



Healthcare Distribution Alliance

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**Healthcare Distribution Alliance (HDA)  
Testimony for the Pennsylvania House Health Committee Hearing on Prescription Drug Pricing  
February 25, 2020**

Chairwoman Rapp, Chairman Frankel and Members of the Committee,

Thank you for the opportunity to provide written comments for today's hearing. I am Bryan Lowe, Senior Director, State Government Affairs the Healthcare Distribution Alliance (HDA). HDA is the national trade organization representing primary pharmaceutical wholesale distributors — the vital link between the nation's pharmaceutical manufacturers and more than 200,000 pharmacies, hospitals, long-term care facilities, clinics and others nationwide.

Since 1876, HDA has assisted its members in navigating regulations and innovations to get the right medicines and medical supplies to the right providers at the right time, safely and efficiently. HDA's members include 36 national, regional and specialty primary distribution companies who are not just distributors, but are technology innovators, information management experts, security specialists and efficiency professionals. Their expertise streamlines the supply chain to ensure safety and efficiency, while also achieving cost savings for our nation's healthcare system. I offer this testimony today to explain what wholesale distributors are, but also correct many misconceptions as to what they are not.

**Role in the Supply Chain**

I am here today to discuss the role Wholesale Distributors play in the supply chain and address some misconceptions.

Every day HDA members work around the clock to safely and efficiently ship 15 million healthcare products (medicines, medical supplies, durable medical equipment, et al.) to pharmacies, hospitals and other healthcare providers to keep their shelves stocked with the medications and products they need to treat and serve their patients.

Distributors are unlike any other supply chain participants — their core business is not manufacturing, and they do not prescribe medicines or dispense to patients. Wholesale distributors do not set the list price (WAC) of pharmaceutical products and they do not influence a patient's benefit design including out of pocket costs. Their key role is to serve as a conduit for medicines to travel from manufacturer to patient while making sure the supply chain is fully secure and as efficient as possible.

**Relationship with Provider Customers**

On a daily basis, pharmacies, hospitals and other healthcare providers place orders with HDA distributor members for the medicines, supplies and equipment they need to serve their patients. Without pharmaceutical distributors, pharmacies and providers would have to carry weeks of inventory and undertake the time-consuming process of placing individual orders with each and every manufacturer for products needed by the healthcare provider on a daily basis. This would be, essentially, an impossible task for many dispensing locations. By working with primary wholesale distributors, providers can maintain just-in-time inventories, saving pharmacies and hospitals the expense and staff necessary to carry extensive inventories or have large storage facilities, both of which would add significantly to their cost of operations.

While distributors provide many services to the pharmacy provider community, the core services are supply chain related — providing on-time and complete shipment of ordered drugs in a safe, secure and efficient manner. In addition, they often provide financial credit, pharmacy management systems and in-store retail support, among many other services.

## **Relationship with Manufacturer Suppliers**

The work of primary distributors also enables manufacturers to concentrate on developing and producing needed medicines without the added expense and logistical challenges of determining how to get those medicines to providers and patients across the U.S. However, pharmaceutical distribution has evolved over the last decade from simply managing warehouses and shipping goods. While HDA members are primarily supply chain logistics and operations experts, this is no longer an industry focused solely on moving products from point A to point B. Rather, pharmaceutical distributors provide a wide array of support services that enable the pharmaceutical supply chain to function efficiently and safely, delivering significant value to manufacturers and the healthcare system as a whole. Some examples of these core services include: receiving orders and shipping pharmaceutical products in a safe, efficient manner; inventory handling and inventory management, providing manufacturers with data about where (and in which settings) their products are utilized; verifying downstream customer eligibility to purchase products at pricing established under various programs or contracts between such customers and given manufacturers; and processing relevant chargebacks to manufacturers.

In exchange for the variety of distribution and logistics services that primary distributors provide to manufacturers, they charge manufacturers what are referred to as “bona fide service fees” for the provision of these services. These fees, which are not passed on to the customer, represent a fair market value for a bona fide, itemized service actually performed on behalf of the manufacturer that the manufacturer would otherwise perform (or contract for) in the absence of the service arrangement. This model reduces demand volatility — aligning order patterns more closely to actual patient demand and, eliminating artificial demand spikes, allowing for a supply chain that operates more smoothly and predictably.

It should also be noted that without HDA members, each manufacturer would have to ensure that more than 200,000 pharmacy and provider settings receive the medications they need when they need them, employing substantial financial, logistical and staff resources to provide medicine and supplies to hundreds of thousands of dispensing sites. Because distributors provide this logistical, inventory and other service support which manufacturers and pharmacies would otherwise have to perform themselves, the pharmaceutical supply chain is more efficient, reliable and secure, and providers are able to get the medicines they need in a timely fashion, saving our healthcare system approximately \$33 billion each year.<sup>1</sup>

## **Primary Wholesale Distributors’ Role in Drug Pricing<sup>2</sup>**

For purposes of the hearing today I understand that the committee wishes to understand wholesalers role regarding the pricing of pharmaceuticals. The primary pharmaceutical distribution industry is a very high-volume, yet very low-profit margin industry. In fact, overall profitability for the primary distribution sector shows little notable change over the past several years, even during recent market volatility. Wholesalers have consistently reported operating profit margins just over 1 percent for multiple years (1.3 percent in 2019).<sup>3</sup>

Traditional pharmaceutical wholesale distributors purchase pharmaceuticals from manufacturers based on the Wholesale Acquisition Cost (“WAC”), a publicly available figure reported for each pharmaceutical product by the manufacturer to various compendia such as Medi-Span and RedBook, which publish such prices. WAC represents the manufacturer’s list price. Manufacturers (pharmaceutical, biologic, generic, etc.) set the WAC price for their products. Wholesale distributors are not privy to how such WAC pricing decisions are made. Wholesale distributors typically

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<sup>1</sup> The role of distributors in the US health care industry (2019) <https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/the-role-of-distributors-in-the-us-health-care-industry.html>

<sup>2</sup> HDA’s antitrust policy strictly prohibits any discussions which constitute or imply an agreement or understanding between or among its members concerning: 1) prices, discounts, or terms or conditions of sale; 2) profits, profit margins or cost data; 3) market shares, sales territories or markets; 4) allocation of customers or territories; 5) selection, rejection or termination of customers or suppliers; 6) restricting the territory or markets in which a company may resell products; 7) restricting the customers to whom a company may sell; or 8) any matter which is inconsistent with the proposition that each members company of HDA must exercise its independent business judgment in pricing its services or products, dealing with its customers and suppliers and choosing the markets in which it will compete.

<sup>3</sup> Data obtained from Annual HDMA/HDA Factbook, compiled and compared across multiple years.

purchase pharmaceuticals from manufacturers based on WAC and they also charge manufacturers distribution fees related to their services, as previously discussed.

Wholesalers then typically sell branded drugs to downstream customers based on WACs established solely by pharmaceutical manufacturers. Wholesalers may purchase generic drugs at a manufacturer's list price but often times they are able to use their market power to negotiate discounted prices on generic drugs with pharmaceutical manufacturers. There are benefits to this business model for the entire supply chain and the patients it serves. This market power allows wholesalers to offer discounted pricing on generic drugs to downstream customers in certain instances. In 2019, nine out of every ten prescriptions in the U.S. were dispensed using generic medicines. However, generics account for only 22% of prescription drug spending.<sup>4</sup> Wholesalers are uniquely positioned to continue negotiating discount arrangements on generic drugs with pharmaceutical manufacturers further lowering the cost of generic drugs to downstream customers.

HDA supports the Commonwealth's efforts in seeking a better understanding of the prices that Pennsylvania consumers see at the pharmacy counter. However, wholesale distributors do not have any insight into pricing of dispensable units, or the prices that consumers pay based on what it costs them to fill their specific prescriptions. Distributors are not a part of any negotiations on the "pay side" of the supply chain, rather this is the role of health insurers and pharmacy benefit managers (PBMs). Wholesale distributors simply purchase medical products in bulk and sell to hundreds of thousands of points of care across the country and do not have data on a per pill or per dose basis. Put simply, wholesalers do not interact with the patient end of the supply chain, nor do we claim to be experts in that arena. Once a drug reaches a dispensing location our role is essentially done.

### **Conclusion**

As I noted earlier, primary pharmaceutical distributors have evolved from providing basic inventory management and distribution services to now offering a suite of services supporting many different operations of both manufacturers and a wide range of healthcare providers. Ultimately, these services result in benefits to patients and consumers and have made the U.S. pharmaceutical supply chain one of the safest and most efficient in the world.

Traditional pharmaceutical wholesale distributors' goal in the pharmaceutical supply chain is a simple one: add efficiency, security and timely delivery of products so providers can concentrate on patient care and ensure their patients have regular access to the medications they need. Historically, HDA distributor members have effectively achieved this goal and have had a positive effect on the supply chain and patients while actually reducing costs for the pharmaceutical supply chain.

If you have any questions or would like to discuss these issues further, please contact Bryan Lowe at (717) 773-5569 or [bwlowe@hda.org](mailto:bwlowe@hda.org)

Sincerely,



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<sup>4</sup> Tracking Who Makes Money on Brand-Name Drug, Kaiser Health News, October 2016. <https://khn.org/news/little-known-middlemen-save-money-on-medicines-but-maybe-not-for-you/>