Wholesale Distribution of Generic Drugs: A Shifting Landscape

Among the challenges faced by the generic industry is the trend of wholesaler and pharmacy partnerships, alignment and amassing of scale. McKesson and Rite Aid, AmerisourceBergen and Walgreens, and Cardinal Health and CVS are among the generic purchasing partnerships that have shaped the generic drug distribution channel. These partnerships increase the purchasing power of both wholesaler and retailer, and squeeze price discounts at least two to five percent, putting increased pressure on generic manufacturers.[1]

Leading generic companies will need to think differently about the market. Offering unique value-added services, broadening drug and service portfolios, and ensuring reliable volume supply are critical strategies for maintaining profits and high quality affordable healthcare in light of this challenge.

Operations Improvement

Generic manufacturers will need to offer competitive drug prices to remain attractive to wholesaler and pharmacy partners. To manage these pressures, they will have to find ways to decrease production costs, optimize manufacturing and achieve operational efficiencies.

Fortunately, there is opportunity for improvement and cost savings. On average, generic and branded pharmaceutical companies hold over 130 days of inventory, with top players holding around 100 days. To become more efficient, companies may want to adopt an end-to-end inventory optimization strategy as opposed to the more common local inventory model. With a holistic view of inventory, end-to-end optimization allows companies to better manage supply chain variability and analyze product decisions.[2] The supply chain sector accounts for 25 percent of pharmaceutical costs, a total of $230 billion annually. This means that the smallest improvement could make a big difference in savings.[3]

Another opportunity comes in managing the entire supply chain as a network, with the agility and flexibility to react quickly to cost saving opportunities and market demand. Generics companies should develop a supply chain strategy that prioritizes

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advances in technology transfer to best leverage clusters of technology. This strategy will also allow for faster realignment in manufacturing capacity post mergers and acquisitions.

Branding

Wholesalers and pharmacies have increased their negotiating power through consolidation. Generic companies will need to consider inventive ways to maintain consumer demand for their product and ensure that pharmacies have a place for them on the shelves. Some pharmacies, such as Rite Aid, Boots Group and Almus, started introducing their own private label generic drugs, allowing the pharmacy and wholesaler partners to gain influence and market share, putting further pressure on generic manufacturers.

So, how can manufacturers differentiate their generic products? Companies will first need to understand their consumers and competitors, as well as the wholesalers and pharmacies with which they are working. Next, they should decide on a strategy and develop marketing and branding guidelines specific to each market or segment.

Strategies can include product and service differentiation. For instance, generic companies can offer educational materials through their company website or that complement a drug. A company website that enhances ordering ease can also add value. Product differentiation, such as unique packaging styles or improved product features can also improve the perception of the brand. For example, an enhanced generic version of Johnson & Johnson's Duragesic patch was better designed to reduce leakage experienced in the original product.

Generic manufacturers should also think about how their product is viewed outside of the US. Many drug companies are focusing on Europe, Asia and Latin America, where they can offer low price, low profile drugs to consumers. A trusted local or foreign drug maker's name or logo is often seen as a sign of authenticity and quality, so consumers who can afford it are often willing to pay a premium for these generic products.

Outsourcing

To remain relevant to wholesalers and retailers, generic manufacturers may want to diversify their portfolio. One way to do this without investing heavily in manufacturing assets or acquiring another company is through outsourcing. This strategy drives efficiency and contains costs while allowing for the optimal use of internal resources. Outsourcing can help bring a product to market faster while also allowing for a quick turnaround if opportunities cease.

There are different facets or departments a company may choose to outsource. If the goal is to grow their pipeline, generic manufacturers should think about outsourcing facets of their bioequivalence studies,

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in regions such as India, China, Russia, and Eastern Europe.[4] This allows for more cost effective outputs of information, and generic manufacturers have the option to run multiple studies at once without the need for additional in-house capacity.

With expanding pipelines, the demand for outsourcing manufacturing will also increase. Outsourcing manufacturing gives generic companies the ability to produce greater volumes without the need to grow in-house, and some locations will provide more cost effective options. By increasing volume and decreasing production price, generic manufacturers may be able to offer wholesale and retail partners better price concessions, increasing the likelihood of new contracts or extensions.

As generic companies manage external partnerships, a shift in focus from in-house manufacturing towards supply will be required. Directing efforts toward supply could generate new opportunities for generic companies to distribute their own products.

Vertical Integration

Some companies are evaluating ways to deliver drugs directly to consumers from orders placed through a web portal. While consumers still need to get prescriptions from their doctors, they can input all of their information online. Generic manufacturer may then be able to offer attractive discounts, since they will no longer have the wholesale middle man. Also, this method of distribution will create a direct relationship with patients, aligning their business to the increasing consumerization of healthcare.

Some companies in the industry have web portals for specific drugs with inspiration and support sections, further engaging consumers. Others offer pharmacy and healthcare professionals access to training resources, lifestyle improvement tips, patient engagement resources and disease area data. This extra information and support could lead to improved manufacturer and pharmacy relationships, which would better position the generic manufacturer for substitution, if applicable.

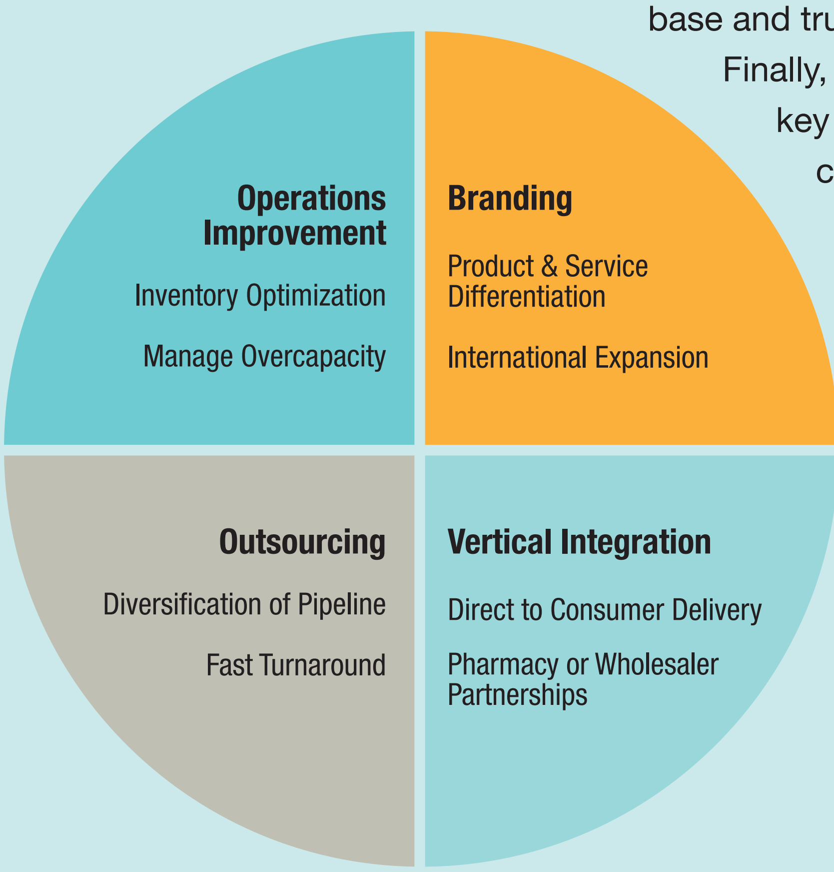
Another method of vertical integration is to create a direct partnership with the pharmacy or wholesaler. Partnering with either could improve supply chain efficiency, since it is notably easier to ship, track and control drugs going to a single partner. Also, as partners, generic manufacturers can be contractually assured that the wholesaler or pharmacy will continue to purchase their drug. These partnerships can, and should be, mutually beneficial.

For example, the Anda Distribution subsidiary of Actavis has added great value to the pharmaceutical company, accounting for 14 percent of Actavis' earnings. Though not solely responsible, Anda Distribution helped Actavis increase its net revenue by 44 percent in 2014; as a subsidiary, their net revenues increased by 41 percent.[5]

Improving or maintaining generics brands will require companies to identify and understand their consumers – a potential short-term cost that will pay for a long-term loyalty base and trusted relationship.

Reevaluating Your Business Strategy

As generic companies evaluate the current industry landscape, they should consider each of the areas above. What implications will each of these areas have on short-term and long-term business strategies? Operations improvements and outsourcing will result in long-term gains with the potential for short-term pains. Companies should monitor the adoption of new processes and overall change management during plant shut down and initial outsourcing phases, as well as impacts to short-term productivity. Improving or maintaining generics brands will require companies to identify and understand their consumers – a potential short-term cost that will pay for a long-term loyalty base and trusted relationship. Finally, integration can play a key role in differentiation if companies implement straightforward web portals, appropriate communication tools and essential supply chain processes to replace the middleman role in generics distribution.



Although evolving distribution channel dynamics pose some challenges, generic manufacturers can take steps to mitigate them while also reexamining their long-term business strategy.

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