchase pharmaceuticals from manufacturers based on the Wholesale Acquisition Cost ("WAC").

Manufacturers set WAC; distributors are not privy to how WAC is set.

Distributors charge manufacturers distribution fees related to services provided. These fees are product specific and not passed down to the subsequent purchaser.

Distributors typically sell branded drugs based on WAC or often WAC – a %. Distributors may purchase generic drugs based on WAC, but can use market power to negotiate keeping generic prices low.

Distributors do not have insight into pricing of dispensable units or the prices that consumers pay at the pharmacy counter.

Distributors are not on the “pay side” of the supply chain, this is the role of health insurers and pharmacy benefit managers (PBMs).

*Fee-For-Service Model
*High-Volume, Low Margin
Supply Chain Profits: Example

$300 Brand Name Drug

Plan sponsor (Health insurer or employer): -$185

Patient Out-of-pocket: -$35

Pharmacy: $16

Wholesaler: $3

Drugmaker: $137

Pharmacy-benefit manager: $18

Helps design benefit plans and negotiates rebates from drugmakers, sharing them with other middlemen.

*No one pays the full list price because of rebates and incentives that are negotiated by the pharmacy benefit manager and paid out by the drugmaker.

**The amount of the payments don’t add up to the gross profits in part because of various markups and discounts taken during the filling of a prescription.

Sources: Pembroke Consulting; WSJ staff reports

THE WALL STREET JOURNAL
Supply Chain Profits: Example

$100 Generic Drug

Source: Alliance for Accessible Medicine (AAM)
Mitigating Risk to Secure the U.S. Supply Chain
&
Ensure Patient Safety
The Pharmaceutical Cargo Security Coalition (PCSC) was founded by an ad hoc group of industry security professionals in 2006. In 2017, PCSC became a service offering of HDA.

Today, PCSC has over 2,000 members, representing interests within pharmaceutical manufacturing, distributing, and retail sales business models. PCSC also engages supporting entities including:

- Transportation
- Storage
- Cargo Insurance
- Freight Brokerage
- Local, State and Federal Law Enforcement
- State and Federal Regulatory Agencies
Drug Supply Chain Security: What is the Issue?

• The pharmaceutical and healthcare industry is unique
  – Shipments contain vital healthcare products
  – Brand integrity is critical (customer safety and product confidence)
  – Issues facing the supply chain include:
    • Theft
    • Improper handling of product after theft (temp. control);
    • Expired product that has been re-labeled and re-introduced into legitimate supply chain; and
    • Counterfeit product
  • Historically, tracking and tracing prescription drugs has relied on patchwork of state laws and regulations that compromised patient safety
Distributors Mitigate Risk By Asking...

1. Where are the products ultimately destined to go?

2. What are the means by which that product is going to get there?

3. Who are the services providers that will be involved in getting the product there?

4. How much control/influence do you have over the selection, as well as conduct, of those service providers?

5. What are the “lanes” that will be taken to get the product to where it needs to go?

6. What is the level of risk associated with those lanes?

7. Where are all the “touch points” along those paths - and who is it that is doing the “touching”?

8. Does your product stop (for any reason) along that path and, if so, for how long and under what conditions?

9. Is there more than just one person who would know the answers to these questions?
Drug Supply Chain Security: What Has Changed?

- **Federal Legislation**
  - Drug Supply Chain Security Act (DSCSA)

- **Education & Intelligence**
  - Better intelligence sharing
  - Ensuring those within the pharmaceutical supply chain of its unique complexities

- **Improved Technology**
  - More effective use of shipment monitoring and facility security technology

- **Ramped up Security & Law Enforcement**
  - Better screening of supporting service providers – transportation and storage
  - Stiffer penalties for theft of pharmaceutical goods
Key Legislative Issues

• **Drug Price Transparency**
  • Prescription Drug Affordability Boards
  • Drug Price Data Reporting

• **Drug Price Affordability**
  • Canadian/International Reference Price Caps
  • Insulin Price Caps
  • Canadian Prescription Drug Importation

• **Pharmacy Services Administrative Organizations (PSAO) Regulation**

• **Drug Supply Chain Security Act (DSCSA) and Licensure**