
DRUG BENEFIT NEWS

In Their Own Words: Changes Are in Store for PBM/Wholesaler Deals

The following interview is part of an occasional DBN series that examines hot-button pharmacy benefit issues through the words of the industry's thought leaders. To suggest a topic and commentator, contact Renée Frojo at rfrojo@aispub.com.

DBN caught up with Adam J. Fein, Ph.D, to get his thoughts on how industry trends will affect the way PBMs do business with wholesalers in the coming years. As president of Pembroke Consulting, Inc., Fein is an expert in pharmacy economics and the pharmaceutical supply chain. He recently wrote *The 2010-11 Economic Report on Pharmaceutical Wholesalers* to help pharmacy buyers improve their ability to negotiate and/or collaborate successfully with wholesalers. He also is the author of the widely read blog DrugChannels.net.

DBN: How is the pharmaceutical wholesalers' role in the pharmacy/PBM relationship changing? Why is this relationship significant?

Fein: Drug wholesalers have a complex relationship with PBMs. They are vendors that supply the majority of brand-name drugs purchased by a PBM's mail-order pharmacy. At the same time, wholesalers own and operate organizations that help retail pharmacies negotiate with PBMs. Wholesalers and PBMs are also on a collision course over the distribution channels for specialty drugs.

For example, drug wholesalers support pharmacies through pharmacy services administration organizations (PSAOs), which negotiate and administer contracts between PBMs and independent pharmacies. About 13,500 independent pharmacies participate in the five largest PSAOs offered by drug wholesalers. PSAOs try to leverage the group's collective influence to increase reimbursement rates relative to contracts negotiated between a single pharmacy and a PBM.

Wholesaler ownership provides a negotiating advantage for independent pharmacies. Some pharmacy owners complain that contracts with third-party payers are "take it or leave it" for an independent pharmacy. However, this claim does not seem accurate given the size of the typical PSAO network as well

as ownership of PSAOs by large, multi-billion-dollar wholesalers.

DBN: What are some of the key industry trends that will shape how PBMs do business with wholesalers in 2011? What are some ways in which pharmacy benefit executives can better negotiate with pharmaceutical wholesalers?

Fein: Wholesalers are economically necessary for PBM mail-order pharmacies because of manufacturers' current sales strategies. Using a wholesaler allows the PBM to have lower inventory levels and maximize cash flow.

There is one important distinction between a large mail pharmacy and a large chain pharmacy. Wholesalers act as gatekeepers to the commercial operations and customer service functions at brand-name manufacturers for PBMs. In contrast, national and larger regional retail pharmacy chains have dedicated trade account representatives from a brand-name manufacturer. The chains get direct access to a manufacturer's operations or customer-service support. PBMs need to understand the underlying economics of a drug wholesaler's business to negotiate the best terms.

DBN: Why are many large mail-order pharmacies still buying brand drugs from wholesalers?

Fein: The largest chain and mail-order pharmacies purchase brand-name drugs — but not generics — via a drug wholesaler rather than buying directly from a manufacturer. Due to the unique pricing structure for brand-name drugs, large pharmacies can buy brand-name drugs at lower prices from the wholesaler than they can when buying directly from the manufacturer. AmerisourceBergen supplies the mail pharmacies of Medco [Health Solutions]; McKesson supplies the mail pharmacies of CVS Caremark, and Cardinal Health supplies the mail pharmacies of Express Scripts.

In contrast, the largest chain and mail-order pharmacies use their negotiating power and in-house warehousing capabilities to bypass wholesaler intermediaries and buy directly from generic manufacturers.

The advantage of buying from wholesalers would be effectively eliminated if pharmaceutical manufacturers ever erased class-of-trade pricing distinctions for mail-order pharmacies. The health care reform legislation provides a way for manufacturers to sell directly to mail-order pharmacies at lower prices, but many manufacturers seem reluctant to disrupt the current system.

Specialty Drugs May Drive Wedge

DBN: *What do pharmacy benefit executives need to know about the different channels for specialty drugs?*

Fein: Wholesalers and PBMs will increasingly be at odds over specialty drugs.

The diversity of payment and administration options for specialty drugs creates a confusing and often overlapping set of channels to market. Drug wholesalers and specialty distributors play the biggest role in the distribution of specialty drugs to health care providers. Wholesalers play a more limited role in the distribution of self-administered specialty products to the specialty pharmacies owned by PBMs.

The complex channels for specialty drugs make it hard for payers to get full visibility on specialty drug

spending or to manage drug utilization effectively. In response, some PBMs are developing services that shift responsibility for specialty drug management from the medical benefit to the pharmacy benefit. If successful, these programs would create conflict between wholesalers and PBMs by reducing the influence of physicians in the purchasing decision and diminishing the importance of specialty distribution channels.

PBM executives should also recognize that wholesalers are staking out a powerful position in the channels for oncology drugs. As with smaller retail customers, drug wholesalers provide strong support for community-based physician practices, most significantly through ownership of the largest oncology GPOs [e.g., group purchasing organizations] for physician practices. These intertwined relationships give wholesalers a lot more control and an incentive to maintain the existing specialty channels. ♦

Contact Fein at afein@pembrokeconsulting.com. His report, *The 2010-11 Economic Report on Pharmaceutical Wholesalers*, is available for download at pembrokeconsulting.com/wholesale.html.