Value beyond price: distribution partnerships that deliver

As health systems continually search for ways to reduce costs, the lure of a low-cost distribution contract should never outweigh the value of a proven partner.

Even under the best of circumstances, health systems must conquer complex supply chain challenges to provide essential drugs and medical products across the continuum of care. When global drug shortages or disasters arise, the true costs of sacrificing premium distribution services in the name of low pricing can become even more pronounced. By comparing distributors in terms of total value delivered — rather than by costs alone — healthcare organizations can make more informed decisions to benefit both business performance and patient care.
A growing industry in an unpredictable world

As the U.S. healthcare industry continues to evolve, many health systems are seeing levels of organic growth that their supply chains were never set up to handle — while others are trying desperately to blend disparate technologies and processes after a merger or acquisition. At the same time, global drug shortages, natural disasters and other crisis events present a constant threat to the pharmaceutical supply chain. That’s why it is so critical for healthcare organizations to choose a distribution partner that not only equips them to get the right drugs to the right patients at the right times, but also helps them reduce costs, capture revenue and diminish complexity.

Checklist: What to look for in a distribution partner

- A robust, vertically integrated supply chain
- Quantifiable accuracy of inventory and orders
- Process and technology consulting to drive business performance
- An accurate, easy-to-use ordering platform
- Proactive communication and transparency, especially during drug shortages and crisis events
- Expert insights and analytics to help:
  - Improve compliance
  - Increase reimbursements
  - Capture revenue
  - Enhance staff efficiency
  - Support positive patient outcomes
Optimizing the supply chain in multiple care settings

The challenges of serving patients in multiple care settings can range from siloed data in disparate platforms to a lack of automation in the supply chain. According to an industry survey, 78% of respondents still use manual supply chain processes, and just over one-third of respondents were unfamiliar with radio-frequency identification (RFID), a common barcode-scanning technology for inventory management.\(^1\) This reliance on manual processes can take skilled clinicians away from their patient work while delivering inexact results. Manual processes are also a common cause of drug overstocks, which can lead to expired products; or product shortages, which can jeopardize patient safety.\(^2\)

The right distribution partner can provide valuable technology and process consulting to help these organizations reduce complexity and costs. Solutions may include just-in-time inventory management, accurate tracking of drug use and prices, or an online ordering platform to place and track orders.\(^3\) They may also involve steps as simple as standardizing clinical preference items, resulting in an estimated 10–20% in cost savings.\(^4\)

With solid platforms and processes in place, hospitals can begin to:

- Achieve true visibility into the supply chain, backed by analytics to influence decisions that directly impact the continuum of care
- Streamline inventory management to easily compare items against purchase orders, monitor expiration dates, trigger reorders, and reduce waste related to poor inventory control
- Accommodate the growing trend toward value-based reimbursement models, which emphasize factors such as minimizing readmissions and focusing on preventive care
- Manage supplier relationships and product offerings more effectively through advanced analytics that cross-reference pricing, terms and more\(^5\)

By aligning the continuum of care with the help of a strategic distribution partner, organizations may begin to reduce drug spend while enhancing staff efficiency and exploring untapped sources of revenue.
Navigating drug shortages with transparency and agility

Prescription drug shortages are an ongoing and industrywide problem, and no distributor is immune to them. While drug shortages affect only 1% of all prescriptions, that slim percentage can add up to frustration for millions of U.S. patients and their healthcare providers each year, as upwards of 5.9 billion prescriptions are dispensed. Any number of factors along the supply chain can spark a shortage, including:

Sourcing limitations
Since more than 60% of molecules have only one or two suppliers, disruptions can have a ripple effect on the market.

Global recalls
Product recalls can affect service levels, especially those that affect multiple products, as distributors must source temporary substitutes on short notice. Additionally, costly remedies may force some suppliers out of the market, potentially constricting supply over the long term.

Manufacturing issues
According to the Food and Drug Administration (FDA), manufacturing challenges are among the most common drivers of drug shortages — from capacity limitations to complex manufacturing processes.

Generic deflation
As margins shrink on generic drugs, manufacturers may eliminate these products, shifting the production burden to other makers that may not be prepared to immediately absorb the added volume.

Discontinuing products or pack sizes
Ongoing product rationalization is a fact of life in the U.S. drug market, and the FDA cannot prevent manufacturers from discontinuing products in the name of profitability. Suppliers may choose to eliminate name-brand or generic products altogether or discontinue certain pack sizes — which could result in shortages.

API issues
Although shortages of raw materials are rare, changes to the requirements for active pharmaceutical ingredients (APIs) can contribute to drug shortages. Geopolitical unrest or natural disasters in API source countries can also take their toll.
Disasters
Natural and manmade disasters can have a devastating effect on the drug supply chain. For example, Hurricane Maria affected roughly 50 pharmaceutical manufacturing sites in Puerto Rico, including makers of top-selling biologics and components.¹⁵

Pricing strategies
When a manufacturer drops its market price on a high-demand product, a drug shortage may occur. Since these measures to undercut the market may be enacted overseas,¹⁶ the resulting shortages may come as a surprise to U.S. distributors and pharmacists.

Although these shortages cannot be predicted or prevented by entities near the end of the supply chain, pharmacies can strengthen their ability to adapt by working with distribution partners who can help them understand the causes, tap into up-to-date resources, and develop strategies to overcome the shortages.

By enhancing system efficiencies, improving business processes, and hiring and developing talented team members, forward-thinking distributors are better equipped to act with agility. Savvy distributors also maintain strong supplier relationships to better position themselves to make quick, well-informed decisions on product-specific intelligence. These are just a few of the strategies that support a stable supply, whenever possible, at a competitive cost.

Gearing up for severe weather
Preparing for natural disasters should involve close coordination with staff and distribution partners to take the following steps:¹⁷

- Create an emergency supply list with drug wholesaler before disaster strikes, including essentials such as:
  - Opioids
  - Antimicrobials
  - Inhalers
  - IV fluids
  - Antivenin
  - Disposables
- Maintain multiple emergency contact numbers with drug wholesalers
- Consider refrigeration space — whether to buy and store units until needed, or rent as needed
- Weigh the possibilities of flooding in low-lying areas that could affect business continuity or pharmaceutical deliveries
- Consider keeping medications in outlying areas in case of catastrophic damage at main site
- Have a plan for printing patient medication administration records and transporting controlled substances in an evacuation event
- Think through fuel supply options, whether for gas-powered backup generators during the disaster or vehicles during the recovery phase
Meeting acute needs of patients and staff in times of crisis

Since the early 1980s, the United States has seen a 50% increase in natural disasters like hurricanes, tornadoes and floods.\textsuperscript{19} During roughly the same time frame, sadly, mass shootings resulting in three or more fatalities have surged from one or two events per year to an average of one per month.\textsuperscript{20} By developing a comprehensive emergency plan and cultivating strong relationships with distribution partners, health systems can become better prepared to ensure continuity of care in the face of disaster. Here are just a few of the essential steps for success:

\textbf{Make sure pharmacists have a seat at the planning table}
Pharmacists have both the professional training and hands-on experience to recommend the types and volumes of supplies that particular disasters require — as well as emergency storage and staffing issues.

\textbf{Collaborate and communicate with drug wholesalers}
Open communication with drug wholesalers can help health systems prepare for the worst and adapt their disaster plans to reflect real-world, real-time supply chain challenges.

\textbf{Map out emergency Rx orders ahead of time}
Pharmacy leaders should create templated disaster orders with essential medications and supplies, then let their wholesalers know as soon as possible when a disaster order will be coming their way.

Preparing for mass casualty events

As with natural disasters, the goals of a disaster plan focused on mass casualty incidents are to anticipate threats, prevent loss of life, preserve physical and psychological health, minimize economic loss, and reinforce confidence and resiliency. A mass casualty response plan should include:\textsuperscript{18}

- A clear and effective triage system
- Fast access to trauma carts equipped with code trays, intubation kits, IV fluids, antibiotics, opioids and other essentials
- Clearly defined roles that also give pharmacists the flexibility to adapt as the situation changes
- Strong pharmacy leadership and written procedures that leave no detail to chance, including:
  - A comprehensive contact list
  - Protocols for notifications
  - Decision trees
  - Drill activation procedures
  - Clearly defined roles and responsibilities
  - Emergency medication and supply inventory
- Early communication with drug wholesalers to alert them that a large order will be coming to replenish stock being used
Include decision makers on your crisis and recovery teams
Health systems need people on the scene who are authorized to make decisions quickly and adapt as the situation evolves.

Plan for drills, and drill the plans
From verbal walk-throughs to full-scale disaster exercises, emergency drills help to increase the staff’s comfort level while revealing any gaps to be addressed.

A trusted distribution partner can help health systems tap into data from other emergency events to choose which drugs and supplies to include in disaster orders, and in what quantities. Wholesalers routinely help their customers navigate disasters of all kinds, making them a reliable resource for real-world insights. Importantly, they also take their own advice to disaster-proof the supply chain as much as possible.

Reputable wholesalers maintain backup generators with plenty of fuel; they keep staff, sales leaders and customers apprised of any special circumstances that could affect deliveries; they also work to overcome transportation challenges, share security resources or ship comingled freight to satisfy disaster orders. In times of need, these business rivals are also invaluable allies to each other and to the pharmacies they serve.

In conclusion
From everyday infrastructure advantages to targeted disaster response, the right distribution partner is the one that can add value far beyond the bottom line — not the one that competes on price alone. Health systems owe it to their physicians, staff and patients to partner with a wholesaler that aligns the entire continuum of care to drive healthy outcomes.
This white paper was authorized by McKesson Corporation.

Sources:
8. IMS NSP (National Sales Perspective) IQVIA Data
17. Ibid.