

Japan's Wholesalers Cited Urgent Deliveries as Major Concern; Separately Supplying Earthquake Region

(Source: *Pharma Japan*)

The Federation of Japan Pharmaceutical Wholesalers Associations (JPWA) cited “appropriate inventory management at pharmacies and dealing with increasing demands for urgent deliveries that exceed normal delivery frequency” as downstream distribution issues at a meeting of the health ministry’s “Ryukaikon” council for the improvement of ethical drug distributions held on April 15th.

“We’re concerned that the increase in the use of generic drugs will lead to further increases in the frequency of deliveries,” stated Taisuke Murai, chairman of the JPWA’s Research Committee for International Pharmaceutical Distribution. “Put simply, we’d like the council to discuss how to prevent an increase in situations where it costs us ¥1,000 (US\$9.11) to transport ¥500 (US\$4.56) worth of products,” he added.

The issues of urgent delivery and frequent delivery were taken up at a meeting of a working team on downstream distribution held in February. Among other things, the working team discussed what to do about cases in which pharmacies request urgent deliveries of generic drugs they don’t carry. Partly because pharmacies have less space than medical institutions to manage inventory, Mr. Murai insisted that “Daily delivery frequency has continued to increase as the separation of medical professionals from dispensing has advanced.” The increase in the use of generics could further increase the frequency of deliveries including urgent deliveries in the future, he said. Mr. Murai also pointed out that while unit prices of generics are low, their transport costs are the same as those of original drugs. He also said that improving ways to manage inventory at pharmacies and “increasing generic-name prescribing for generics would lead to reduced waste of medical resources at the distribution stage.”

In response, Masahira Mori, vice president of the Japan Pharmaceutical Association stated, “Pharmacies carry both original drugs and generics in inventory, and we’re having a harder time than ever carrying all these products. As pharmacies, we’re managing our inventories so as to put the least burden possible on wholesalers.” He asked wholesalers for their “support and understanding” in cases where patients want generics not in inventory or new drugs are suddenly needed. In return, “We’ll do our best to improve our overall inventory management system to reduce burdens on wholesalers,” he said.

In the meantime, wholesalers say drug distribution in quake-hit Kumamoto is relatively stable. Drug wholesalers with distribution hubs in Kumamoto Prefecture, southwestern Japan, appear to have for the most part secured stable supplies after large earthquakes hit the region last week. Shinseido, a regional distributor based in Kumamoto City, told Jiho (*PharmaJapan*) that outpatient services at medical institutions in the city are running as usual, with no major increase in its drug delivery. However, there were

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In Brief . . .

- ◆ **Walgreens Boots Alliance (WBA)** announced net sales of US\$30.2 billion for its 2nd quarter ended February 29th, an increase of 13.6% over the same quarter last year. Also, WBA received approval from stockholders for its merger with **Rite Aid Corporation**. WBA expects to close the transaction in the second half of this year. *Stefano Pessina*, Executive Vice Chairman and CEO, stated “Looking ahead, we remain on track to achieve our expectations for this fiscal year, as we work to lower pharmacy reimbursement rates and challenging retail sales environments.” Separately, WBA announced the sale of **Alliance Healthcare Russia** to leading Russian health and beauty retailer **36.6**. WBA will own a 15% stake in 36.6 upon completion of the deal.

- ◆ New **U.S. Treasury Department** rules on tax inversions has led to the termination of the US\$160 billion merger between **Pfizer Inc.** and **Allergan PLC**. It is the second time that Pfizer has been forced to abandon an acquisition aimed at providing tax savings benefits. Looking forward, Allergan expects to close the sale of its generics unit (formerly known as Actavis) to **Teva Pharmaceuticals** by June of this year. The EU has already given conditional approval of the deal.

- ◆ In a US\$293 million cash deal, **Novartis AG** will sell 14 of its “established prescription brands” to **Sun Pharmaceutical Industries (India)**. The brands will ultimately be sold under the Sun Pharma label by local marketing distributors. No specifics were given as to which brands were involved.

- ◆ The **World Health Organization** reported that diabetes cases of the last 25 years have increased fourfold, mostly due to obesity, aging and population growth. In 2014, approximately 422 million people were affected by the disease, with the highest increase in Africa, Asia, and the Middle East. WHO is calling for better treatment as well as measures aimed at reducing risk factors.

- ◆ **GlaxoSmithKline** announced that it will no longer seek patent protections in developing and low-income nations. This will pave the way for the distribution of cheaper generic versions of its name brand drugs to be available to the public. Health experts welcomed the announcement as a reflection of a fairer system in poor countries.

- ◆ The **U.S. Food and Drug Administration** is now looking to increase competition among generics from single-source manufacturers. These generics will receive an expedited review process, provided there are no blocking patents or exclusivities.

- ◆ **McKesson/Celesio** announced the acquisition of **Holon**, a network of approximately 380 independent pharmacies in Portugal. While Celesio has conducted pharma wholesaling activities in Portugal since 1993, the Holon deal provides a new retail footprint and expands the company’s geographic presence. Financial details were not disclosed.

(Sources: *Associated Press, Barclays Research, Drugstore News, Pharma Japan, Scrip, and Wall Street Journal*)

The Realities of Drug Prices

(Sources: *Drugchannels.net* & *IMS Institute for Healthcare Informatics*)

The following are edited excerpts of a review by Dr. Adam Fein of Drugchannels.net on the report, *Medicines Use and Spending in the U.S.—A Review of 2015 and Outlook to 2020*, which was recently released by IMS Health's IMS Institute for Healthcare Informatics.

- IMS has reported net spending after rebates and discounts, which totaled more than US\$115.3 billion in 2015. List prices for brand-name drugs grew by 12.4% while net prices grew by 2.8%.

- IMS introduces three new and potentially confusing terms in its 2015 report, according to Dr. Fein: "Spending on medicines" and "invoice price spending" both refer to the amounts paid to distributors by their pharmacy or hospital customers; "Net price spending" is an estimate of the net revenues received by pharmaceutical manufacturers. It therefore reflects estimated rebates, off-invoice discounts, chargebacks, cash discounts, and other price concessions made by manufacturers to distributors, health plans and intermediaries. Dr. Fein states that none of these terms directly correspond to pharmacy revenues, a plan sponsor's drug costs, and national healthcare expenditures.

- IMS reports that for 2015, gross spending on pharmaceuticals (also known as purchases by pharmacies and providers) was US\$424.8 billion. IMS estimates, however, that off-invoice discounts and rebates were US\$115.3 billion. Accordingly net spending was only US\$309.5 billion. Alternatively, spending based on invoice prices rose by US\$46.2 billion, up by 12.2%. Manufacturers' sales rose by only US\$24.3 billion, or 8.5%.

- Dr. Fein suggests that the growing gross-to-net discount, which IMS calls the "Invoice to Net Spending Difference", indicates that manufacturers are retaining a smaller share of their price increases. He stresses that "a change in spending has two components: changes in unit costs and changes in utilization. The IMS data can't be neatly divided into those categories. The new report does, however, provide further evidence that net drug prices are increasing much more slowly than are gross prices." In 2015, list prices grew by 12.4%, but net prices grew by a mere 2.8%, according to IMS' report.

- Dr. Fein concludes, "While these new IMS data are incredibly informative, I wonder whether the growing divergence between invoice and net prices is sustainable. Politicians continue to excoriate drug makers for their list prices. Meanwhile, channel intermediaries—PBMs, wholesalers, pharmacies, and hospitals—base their economic models on list prices."

Pharma Companies to Invest in Patient-centered Services and Capabilities

(Sources: *Accenture Drug Store News*)

Accenture reports that there is a new movement on the part of pharmaceutical companies: investing in patient-centered capabilities and services. The report uses responses from 200 American and European pharma executives, 85% of whom said that their companies would be increasing its patient-centered capabilities in the next two years. About nine-in-ten of the respondents said they expect their companies to offer six or more types of patient services in the coming two years — an increase over the 73% that currently offer that amount of patient services.

"Having demonstrated clear business and patient value, patient services is attracting greater investment and will become a key competitive driver of success in the healthcare market," Accenture Life Sciences North American managing director of patient services Tony Romito said. "In this changing competitive

environment, the question will no longer be if life sciences companies should offer these services, but rather which ones — and how they should be implemented." For the most part, companies will be focusing on areas of benefit coverage and access support, as well as health counselor services participation and adherence program management. Ninety-five percent of the companies surveyed said they would also invest in patient engagement — including outreach through such channels as social media and other websites, as well as television.

Additionally, companies plan to tailor their offerings to what patients value most highly: medication delivery and support, remote patient monitoring and adherence program management, which are highly valued by 85%, 79% and 77% of patients, respectively. But it may not be an easy job, Accenture said. In particular, companies will be up against a lack of awareness among patients as only 19% are familiar with these services despite companies' reliance on healthcare professionals to disseminate information about them, and 40% of executives said they couldn't precisely measure the impact of their services on outcomes — the primary objective driving their investment. "Life sciences companies seeking to invest in patient services will need to address issues that can impede their progress, especially as focusing on patient services will become increasingly critical to sustaining success in healthcare," said Andrea Brueckner, managing director of Accenture Life Sciences EALA practice. "This will require developing a patient-services strategy that fully aligns with patients' needs, measures success, and effectively communicates to healthcare professional how such services, in combination with their products, can provide better outcomes for their patients."

Japan (cont.) . . .

some delays in distributions due to the closure of Route 57, a key highway to the hard-hit Aso mountainous region. The company, which manages the prefecture's local wholesalers' association, has received requests from disaster medical assistance teams for antibiotics and transfusions. It initially responded to the requests with its own inventories, and asked other firms affiliated with the association to provide products that were not available in its stock.

Major wholesaler Alfresa Holdings said that a Kumamoto logistics center of its group company Alfresa Healthcare halted operations following the initial magnitude 6.5 quake on April 14. The center was planning to get back online when the more powerful, magnitude 7.3 jolt, struck on April 16. Until it resumed operations, Alfresa Healthcare turned to distribution hubs outside the prefecture for product supplies in the region.

Another major, Medipal Holdings, said that its regional subsidiary Atol is adequately equipped to deliver drugs, including its distribution outposts in Kumamoto. Although there are delays caused by traffic jams, the company has seen no major problems in product supplies from drug makers to its logistics center in Fukuoka Prefecture, north of Kumamoto.

Shoyaku, a subsidiary of Suzuken, saw building walls of its Kumamoto branch collapse after the April 16 quake. Until its supply system gets fully back online, the company decided to deliver drugs from a logistics center in Fukuoka. Toho Holdings said that a logistic center of Toho Pharmaceutical in Kumamoto's Arao City is operating without problems. With support from the center, two sales offices in Kumamoto City are receiving orders and delivering products as usual, it said.