

GIRP's contributions to the Consultation of the Expert Panel on effective ways of investing in Health (EXPH)

Introduction

GIRP, the European Association of Pharmaceutical Full-line Wholesalers welcomes the opportunity to provide a contribution to the Consultation of the Expert Panel on effective ways of investing in Health (EXPH).

By way of introduction, the activity of pharmaceutical full-line wholesaling as part of the legitimate supply chain consists of the purchase, warehousing, storage, order preparation and delivery of medicines. Pharmaceutical full-line wholesalers carry and distribute the complete assortment of products in range and depth within the framework set by the authorities which may include public service obligation and the market to meet the needs of those with whom they have normal business relations.

In addition to delivering all medicines in their geographical area of activity on the same day/within less than 24 hours, pharmaceutical full-line wholesalers provide working capital and extended financing services, funding of stock and receivables of pharmacies and health care professionals.

Pharmaceutical full-line wholesalers buy medicines required by their customers from the pharmaceutical industry, store them, and deliver them to pharmacies, hospitals and other health care professionals just in time, thereby ensuring through their buffer stock holding function the permanent access to medicines by patients and the pre-financing of the health care system. In addition, the pharmaceutical full-line wholesalers assume the full financial risk on behalf of their clients. Due to the existing public service obligations or functions, the ownership of goods is a responsibility of the pharmaceutical full-line wholesalers, as they must have sufficient stock on hold, must deliver on the same day/within less than 24 hours, must cover a certain geographic area and finally have to guarantee neutrality/independence regarding customers and suppliers. The funding and holding of buffer stocks and the resulting working capital, order-to-cash cycle and logistics ownership that goes with wholesaling services are vital to the effective and efficient functioning of the healthcare industry in Europe. Wholesale services can only be maintained in this way through significant and continuous infrastructural investment. The storage and delivery of pharmaceuticals within a framework that ensures above everything else safety, is also of crucial importance. Therefore, the stock which is held by wholesalers reduces transportation costs and the size of stock necessary within the industry and especially in community pharmacies.

Value-added services

The contribution of pharmaceutical full-line wholesaling is much more than operating as suppliers to pharmacies, healthcare institutions and healthcare professionals. Pharmaceutical full-line wholesalers are an integral part of the medicines supply chain and hence the healthcare system as a whole.

Many services that integrated full-line wholesalers provide to pharmaceutical manufacturers and pharmacists are invisible to the patient, but complement the distribution of medicines, such as documentation and scientific information, reverse logistics, systems for stock management, marketing support, pharmaceutical databases or IT management systems and monitoring. Full-line wholesalers therefore add value by undertaking services that are non-core to our supply chain partners, but that are of tremendous benefit, enabling them to focus on the patient.

Integrated wholesalers have both the scope and the scale, in terms of product assortment and volume, to develop and deliver products and services for combination therapies involving pharmaceuticals and medical devices. Clients include pharmacists and manufacturers, but also patients (e.g. homecare delivery in countries where the appropriate legal frameworks are in place). Moreover, full-line wholesalers have the scope and the knowledge base to support pharmacists in developing various integrated care programmes to improve patient adherence to medication. In the event of any harmful interactions, full-line wholesalers can support pharmacies in quickly shifting to an alternative medicine, provided that they are given the opportunity to stock and deliver a full range of medicines. Furthermore, wholesalers offer service such as mHealth and eHealth solutions, medication reminder systems (SMS,

e-mail or telephone support for patients), medication reminder boxes, call centre assistance and many more.

Many other services have been added to pharmaceutical wholesaling as part of an integrated activity, including customised patient care (within the framework of the relevant national regulatory system) in order to meet the unique needs of individual patients. Examples comprise of the provision of self-diagnostics and customised drug delivery, monitoring and nursing services. Full-line wholesalers and pharmacists also work together in steering volume and assortment in an optimised way. Downstream activities include repackaging medicines into weekly doses to meet patients' needs in terms of controlled and timely intake and cost effectiveness. Logistics innovations can support compliance and therefore contribute to better health outcomes. Taking the above points into consideration GIRP would strongly urge the EXPH not to overlook these important value contributions provided by full-line wholesalers to the healthcare supply chain in all EU member states. Furthermore, due to our unique position in the supply chain situated between manufacturers and pharmacists, investments decisions resulting in changes to any of these two groups may impact full-line wholesaler's ability to continue to deliver the value propositions outlined above.

Procurement and competitiveness

In some EU Member States healthcare insurers have moved towards tendering procedures for the supply of certain medicines containing off-patent molecules. An increasing number of such medicines are subject to these procedures while at the same time other Member States' healthcare insurers are considering similar moves.

We believe that this trend has potentially significant implications for the entire supply chain in mid and long-term. In particular, pharmaceutical manufacturers fiercely compete with one another by radically dropping their prices to secure contracts with health insurers. In the short-term, generic tendering procedures can certainly force further price decreases and contribute to alleviating some of Europe's overburdened healthcare systems.

However, and as stated by the expert panel, for the sustainability of our healthcare system it is critical to carefully analyze the mid and long-term consequences to avoid major irreversible structural changes of the pharmaceutical market. Due to the 'winner takes all' nature of the tendering processes, manufacturers underbid themselves to the point where the successful bid price may not even be enough to cover the production costs of the medicines involved. In the Netherlands some tendering procedure led to an overnight, on average 75% price decrease for some tendered products, while others experienced a 95% price reduction. Some manufacturers, in their effort to submit a very competitive bid, underestimate the rapid rise in demand for the medicines involved leading to a sudden shortage and supply problems, while other manufacturers not successful in the tendering process experience stockpiling problems due to the fact that the demand for their products has suddenly stopped. Furthermore, unsuccessful manufacturers cannot keep stock levels of the products which have fallen under the tendering procedure for long periods of time, due to financial constraints and the shelf-life risks. Therefore they have to discontinue the products from the market for which demand has ceased. The lack of incentives for companies to remain on tender driven markets will reduce the number of manufacturers and ultimately the availability of certain medicines. This means a mid and long term decline in competition between companies leading to monopolistic conditions that could drive prices higher.

GIRP also highlights that healthcare insurers, as contracting authorities, completely neglect within their tendering procedures the distribution aspects of the tendered products and the impact the awarded contract has on the supply chain, which ultimately has to ensure that the successful products reach patients. Subsequently full-line wholesalers have to constantly reorganize their stock, handle returns from pharmacies and cope with availability issues in order to adapt to abrupt changes in demand caused by tendering procedures without any compensation for the additional workload. This involves not only an immense logistical effort, but also means that full-line wholesalers are faced with further financial risks. This challenges the public service function of pharmaceutical full-line wholesalers who ensure the adequate and continuous supply to pharmacies with all medicines needed by patients.

GIRP stresses that full-line wholesalers are neutral towards manufacturers and therefore enable the market access of small and medium-sized manufacturers, which boosts the price and quality

competition on the European medicines market, benefiting all healthcare systems. Logistics innovation can support competition.

Ensuring long term sector sustainability

Finally, we would like to stress that the constant strive in Europe towards the lowest medicines price or race to the bottom, like any deflationary policy, is not necessarily a healthcare development and is very questionable in terms of medium and long term competitiveness in the sector.

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