

# What Does the UK's Office of Fair Trading Really Think of Direct-to-Pharmacy Distribution?

The OFT can see both advantages and disadvantages to pharmaceutical manufacturers' DTP distribution schemes but believes it will affect the functioning of the Pharmaceutical Price regulation Scheme, reports *Elisabethann Wright*.

The UK's Office of Fair Trading seems to be in something of a quandary as to the benefits of the direct-to-pharmacy distribution networks that some pharmaceutical manufacturers have introduced<sup>1,2</sup>.

On one hand, the OFT sees DTP schemes as something that must, almost inevitably, have a negative impact on the pricing and provision of medicinal products in the UK. On the other hand, it acknowledges, possibly grudgingly, that DTP schemes provide some benefits, particularly as regards protection of patients against counterfeits.

The OFT is clearly concerned about the potential impact of such schemes on the prices of medicinal products. It believes that manufacturers could reduce the discount provided on list prices; manufacturers set these unilaterally when supplying directly to pharmacies and, therefore, have an incentive to decrease the discount offered. Diminished discounts will, in turn, affect the functioning of the Pharmaceutical Price Regulation Scheme in its current form. The list prices of UK medicines are constrained by the profit and price controls included within the PPRS and monitored by the Department of Health. However, pharmacies, by purchasing branded medicines from wholesalers, can secure a significant discount to the list price, some of which is retrieved by the National Health Service through a "clawback" mechanism. As pharmacies receive an agreed level of margin from the NHS, any decreases in discounts would be expected to increase the costs to the NHS as it would be able to claw back less. This is because the actual price paid by the NHS for medicines is, on average, a combination of the list price minus clawback.

The OFT concludes from this that a reduction in pharmacy discounts may well result in higher medicines costs to the NHS. Some manufacturers have reassured the OFT that the introduction of DTP schemes will not result in a reduction in discounts. But there appears to be no means to ensure that this occurs in a global manner. The important, if essentially unofficial, role that discount levels play in the price of medicinal products could thus be under threat.

The OFT also says that it is "very likely" that DTP schemes will lead to a decline in the quality of service to pharmacies and, potentially, to patients. The absence of competition that inevitably results from DTP schemes means that manufacturers set and pay for the service levels that their distributors will provide when delivering their medicines to pharmacies. As a result, the OFT considers that manufacturers have an incentive to reduce service standards under DTP schemes. While this may lead to reduced distribution costs, pharmacies, faced with no other source of supply, may face a reduction in the service they can offer patients.

The OFT does, however, recognise that DTP schemes may result in some efficiency and other benefits in relation to service standards and potentially to patients. For example, it is acknowledged that the schemes can contribute to limiting patient exposure to counterfeit medicines. Manufacturers have greater visibility of the supply chain for their products through having a direct relationship with the pharmacist. Such visibility could be particularly important in securing the swift withdrawal and recall of medicines in any case of counterfeit medicines.

The effect of the DTP schemes and the use of fewer wholesalers raises concerns with the OFT as regards the future viability of full-line wholesalers, particularly concerning the way that regional wholesalers currently function. If more manufacturers either supply directly to pharmacies or use dedicated wholesalers, full-line wholesalers will lose access to a percentage of the products which they previously supplied. In terms of time and resources, this could delay the provision of medicinal products on two levels; there would be more limited resources to deliver products from manufacturers using the DTP schemes, which could not be resolved by wholesalers as they might not have access to the medicines sought.

The conclusion of the OFT that the PPRS system should be retained is arguably at odds with its previous, somewhat critical, approach to the scheme. In early 2007, the OFT published a report recommending that the current PPRS be replaced with a flexible value-based pricing scheme directed towards pricing of medicinal products according to their clinical and therapeutic value to both patients and the NHS as a whole. In the current report, it has concluded that the most appropriate way of dealing with concerns arising from the DTP schemes, and reductions in the number of wholesalers, is to enhance the PPRS so that it can accommodate different distribution methods. In the context of current PPRS re-negotiations, the OFT recommended that the UK government make changes to the PPRS, which would ensure that discounts currently obtained by pharmacies are safeguarded.

The OFT is evidently still reflecting on a new, and currently relatively small, deviation from the traditional manner of distributing medicinal products to pharmacies in the UK. DTP schemes unquestionably raise issues concerning the manner in which the PPRS functions. It seems that the approach by the authorities to this new trend may essentially need to evolve with the schemes.

## References

1. Medicines Distribution: An OFT Market Study, December 2007, [www.offt.gov.uk/shared\\_offt/reports/comp\\_policy/oft967.pdf](http://www.offt.gov.uk/shared_offt/reports/comp_policy/oft967.pdf)
2. *The Regulatory Affairs Journal - Pharma*, 2008, 19(1), 57-58

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