

The Pfizer ultimatum

Is this the start of the end for the medicines wholesaling model in Australia?

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Pharmacists will now (from 1 February 2011) only be able to purchase Pfizer prescription products from Pfizer via DHL.

Pfizer Australia has the right to make this corporate decision and appears reasonable when considering its desire to defend revenue streams from looming patent expiries of its blockbuster medicines, such as Lipitor.

However, a helicopter view of the move brings sharp focus to implications for community pharmacy businesses and the potential for widespread industry structural ramifications.

IMMEDIATE IMPLICATIONS

The immediate implications of Pfizer's decision will likely be a reduction in pharmacy trading terms by the wholesalers and probably lower service standards. I estimate a pharmacy turning over about \$3m will lose in the order of \$12,000, some say more, purely from lost wholesaler trading terms resulting from the F2 price cuts from 1 February and the new Pfizer distribution decision (this excludes the Pfizer-announced deferred rebate), compared with pre 1 February 2011. There may also be a cashflow impact on some pharmacies resulting from less flexible payment terms.

But to have a say in the distribution of medicines over the longer term, community pharmacy must enter into an industry dialogue about what it wants from its system of supply, what it can afford and what is best for the patient.

AN EVOLVING MODEL?

For years Australian pharmacies have come to rely on the existing wholesaler model of distribution. This model has ensured a competitive customer-focused operation that delivers every PBS

medicine, every day to every pharmacy. It allows every pharmacy to compete and prosper while ensuring the highest level of care for patients.

But the Pfizer move has firmly jammed the thin edge of the wedge into the prospect of this system changing to a logistics-driven model.

This model is not new to many other markets for medicines around the world. In such markets, large drug companies use logistics suppliers to deliver their products to pharmacies on timeframes that suit them, at prices they determine and with no guarantee of service levels, especially to rural, regional or remote locations. What's more, there are few consequences if they fail to achieve any of the above—at least, not for them.

Such a situation may happen here if the Pfizer move is viewed a success by other big drug companies which are watching to see how pharmacy owners and the industry in general respond to this situation.

If this is the sort of model the industry wants, then I imagine the wholesalers will simply modify their operations to align themselves with market demands. Symbion, for example, has a track record of doing so through its parent company, Zuellig. It operates as a distributor throughout Asia, meaning Symbion could do the same here—but such a move would have significant consequences.

Therefore, it is important that the pharmacy industry, and owners in particular, fully understand the long-term ramifications of moving to a distribution model that is focused on the supplier instead of the pharmacy as the end customer. In a logistics world, the supplier becomes the customer instead of the pharmacy owner who is the customer today.

It is not an exaggeration to say that the current wholesale system—which

has successfully ensured delivery of affordable and accessible medicines to all Australians—is at risk of collapse if another big drug company follows Pfizer Australia's move to an exclusive distribution model.

But the Australian pharmacy scene would have to adapt significantly and quickly to a logistics/direct supply model.

There is an absence of major dominating groups found in countries like UK and USA due to regulation and the highly disparate nature of ownership. These larger groups help iron out the 'bumps' resulting from direct distribution model and help deliver to their members many of the services that community pharmacies in Australia currently receive from their wholesalers. Such services include the management of pharmacy brands, consumer advertising, systems support, payroll processing, merchandise services, pharmacy funding facilitation, property negotiation and refit services, staff training, general business strategy and retailing advice.

NATIONAL MEDICINES DISTRIBUTION POLICY

It has been government policy—and that of the Pharmacy Guild—to maintain a health system that guarantees both the affordability and accessibility of medicines for all Australians, no matter where they live.

That promise has been successfully delivered through the Pharmaceutical Benefits Scheme (PBS) and the Community Service Obligation (CSO), both of which are funded by the Commonwealth.

This model has ensured a competitive customer-focused operation that delivers every PBS medicine, every day to every pharmacy. It allows every pharmacy to compete and prosper while ensuring the highest level of care for patients.

SERVICE STANDARDS

Under the existing model, the three national wholesalers compete aggressively for pharmacy business. As signatories to the CSO, they are required to meet minimum standards that ensure the safe, 24-hour delivery of medicines throughout Australia. If one of the wholesalers is unable to supply a product, the pharmacy can order it from their competitor.

These CSO guarantees are not in place in a supplier-centric exclusive distribution model. If the direct supplier has any supply issues, there are no alternatives.

Furthermore, it's very unlikely that the types of relationships that currently exist between pharmacy staff and the wholesaler delivery team can exist under the supplier model. The professional and helpful intimacy of those relationships will be gone forever.

PRICING AND TRADING TERMS

Under the current system, pharmacies negotiate with the wholesalers for competitive trading terms. In a direct distribution model, there will only be one supplier of each product—the manufacturer itself. There will be no alternative and, therefore, no leverage.

Payment terms will also be far more limited under a direct distribution model. While wholesalers don't provide extended credit under normal circumstances, their relationships can accommodate individual pharmacies during tough times or times of high cash need such as a refit or new pharmacy purchase.

In this new world, if payments are not received, will supply be stopped? The wholesalers understand pharmacies better than that.

Perhaps most importantly, a direct supplier-centric model favours the emerging large chain pharmacies and may play into the hands of the supermarkets.

INCREASED BUSINESS COMPLEXITY

Logistics-driven distribution also

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