



GIRP ANNUAL GENERAL MEETING

**Accessibility of Medicines:
*Remunerating Performance***

Keynote address by
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“Future ways to remunerate full access to medicines”

Ladies and Gentlemen,

The question which should always be centre stage for us as wholesalers is: How can we ensure that people in Europe will, in future, continue to receive the medicinal products which they urgently need? Unfortunately, this question is primarily seen from the economic angle by the politicians in charge. However, it is not the only aspect.

In Germany, too, we have to increasingly deal with the issue of rendering the distribution system for medicinal products future-proof – so that people can continue to be provided comprehensively and promptly with a full line of medicinal products. For that reason I will focus on three questions in my address:

- What are the developments which mark the pharmaceutical market in Germany at the present time and in future?
- How do these changes impact the German distribution system?
- And how should the system be financed?

This means what kind of solution could be designed which would be equally *fair* to industry, the wholesale trade and pharmacies?

In Germany, we, the pharmaceutical wholesalers take an active part in the public and political debate – contrary to our attitude in the past. Against this backdrop, I would like to cover the current concepts and strategies by means of which we contribute today to the debate about the system of pharmaceutical distribution. There are perhaps some

suggestions which could also have a stimulating effect on the debate in other countries. An exchange of views of this nature takes on increasing importance particularly in the context of a European-wide, largely open pharmaceutical trade.

Before I come to talk about these proposals, I would like to briefly introduce you to the German distribution system for medicinal products and the role of the pharmaceutical wholesaler within this system.

In Germany there are around 21,500 pharmacies for 82 million people. 80% of the required medicinal products are supplied to patients in Germany by these pharmacies. Around 70% of the medicinal products reach the pharmacy – and hence the patient – through the pharmaceutical wholesale trade.

Overall, 280,000 different medicinal products and other pharmacy products are listed by the German pharmaceutical wholesale trade. In no other European country is the warehousing range wider in the pharmaceutical wholesale trade. A wholesaler must stock between 80,000 and 100,000 different medicinal products in order to be considered as a full-line provider. Although the pharmacy is under a statutory obligation in Germany to keep all common articles available, it only actually stocks between 6,000 and 8,000 different products, depending on its location and size. The remainder is provided by the wholesale trade!

In many European countries the legislator has recognised the central role of the wholesale trade in pharmaceutical distribution. In line with the Community Code relating to medicinal products for human use, it has set out the supply

mandate of the pharmaceutical wholesale trade in laws. This is not the case in Germany: in our country the supply of the population with medicinal products has only been defined by its legislator as an obligation for the pharmacy.

It is, however, inconceivable that one single pharmacy can have regular business relations with 1,500 pharmaceutical manufacturers. As partners of the pharmacies, the members of the German Association of Pharmaceutical Full-Line Wholesalers (PHAGRO) have committed themselves to stocking a full line and to supporting the pharmacies in meeting their statutory distribution remit.

However, what the German legislator has in fact done is to make this task far more difficult for us rather than to facilitate it: the legislative intervention in recent years resulted in us – the pharmaceutical wholesalers in Germany – having to increasingly ask ourselves whether we can continue to uphold our self-commitment. There are primarily two developments which jeopardise our position: price cuts for medicinal products and the steadily growing share of direct distribution. Let me briefly describe these two developments in more detail.

In Germany, too, the cost situation in the healthcare sector has been strained. For that reason the legislator has been looking for saving potentials. These included over the last years, for instance:

- Price maintenance in the OTC area was set aside
- A new co-payment was introduced
- The generic medicines manufacturers were obliged to grant mandatory rebates

- A two-year price freeze for medicinal products which are dispensed at the expense of the statutory health insurance and
- Rebate contracts between sickness funds and industry were allowed.

These measures have prompted many manufacturers to cut their prices or encouraged the sale of low-priced medicinal products.

This has a direct influence on the earnings of the pharmaceutical wholesale trade. This is because the margin earned by the German wholesale trade for the distribution of a product is linked to the selling price of the pharmaceutical companies. As a result of the price cuts by the legislator, the distribution of low-priced generic medicines becomes increasingly unprofitable for the wholesale trade. For many of these products we only earn a few cents. At present, we find ourselves in the strange situation that there are medicinal products on the market which are so low-priced that the pharmaceutical wholesale trade may not earn any margin at all.

At the same time, the increasing direct distribution by the pharmaceutical industry deprives the wholesale trade of an increasing number of high-priced products with attractive margins. This development has likewise been encouraged by political circles – albeit rather unintentionally:

In particular for high-priced products with a corresponding wholesale trade margin, direct distribution has become an attractive alternative to distribution through the wholesale trade for an increasing number of manufacturers and

pharmacies. In the prescription segment the volume of direct supplies grew by 26.7% between September 2007 and February 2008 – the wholesale trade recorded a growth rate of 7.1% during the same period. At present, the total share of direct distribution has climbed to more than 17% in Germany – this constitutes a twofold increase in less than 10 years, by far the highest rise in Europe.

As a result of the described developments – massive price cuts for medicinal products and a steady increase in direct distribution – the margins in the pharmaceutical wholesale trade have been falling heavily.

If this development continues, it will be almost impossible for us to continue to uphold our own commitment to keep a full line of products available for pharmacies. It is obvious that this will have direct consequences for the patient in terms of the availability of a broad range of medicinal products.

We – the German Association of Pharmaceutical Full-line Wholesalers – are not, however, ready to simply abandon the full-line supply of medicinal products. For that reason, we have developed two initiatives by means of which the erroneous developments in the distribution system for medicinal products are to be corrected and the efficiency of the current system can be secured for the future as well.

The first optimisation proposal is directed towards the legislator. We propose that all prescription medicines – including low-priced ones – make a significant contribution to pharmaceutical distribution. For that reason we want to replace the wholesale trade remuneration, which is heavily dependent on the manufacturer selling price, by

remuneration which is largely independent of the price of the medicine.

The central element of our proposal is a flat rate fixed logistics mark-up that is not eligible for rebates of EUR 0.93 for each pack delivered. The fixed amount is to be supplemented by a maximum mark-up of 3% relating to the manufacturer selling price.

For the manufacturers of high-priced, patented medicines the wholesale distribution would become attractive again. This is because the concerns of the manufacturers would then be unfounded that through the comparatively high wholesale margins for the distribution of their products they cross-finance their low-priced competitors. And for the manufacturers of low-priced products this model would ensure that they continue to have full access to the pharmaceutical market for their products.

And for patients it would also ensure that they receive all the medicinal products they urgently need.

Our second optimisation proposal is addressed towards the pharmaceutical industry. The manufacturers advance several reasons why they increasingly focus on direct supplies for pharmacies, but essentially there is only one argument that counts:

What manufacturers most dislike about the current distribution model is that it offers them only very restricted possibilities in terms of transparency of market data.

In the context of a largely open European pharmaceutical market it becomes, however, increasingly important for manufacturers to know that their medicinal products reach the right destination.

Industry is, therefore, toying with the idea of direct-to-pharmacy-distribution (DTP). In this model the wholesaler would no longer be an independent trader but a logistics provider subject to instructions. The individual pharmacy would receive a quota which is determined by the manufacturer.

However, is this really the only solution? We have elaborated a proposal which considers the interests of all market partners – without having to abandon the advantages of the current distribution system.

We have called our proposal "combi model" because it is a combination of the DTP model and the distribution system of the wholesale trade. The core element of this model are consignment warehouses – these are virtual warehouses which the wholesale trade sets up and manages for the pharmaceutical manufacturers. In these warehouses the medicinal products are subject to an own inventory control which allows the establishment and individualisation of the inventories at any time. The stocked medicinal products initially remain the property of the manufacturer. Up to this point handling is identical to the DTP model.

Only when the order is placed by a pharmacy and the goods are removed from the warehouse, does the wholesaler become the short-term owner of the medicinal product. The latter can then deliver the order in a bundled manner through

his normal wholesale trade function to the pharmacy – in this way the transaction costs remain low. Furthermore, the combi model provides other advantages for all links within the classical distribution chain:

- The **wholesalers** continue to compete and retain the necessary entrepreneurial room for manoeuvre.
- The **pharmacies** can continue to tap into the full efficiencies of the wholesale trade which is essential for the fulfilment of their statutory supply brief.
- The **patients** continue to be supplied through the pharmacies on an optimum performance level with all medicinal products which they need – rapidly, safely and at favourable prices.
- For the **pharmaceutical manufacturers** this alternative model would offer new opportunities: they would be informed by us on a daily level about the pharmacy orders received and carried out.

Ladies and Gentlemen, we often talk about costs – and systems for cost containment. In this connection we frequently forget the patients and their needs. I would say that if somebody – you or I – goes to the pharmacy, then we want to get the best possible supply. Patients expect absolutely binding statements for deliveries and perfect execution.

Against this backdrop, the wholesale trade is an indispensable partner for pharmacies and pharmaceutical manufacturers. With the proposal to modify the remuneration of the wholesale trade and the combi model, we have developed two optimisation measures which we believe could make a decisive contribution towards securing the

supply of the population with a full line of medicinal products in the long-term.

We are currently engaged in intensive talks with our market partners and the legislator in order to convince them of the need for and benefits of our proposals. In many respects we

have already met with understanding for our situation and a readiness to co-operate. Over the next weeks and months we will see whether this readiness will lead to concrete action.

I hope that my presentation has given you some insight into the current situation on the German wholesale trade market.

Thank you for your attention!