

Price Strategy Bulletin

Pfizer Appoints Sole Agency for UK Distribution

Introduction

Currently UK community pharmacies and dispensing doctors purchase Pfizer prescription medicines from a choice of wholesalers. By March 2007 they will be required to deal with the manufacturer direct via a single Pfizer-appointed distributor. Pfizer announced on September 28 that these new arrangements will allow it to take full responsibility for its products from the point at which they leave its manufacturing plants until they are sold to the pharmacists and doctors who dispense them.

Pfizer is confident that through the changes, it will:

- Be better able to manage supply and be more responsive to stock shortage situations so that pharmacists, dispensing doctors and patients are able to obtain Pfizer medicines.
- Reduce the risk of counterfeit medicines by securing the supply chain so that customers will be confident they will receive genuine Pfizer medicines from Pfizer.
- Have improved visibility over the supply chain, and be better able to trace and recall Pfizer medicines with complete confidence if and when required.

After putting the distribution business out to tender Pfizer has chosen to partner with UniChem (part of Alliance UniChem, one of Europe's 'big-three' pharmaceutical distributors with an increasing wholesaling and retailing presence across the continent) to act as a logistics service provider on 'an initially exclusive basis'.

Current service levels will be maintained, Pfizer assures. It remains to be seen how the normal twice-daily wholesale delivery will be maintained in Northern Ireland and parts of northern Scotland where UniChem does not have a presence.

Motivation

The driver for the changeover, Pfizer says, was the increasing frequency by which counterfeit versions of its products have been found in the UK supply

chain – three separate cases involving Lipitor alone in the past year. However the move has long been anticipated. Speaking at the International Federation of Pharmaceutical Wholesaler Associations general meeting in Shanghai in 2004 a senior IMS executive forecast that Pfizer would implement direct distribution in the EU-5 citing patient safety as justification. Pfizer has already introduced a new dual channel distribution scheme in Spain (see **PriceSpective Strategy Bulletin** 'Dual pricing in Spain: Is it legal?' January 2006) and has put German wholesalers on notice of a changeover to direct distribution.

Pfizer emphasises its aim is not to save money. Like all UK brand manufacturers it currently pays wholesalers a gross margin of 12.5% of the value of stock handled at NHS prices, with wholesalers giving about 10% of this away as discounts to pharmacy customers. Some is then clawed back from pharmacy remuneration by the government through the discount recovery scheme, along with part of pharmacy purchase profit from generics and PIs.

As well as paying UniChem an agency fee for whatever package of services it requires of it, Pfizer will need to offer pharmacies and dispensing doctors comparable discounts to those now obtained from wholesalers. Otherwise it will incur the wrath of these two groups who will lose remuneration until the clawback scales are adjusted.

Pfizer's declared intention over time is to develop a wider range of other "service-based" offerings for pharmacists, based on analysis of customer needs and the new pharmacy contract.

Glaxo Model?

On the face of it, Pfizer's plans are very similar to Glaxo's (now GSK's) agency distribution scheme, first introduced in the UK with considerable controversy in 1992. Glaxo distribution agents received a management fee initially set at 5% of the value of Glaxo goods at NHS prices handled under the terms of the contract, which included demands for detailed weekly sales information. GSK agents are believed to earn a fee today about half the original level, i.e. ~2.5%. Glaxo's slogan was, 'Moving closer to our customers', while Pfizer has adopted, 'Delivering directly to our customers'.

The major difference known at this time between the two schemes is that all then-existing 30 UK wholesalers were signed up as Glaxo agents, whereas Pfizer is to contract with just one. Those 18 UK wholesalers who currently distribute Pfizer products, but will soon be unable to do so, are likely to respond to the significant fall in their business with changes in their discount terms to pharmacies.

Pharmacists' Concerns

The Pharmaceutical Services Negotiating Committee (PSNC), representing pharmacy contractors' interests within the NHS, has already voiced concerns over its members only having one source of supply for Pfizer products, which might mean they cannot meet patient needs promptly.

Since the company announced a supply allocation system to UK full-line wholesalers in 2004 and declined orders from short-line wholesalers there have been periodic reports of shortages with some Pfizer medicines. Pharmacies have usually been able to minimise such problems by shopping around. "There is no experience in the UK of a single supply route for major product lines, and we believe it to be unnecessary," PSNC points out.

Just as at the beginning of Glaxo's earlier scheme, pharmacists also fear that once Pfizer lines have been taken out of the normal wholesale channel they will have difficulty achieving the threshold level of purchases from wholesalers to qualify for the same level of volume discount as before. That wholesalers other than UniChem are likely to revise these purchase thresholds complicates the matter further. It is possible, however, that Pfizer discounts might be taken out of the clawback calculation as happens already with GSK's agency scheme.

The Department of Health is unlikely to take kindly to any reduction in the clawback, more especially as it has once more agreed to let pharmacies retain GBP 500 million this year as purchase discounts.

Another detrimental effect of Pfizer's decision, according to the PSNC, is to oblige all pharmacies to open an account with the sole distributor. This will impose a quite unnecessary burden and additional costs on pharmacies that use other full-line wholesalers. UniChem will also be required to issue three invoices to each wholesaling customer each month: One for Pfizer lines, one for GSK lines and one for products from all other companies.

Independent pharmacies might be concerned that preferential treatment could be given to those 2,600 UK pharmacies that are in the enlarged Boots chain, following the merger earlier this year of UniChem and Boots.

Single channel distribution schemes have in the past raised antitrust concerns. The European Commission has argued that the possibility of parallel trade ensures one channel cannot achieve an absolute monopoly. It would be ironic indeed if Pfizer, viewed as one of the strongest opponents of parallel trade, benefits from it in this way.

Pfizer has promised to keep healthcare professionals abreast of developments via a special website www.pfizerdtp.co.uk. Distribution of Pfizer's OTC products is unaffected.

Strategic Implications

This move by Pfizer will cause more than a few ripples in the distribution network in the UK and, if adapted elsewhere, in other European countries as well.

Other pharmaceutical manufacturers may find themselves affected (positively or negatively) as wholesalers and pharmacists respond to what Pfizer have done. Now would be a good time to review the company's distribution strategy.

PriceSpective is an international firm of pricing strategy experts, focused on providing strategic guidance in pricing and reimbursement to the pharmaceutical and biotechnology industries.

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