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China Addressing the Cost of Medicines

(Source: an article published by China Daily and written by Wang Yanfei)

While price restructuring is a positive step in dealing with soaring healthcare costs, there is ample room for improvement on price supervision, experts and industrial insiders said, after China's top pricing regulator unveiled pricing reform guidelines. The guidelines, by the National Development and Reform Commission (NDRC), the top economic planner, restructures healthcare services and the medicinal fees patients are charged.

The commission intends to finish the nationwide reform in less than five years. By the end of 2020, pilot programs implemented in 200 cities will be extended to all public hospitals. This will help eliminate their markup revenue from drug prices, a key component in pricing. Reduced income will be compensated by raising prices for basic healthcare services, but the fees paid by patients are not expected to increase, according to Liu Rui, an official with the healthcare reform office under the State Council. Prior to the reform if a patient spent 100 yuan (US$15) for treatment at a public hospital, they would have paid 20 yuan (US$3) themselves while the rest would have been paid by medical insurance. Sixty percent of the cost is for drugs.

Once the reform is implemented, a patient will still pay 20 yuan (US$3); however, the hospital gets 80 yuan (US$12) from services of which only 20 yuan (US$3) will be from drugs and thus total revenue will be the same. The intent of the reform is that the markup from drugs will no longer be a financing channel for hospitals. The reform is also expected to help increase the income of doctors, correct distorted incentives for issuing expensive prescriptions and increase transparency for drug purchases, according to Zhu Dezheng, a senior official with the NDRC's pricing division. Zhu said the reform would limit the capability of public hospitals to obtain a large proportion of their profits from issuing expensive prescriptions while paying lower prices to drug distributors.

However, reducing markups is not enough to ensure that patients will benefit from better healthcare services and lower medicine prices. "When the profits of drug distributors and makers are being further squeezed, more problems are likely to emerge after the reform [is implemented] if regulations are not in place," said Liu Xingwang, marketing director of Lean and Leap Pharmaceutical Co, a distributer based in Guangzhou, Guangdong province. "Zero markups pose downward price pressure. It makes it harder for small and medium sized drug distributors and drug manufacturers to make a profit at a time when the nation is striving to lower healthcare expenses," said Liu. If these sectors' margins are squeezed, it would result in some inexpensive and effective medicine produced by small companies are not able to reach patients, according to a manager of a Tianjinbased drug distributing company. "And some drug makers may sacrifice quality," he added. He worried that institutional gridlock has not been resolved, and that reforms have been watered down. With the ever increasing pressure for profits, for both domestic and foreign companies, "there is much to be done to regulate the market," Liu said. Huang Xinyu, head of the health insurance division with the Ministry of Human Resources and Social Security, admitted that there is still a long way to go to improve pricing.

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- **Walgreens Boots Alliance** reported a 2.4% increase in net sales to US$29.5 billion and net earnings of US$1.1 billion (-15.3%) for its fiscal 2016 3rd quarter. Executive Vice Chairman and CEO *Stefano Pessina* said, "We delivered solid results in the quarter while continuing to make progress in several key areas, including our work to develop long-term strategic relationships and pursue partnership opportunities. I'm pleased to report that since the quarter end we achieved our goal set four years ago of at least US$1 billion in combined net synergies in fiscal year 2016 related to the strategic combination with Alliance Boots. This provides us with a strong platform to further enhance operating performance, to meet the challenges of the current volatility in many of our markets and to better position our company for long-term success."
- **Imperial Health Sciences** is expanding, to optimize its logistics services to the healthcare sector, by making an investment in a new 41,000m2 state-of-the art warehouse and additional office space at its Centurion, South Africa head office. The business needed additional capacity following its diversification into the pharmaceutical wholesaling, medical devices and animal health markets. As a result of the expansion, which will enable Imperial's Pharmed pharmaceutical wholesale distribution business to move into the Centurion facility, clients will reap the benefits of a refined and cost effective "over the fence" supply chain solution, according to Imperial. Separately, the **Imperial Logistics** and **Sasfin Banking** groups have joined forces to create a new business entity, **Imperial Sasfin Logistics,** which will offer end-to-end import and export solutions (from point of origin to final destination), covering freight forwarding, customs clearing, warehousing, transport and distribution - as well as a full suite of trade finance products to facilitate international trade.
- The **IMS Institute for Healthcare Informatics** has released a series of reports on type 2 diabetes and the effects of low persistence and adherence on health systems. *"Improving Type 2 Diabetes Therapy Adherence and Persistence"* looked at 5 health systems, including the US, Mexico, UK, Germany, Brazil and Saudi Arabia. In the U.S., the report noted that type 2 diabetes cost the healthcare system about US$176 billion, with 61% of the cost coming from diabetes-related complications. Of those patients with type 2 diabetes, about 59% are older than 65 years of age and a majority of them enrolled in Medicare. Among Medicare patients with diabetes, about 46% of them were sub-optimally adherent, and thus the IMS Institute estimates that

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Local Market Strategy Supported by a Global Strategy

(Sources: An article prepared by Michael Johnsen and published by Drug Store News and McKesson)

No one would argue that the healthcare market is local. But the back-end service that enables the delivery of that localized healthcare experience has become increasingly global, both in size and scope. "We believe that healthcare is extremely local, but from a McKesson perspective, it is becoming more global. Regarding the overall healthcare ecosystem, for us to be a healthy company in the future, we have got to explore the global opportunities," stated Chris Dimos, McKesson SVP corporate strategy and business development.

"Some of the moves we're making as a company are to position ourselves to win in that global economy," he added. "When you think about how we are reacting to the impact of generic scale, it's around our global relationships with manufacturers and being able to demonstrate that. When you think about innovation and changing the front-end [of the pharmacy], then it's about the learnings we can bring [to the US market] from across the globe through our interactions with community pharmacies in Europe and in Canada to deliver the best of all community pharmacy."

To describe how McKesson's global strategy is helping to drive success for the independent pharmacy operator, Dimos outlined four macro trends that are impacting the delivery of healthcare at every level today:

Generic scale: Purchasing consolidation is happening everywhere. When there were 10 to 12 buyers acquiring pharmaceuticals, and the wave of branded patent expiries created an expansion of new generic introductions, it fueled significant growth for pharmacy, Dimos said. As the number of new small molecule drug introductions declined, the generic business became more commoditized with a number of entities, such as Walgreens Boots Alliance, forming generic purchasing partnerships with major wholesalers to gain greater purchasing scale. Consequently, there are only a handful of companies controlling very large market shares. It is extremely important to have a "stable" scale wherein manufacturers can count on a long-term relationship. A relationship in which supply chain partners are able to think and plan more strategically on a long-term basis, product-to-product.

Consolidation and integration: In the past, for the most part, industry consolidation has followed a horizontal strategy whereby retailers bought retailers, PBMs bought PBMs, manufacturers bought manufacturers. This strategy is giving way to vertical integrations such as CVS and Caremark, Walgreens Boots Alliance, McKesson and Celesio, and others.

As accountable care and quality of care become significantly more important components to healthcare, it is likely that more entities will come together, either through organic growth or by acquiring the assets needed for future successful wherein a value-based model will replace a volume-based model.

Product mix shift: Generic profitability is starting to decline as payers become more transparent and fewer new innovations in small molecules, the traditional tablets and capsules, are dispensed in the retail environment. Dimos stated, "You're seeing the emergence of specialty drugs — large molecule drugs that are really aimed at much smaller, targeted populations at much higher cost. By 2020, it's expected that specialty drugs may represent half of total pharmacy revenues, but total transactions will still be in the single digits."

Reimbursement, performance and access: "Cost will always be important, but value is where we are going to be differentiated and measured," suggested Dimos. "We're seeing different levers used to differentiate healthcare offerings, such as narrow networks or performance-based networks where you have to earn your right to participate," he said. "Access is being influenced on a product level in terms of limited distribution for some of the larger molecules, and that access is really influencing how providers are being differentiated inside of the overall healthcare ecosystem."

Personalized Digital Healthcare Services

(Sources: an article prepared by Sam Glick, a partner in Oliver Wyman's Health and Life Sciences practice, and published by Harvard Business Review)

In the past decade, consumers have shifted from worrying about sharing personal financial information when shopping on the internet to embracing online retailers' recommendations for them. That is because the best online retailers offer customers a curated and highly personalized shopping experience. They empower shoppers with in-depth product information and peer opinions and seem to know what a consumer is looking for before the person asks for it – and sometimes even before she or he knows they want it.

Now, healthcare companies are experimenting with digital capabilities to see if they can encourage a similar level of influence in people's lives. By doing so, they are testing the limits of the potential power of repurposing online retail innovations that consumers have become accustomed to in varied industries and potentially revamping healthcare in the process. For example, digital technology company Omada Health helps individuals lose weight and prevent diabetes through online behavioral counseling. Iora Health attacks unnecessary care by pairing technology-powered patient analytics with high-touch, team-based care at its network of primary care clinics. And Aetna's iTriage app helps people find the most appropriate and affordable care by searching a database of symptoms and probable causes. The app also provides details on the care that is most suitable for that condition, along with the nearest medical providers, and detailed descriptions and cost information on recommended tests and treatments that take into account the individual's specific insurance coverage.

Healthcare innovations like these raise intriguing possibilities. If, like online retailers, healthcare companies manage to develop digital platforms that can influence people's choices, they might achieve the ultimate objective of healthcare: behavior change. Once that happens, conditions like diabetes might become less prevalent in the population and the quality of people's lives, overall, would be improved. At the same time, improved care coordination, site-of-care efficiency, lifestyle improvement, reduction in overtreatment, and higher medication adherence could result in more than US$500 billion a year in healthcare savings.

Today, significant hurdles exist to realizing this vision. For starters, the data fueling digitally focused healthcare companies remains fairly limited in scope. People can auto-schedule

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appointments and receive alerts if there is a delay at a provider's office. But that's much different from the data that would be required for healthcare companies to develop truly useful and proactive tools that would empower people to make healthy choices. Still, it's clear from the changes already underway that digital healthcare is not a far-off future. It is already playing out in small increments across multiple fronts that offer lessons to other healthcare companies, and also to other industries struggling with how to better digitally connect with their customers.

Consider the case of Proteus Digital Health. Proteus is a digital technology company that uses an ingestible sensor, a wearable patch, and a software application to track medication adherence. The ingestibles, including pills that are activated by stomach acid, detect medication intake and physiologic data, and can alert an individual (or healthcare provider) if medication is skipped or not taken in the correct dosage. The technology allows people to better manage diabetes, hypertension, and other medication-dependent conditions. Empowering people to monitor chronic care conditions like diabetes could significantly cut U.S. healthcare spending, since such expenses account for 85 percent of it. It's estimated about half of people with chronic illnesses fail to take their medication as prescribed.

The health system has long struggled with how to modify people's behavior to help them prevent or manage these conditions. By using digital capabilities to develop highly personalized insights into an individual's behavior, Proteus is digitally enabling people to cope with their condition. It's both high-tech and vastly more high-touch than previous disease management efforts. Some people might find this kind of frequent insight into personal health matters to be subtly – or literally, as in the case of Proteus — invasive. But remember that's how many consumers felt when Amazon and Google began to suggest products based on a digital consumer profile – all too often with amazing accuracy.

If the healthcare industry can develop useful and proactive tools, and if it can engender the kind of consumer interest that retailers enjoy today, then not only will improvements in individuals' wellbeing be attained; the healthcare landscape as a whole will also be profoundly changed.

Caregivers Are a Focus of Cardinal Health

(Source: an interview between Christi Pedra, SVP marketing and consumer solutions at Cardinal Health and Drug Store News)

It's projected that 45 million adults in the United States will provide unpaid care to an adult or a child in the course of a year, and in the next few decades, the demand for family caregivers is expected to rise by 85%. It's more than just the numbers that matter. Caregivers are mothers, sisters, friends, co-workers, neighbors and consumers in community pharmacies. They make up a vast majority of our communities, and they are seeking support. Cardinal feels strongly that they can find the level of support they need within their community pharmacies; there they can find specialized care for their loved ones and for themselves.

Cardinal Health is helping to ensure their customers are equipped with the right information and insights to help them provide optimal care for their communities. Understanding more about who shops at community pharmacies is a critical step in forming business strategy; the more that is understood about a customer-base, the better a pharmacist can help market appropriately and increase foot-traffic in their stores. Through extensive research, Cardinal has learned more about the needs of caregivers, a key audience for community pharmacies.

Cardinal strives to share valuable insights into the challenges caregivers face and how community pharmacies are perfectly positioned to connect with these individuals to provide them care beyond the counter. Often times, caregivers are supporting two generations. They could be working moms with their own kids who need help managing the health of everyone in the family. Or they could be a single, young man looking after an aging relative. The composition of immediate and extended families has dramatically changed and so have their needs for care. Understanding these factors is imperative for community pharmacists for caregivers are the ones coming into their pharmacies to pick up prescriptions — and it's a huge opportunity for pharmacies to engage with these customers, providing helpful assistance and mitigating some of the stress associated with caregiving.

Cardinal offers a number of solutions for pharmacy customers such as MedSync Advantage, Dispill Multi-dose Packaging and Cardinal Health Hospital Quality at Home products that can help community pharmacy customers support caregivers. In addition, Cardinal recently launched a "Voices of Care" Facebook caregiver community. The page offers advice and support for caregivers and is a place where community pharmacists can hear directly from caregivers. The page also operates as a best practice tool for addressing caregivers on social media.

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complications from type 2 diabetes will cost about US$100 billion annually in the United States.

- **Toho Holdings** has appointed *Mr. Ryuzo Takada*, formerly senior managing director at major pharmacy chain operator **Qol**, as senior executive officer, effective immediately. Mr. Takada resigned from Qol on June 11 for personal reasons.
- **Cardinal Health** has appointed *Pamela O. Kimmet* as Chief Human Resources Officer. Pam joins the company from Coca-Cola Enterprises, where she was senior vice president, Human Resources and she will report directly to *George S. Barrett*, chairman and CEO of Cardinal Health.
- Hungarian wholesaler **HUNGAROPHARMA**, has selected **KNAPP** as its SAP® EWM (Extended Warehouse Management) implementation partner for its central fully-automated warehouse and 4 regional warehouses, as part of an overall technology and automation systems upgrade. KNAPP equipment will be directly controlled by an EWM built-in MFS (Material Flow System) to ensure an optimal logistics solution.

(Sources: company releases, Drug Store News and Pharma Japan)