

The Pharmaceutical Supply Chain

Ensuring a Robust & Efficient Product Distribution Arm for America's Healthcare Ecosystem

Will Dane
Director, State Government Affairs
Healthcare Distribution Alliance (HDA)

(571) 287-3020
wdane@hda.org

About the Healthcare Distribution Alliance (HDA)

- The Healthcare Distribution Alliance (HDA) is the national organization representing primary pharmaceutical distributors — the vital link between the nation’s pharmaceutical manufacturers and pharmacies, hospitals, long-term care facilities, clinics and others nationwide.
- Since 1876, HDA has helped members navigate regulations and innovations to get the right medicines to the right patients at the right time, safely and efficiently.
- HDA’s members include **35** national, regional and specialty primary distribution companies constantly envisioning new ways to move and secure the nation’s medicines, all while protecting patient safety.



Safety

Distributors continuously monitor, protect and enhance the security of the pharmaceutical supply chain to ensure medicines are safely stored and efficiently delivered.



Efficiency

Every day, distributors deliver millions of prescription medicines and healthcare products to hundreds of thousands of providers across the country.



Technology

Distributors go to great lengths to deliver a wide range of medicines where and when they are needed — regardless of the circumstances.

Pharmaceutical Distributors Delivering Services Nationwide

VALUE-ADDED SERVICES TO ENSURE
THE SAFE AND TIMELY DELIVERY OF



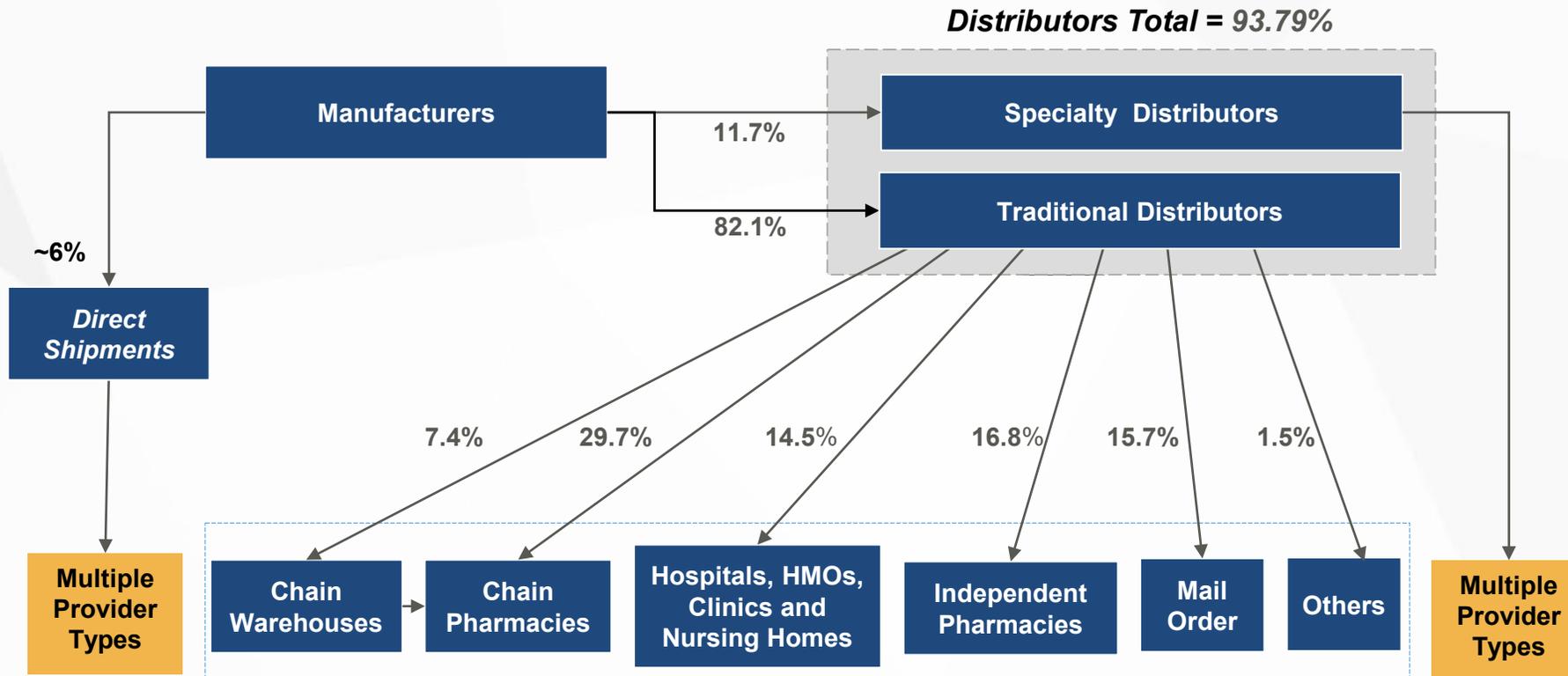
\$ PROVIDE BETWEEN
\$33 AND \$53 BILLION
IN SAVINGS ANNUALLY.

AND EACH BUSINESS DAY, NATIONAL AND SPECIALTY DISTRIBUTORS DELIVER

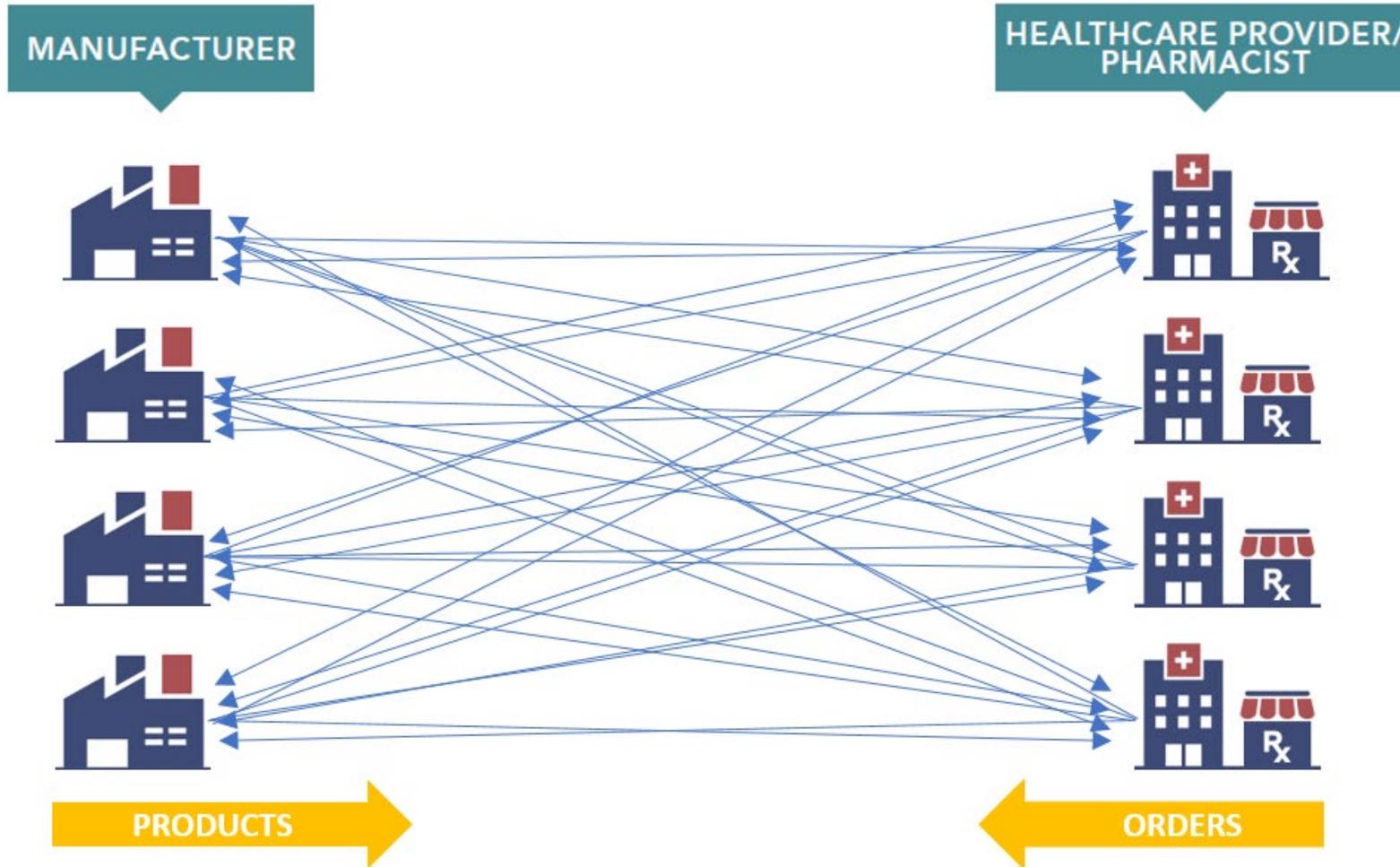
15 MILLION PRESCRIPTION MEDICINES
& HEALTHCARE PRODUCTS

TO HEALTHCARE PROVIDERS AND PHARMACIES IN ALL 50 STATES

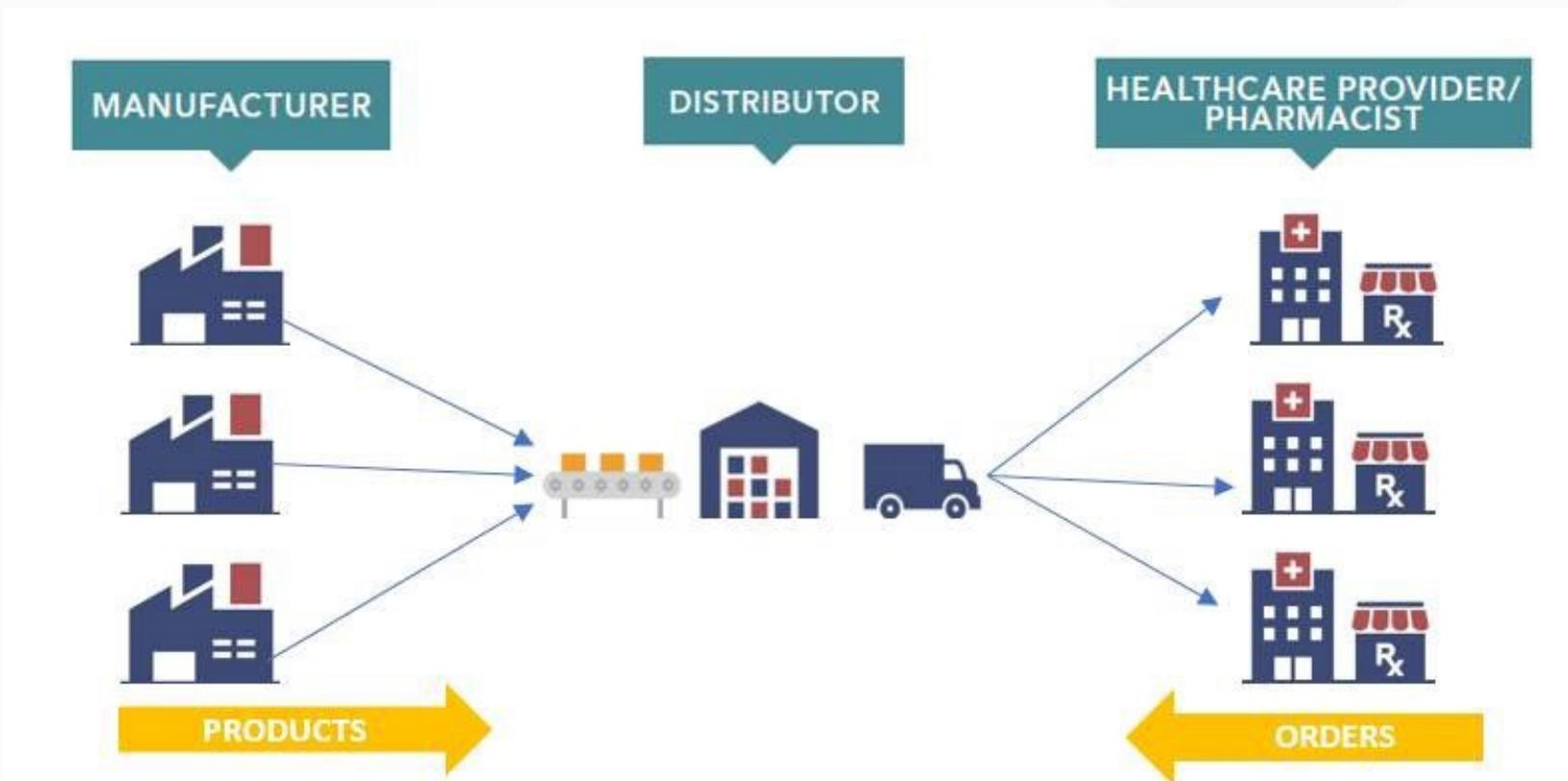
Pharmaceutical Distributors Delivering Services Nationwide



Healthcare Supply Chain *without Pharmaceutical Distributors*

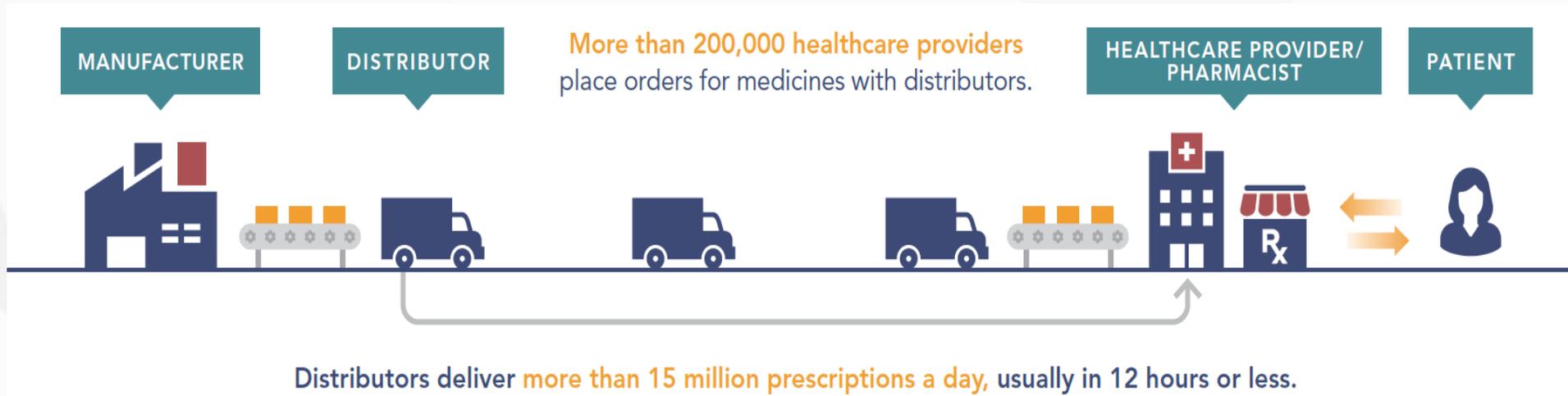


Healthcare Supply Chain *with Pharmaceutical Distributors*



Pharmaceutical Distributors

A vital link in the healthcare supply chain



DISTRIBUTORS ARE LOGISTICS EXPERTS.

Pharmaceutical distributors do not manufacture, prescribe or promote medicines, and do not have insight into specific prescriptions or prices at the pharmacy counter.

Distributors are not involved in the “payment side” of the supply chain; rather, we are on the “product delivery” side of the supply chain.

Delivering Savings & Efficiencies



Providing core benefits to the pharmaceutical supply chain by:

- Consolidating Orders
- Coordinating Rapid Product Delivery
- Processing Returns of Unused or Expired Products
- Maintaining Infrastructure to Manage Customer Relationships by Safely Storing Products



Amplifying value across the healthcare ecosystem by:

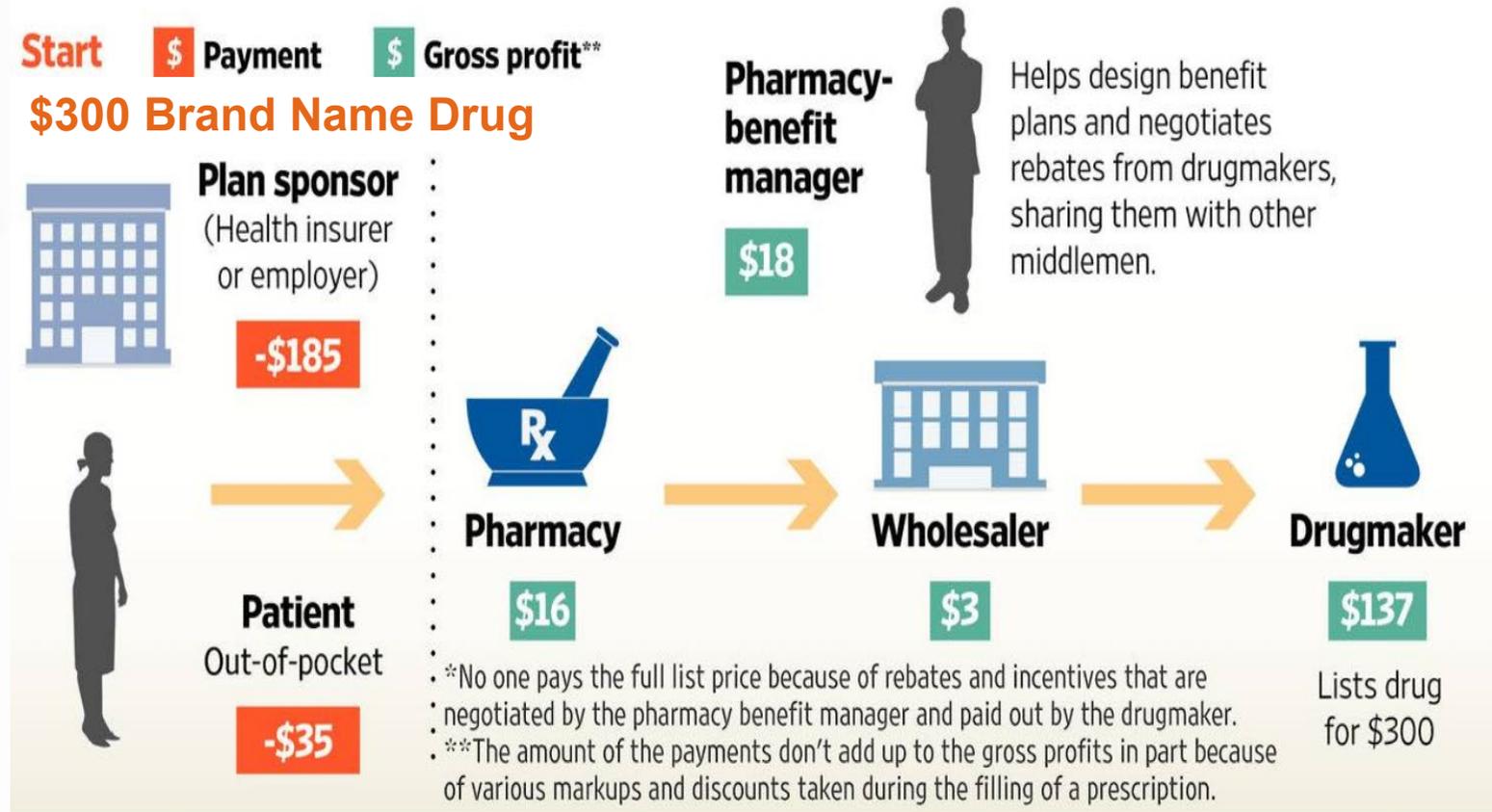
- Increasing Operational Efficiency
- Providing Inventory Management to Mitigate Supply Chain Disruptions
- Bearing the Financial Risk

Summary of Distributors' Role

- Pharmaceutical wholesale distributors purchase healthcare products from manufacturers based on the Wholesale Acquisition Cost, or WAC.
 - Manufacturers set the WAC – distributors have no input into manufacturers' WAC.
- Distributors charge manufacturers fees related to their services, which **are not passed on to the customer** nor do they **impact patients' cost**.
- Distributors sell brand medications to providers based on the WAC, or WAC minus a %.
- For generic drugs, since they are commodities, distributors can negotiate prices typically below manufacturer WACs in exchange for sourcing certain generic drugs solely from one source or from a few specified sources.

Example of Supply Chain Profits

- Pharmaceutical wholesale distributors primarily utilize a **fee-for-service model**.
- The pharmaceutical distribution model is a high value, high volume but low profit margin industry. A recent analysis from Berkeley Research Group (BRG) shows the profit margin for a wholesaler is **approximately one percent** of the cost of brand medicines.
- These findings are consistent with other reports, including analyses done by the *USC*, *PhRMA*, *Wall Street Journal* and *Kaiser Health News*.



Sources: Pembroke Consulting; WSJ staff reports

THE WALL STREET JOURNAL.

Pharmacy Services Administrative Organizations (PSAOs)

- In addition to the many valuable services distributors provide to their customers, some wholesalers offer their independent community pharmacy and small chain pharmacy customers voluntary PSAO service options.
- HDA currently convenes a diverse group of PSAO stakeholders exclusively focused on the PSAO industry policy landscape.

Not all PSAOs are wholesale distributor owned, and not all wholesalers operate a PSAO business.



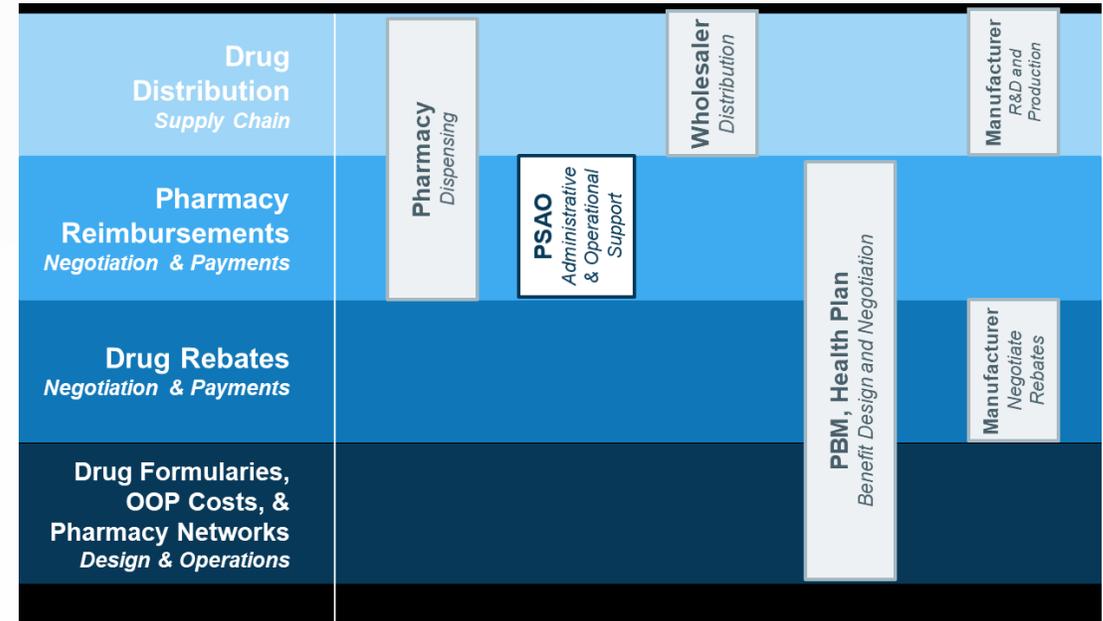
What is a PSAO?

PSAOs are service organizations that provide back-office support to independent pharmacies and small chains.

These services include, but are not limited to:

- Evaluation and navigation of Pharmacy Benefit Manager (PBM) contracts;
- Help desk to assist pharmacies with communications with the PBMs;
- Credentialing and compliance assistance;
- Central payment facilitation;
- Claims reconciliation;
- Performance tracking; and,
- PBM audit support.

For the services provided, PSAOs charge a flat monthly fee.



PSAOs represent their independent pharmacies for inclusion in a PBM or health plan's network and do not play a role in determining either the actual amount of cost-sharing or whether utilization management tools would be used (this is established by health plans and PBMs).

Who are PSAOs?

- In a 2013 report, **the Government Accountability Office (GAO) identified 22 PSAOs** owned by a mix of wholesalers, member pharmacies (of the PSAO), group purchasing organizations, and other private entities
- Today it is estimated there are **fewer than 10 PSAOs** in operation.
- One analysis estimates that the six largest PSAOs in 2021 ranged from having **1,700 to 6,800 participating independent pharmacies each**, with a median of 4,250 per PSAO.

In Comparison:

- The percent of total U.S. prescription claims managed by the **six largest PBMs in 2018 was 95 percent**.
- The **top three PBMs control 77 percent** of the prescription market.
- The **second-largest PBM accounts for approximately 90 million plan members** and controlled 68,000+ pharmacies.

Scope of PSAO Services

Community pharmacies and/or small chains often do not have the infrastructure and expertise of their larger chain competitors. Some choose to contract with a PSAO to assist with managing their PBM interactions and “back-office” administrative duties.

Services Provided By PSAOs:	PSAOs Do Not:
<p>Managing insurer and PBM relationships, including fielding questions about claims, contracting, reimbursement, and payer/PBM audits</p> <p>Ensuring pharmacy clients understand their rights and responsibilities regarding responding to or appealing audit findings</p> <p>Assisting with regulation compliance and credentialing</p> <p>Aggregating claims to a single payment from a third-party payer on behalf of a PSAO's member pharmacies; individual payments are then disbursed to a PSAO's members</p> <p>Managing and analyzing pharmacies' payment and drug dispensing data to identify claims that have not been paid or were paid incorrectly</p>	<p>Dictate reimbursement rates</p> <p>Set Maximum Allowable Cost (MAC) rates</p> <p>Determine formulary listings or patient coverage</p> <p>Retain any portion of pharmacy reimbursement</p> <p>Create Direct and Indirect Remuneration (DIR)* fees — or retain any portion of DIR or dispensing fees</p> <p>Accept all contract terms</p> <p>Create networks or plan structures</p> <p><i>*In fact, PSAOs provide tools to help improve patient outcomes, which can in turn reduce DIR fees for pharmacies.</i></p>

National Landscape

- Inaccurate national campaign indicating that PSAOs are equalizers in the pharmacy/insurer-PBM relationship.
- Inaccurate perception that wholesaler-owned PSAOs have greater negotiation power.
- State-proposed legislation blur lines between PSAOs and other supply chain entities, such as insurers and PBMs.

Reality

- Government and supply chain studies note that PSAOs — including those operated by wholesale distributors — do not level the playing field between PSAOs and PBMs. All face difficulties in achieving fair contract terms.
- PSAOs are administratively focused entities operating on a flat membership fee and do not impact patient out of pocket costs, formulary design, etc.
- PSAOs should not be treated as insurers or PBMs.

To Summarize

- PSAOs are administrative service entities that **charge a transparent fee** for their services.
- These entities assist with executing contracts, they **do not** negotiate with manufacturers, determine medication costs and **do not** sell medications to pharmacies.
- Pharmacies engage PSAOs **to provide administrative support and expertise** so pharmacists can focus on serving their patients.

For More Information:

We are here to help! Please reach out with any questions or for further education.

Will Dane, wdane@hda.org or (571) 287-3020