



**Study**

## **Full-line Wholesaling -Ready for a changed market**

**The continuous development of the business model guarantees a secure and efficient medicines' distribution in everybody's interest.**

**Executive Summary**

### Starting point

- The existing **distribution system** of PHAGRO member companies is oriented towards the principle of full supply and of equal market access for all manufacturers (neutrality towards manufacturers).
- The **efficiency** of the business model “full-line, manufacturer-neutral, pharmaceutical wholesaling” came under pressure due to reforms in the health sector (for instance: GMG, AVWG, GKV-WSG), the link of remuneration with price as well as changed market conditions, are challenging the business model.
- In particular, alternative distribution channels threaten to unbalance the mixed calculation of pharmaceutical wholesaling as they cause a decomposition of the medicines’ portfolio which is dispensed by full-line wholesalers. **Planned commission-models** such as the “Fee-for-Service-Model” which uses pharmaceutical wholesalers or primary logistic providers eliminate the trade function of full-line wholesaling and **attribute them** a role of pure logistic providers.

### Design of the Study

- Based on a qualitative survey amongst opinion leaders in the health care sector, the study examines the strategic competitive advantages of the business model **in three examination steps on a hypothetical background**.
- The study identifies the most important branch and business model related to risks and addresses them with a package of suggestions for possible measures.

### Results of the study

- The **achievements** of pharmaceutical wholesaling continue to be acknowledged. In this respect, PHAGRO-member companies dispose of clear competitive advantages with their **cost-effectiveness, speed and quality of services**. Although the **full range of medicines** and **market access** for all manufacturers are not equally for all players in the market, but they are in particular, vital for small and medium-sized manufacturers. Both principles come off best in the **trade function**.
- Considering the **branch relating risks**, counterfeit medicines and in this context trading of medicines of manufacturers, wholesalers and pharmacies on secondary markets represent a significant danger, according to the respondents. Although the objective data<sup>1</sup> documents high drug safety in the legal supply chain in Germany<sup>2</sup>, a significant increase in counterfeit medicines caused by the global opening of medicines’ markets is to be expected. The tendency reaches from illegal repackaging of medicines to the complete counterfeiting of medicines. As drug safety represents a high value this concern is to be tackled seriously.
- The alternative distribution channels and in this respect the structural changes of the medicines’ portfolio were stressed as most significant threats among all **risks of the business model**, according to the respondents. The interviewees expect that a balance between the different distribution channels will be reached which will have a negative impact on pharmaceutical full-line wholesaling. The link of remuneration’s models with the price makes the

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<sup>1</sup> 33 cases of counterfeit medicines since 1996, Information BKA 05/ 2007

<sup>2</sup> Federal Council printed matter 88/07 of 1<sup>st</sup> February .2007: report of federal Council for the “12<sup>th</sup> AMG Novelle”

business model vulnerable to structural political changes of the recent past which have significantly reduced the absolute margin of wholesaling. Many wholesalers try to reduce the one-sided dependency on medicines' prices in the framework of their remuneration's model by providing **additional services** besides the distribution of medicines to pharmacies and manufacturers. Furthermore, they try to complete their offer with additional logistic services. Meanwhile, competing **versions** of the "classical" **business model** have been developed in this respect.

- Within the framework of the study a **package of measures** has been developed. This amongst others contains recommendations to set up **standards of the branch and to strengthen and enlarge business relationships**. Priority has to be given to initiatives which can be completely implemented, provide new opportunities and cover risks at the same time. This includes, for instance: **certification of the supply chain, machine-readable labelling** and **technical approach to data transfer**. All in all, pharmaceutical wholesalers should make their services more widely known through strengthened **public relations and political engagement**. The aim of all PHAGRO- member companies must be, in particular, the enshrinement **of the principle of full-line, manufacturer-neutral wholesaling in medicines' supply**.

#### **Conclusion:**

The liberalisation tendencies on the pharmaceutical market are irreversible and include also pharmaceutical wholesaling. Classical business models which are oriented towards trade margins are coming under pressure by alternative distribution models.

Pharmaceutical wholesaling as an elementary and highly-efficient part of the provision of medicines in Germany has proven its value and is appreciated, in particular, by pharmacists because of its high quality of services. If the suggested measures are implemented rapidly and consequently, there is a good chance to stabilize this system on a long term perspective and to provide more transparency and security in the supply of medicines which is in everyone's interest.

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