



## **Those Secondary Distributors: One Pharmacy Purchaser's Perspective**

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In a Perfect World, drugs used to improve the quality of life for patients in need would be in abundance. Each morning, the Pharmacy Buyer would go out to the Medication Garden outside the hospital and pick the daily supplies needed that for day. If there were a drug you didn't grow yourself, a simple phone call would bring Jennifer Lopez or Brad Pitt to your door in minutes bringing you exactly what you wanted. And it wouldn't cost a cent

Unfortunately, this isn't a Perfect World.

As Pharmacy Purchasers, we are at war. As drug companies continue to face chronic drug shortages, or simply discontinue the manufacturing of other items, we are constantly at odds with the technicians who distribute the pharmacists who dispense, and the physician who prescribes drugs that at times we simply cannot acquire. We use every method, every trick, every resource at our command. We harass the wholesaler. We beg our direct accounts. We even borrow from one another, bargaining and bartering as though we are on the streets of Cairo.

And then there are the secondary distributors.

The secondary distributors. Those companies who by some are considered to have the audacity of a telemarketer and the morals of a convenience store clerk. It is said that they hoard drugs to create artificial shortages, and then prey on the weak and helpless buyer to buy their wares at exorbitant prices. If you believe some individuals, you'd believe they sell babies stolen from their cribs.

Now let's take a reality check.

In the many years of doing business with many of the secondary distributors, their side of the story paints a completely different picture. And while this is not a defense of the industry or profession, it is a perspective cultivated by lengthy and revealing conversations with several individuals in a sampling of the companies who do this type of business. There are two prejudices that this writer would like to shed some light on regarding the biggest myths regarding secondary distributors:

- Do secondary distributors hoard drugs to create false shortages, and
- Do secondary distributors over inflate price to increase their profit margin

Let's examine each prejudice.

### **Do secondary distributors hoard drugs to create false shortages?**

This writer has spoken to many representatives in the industry and what has been discovered is this: secondary distributors have their eyes and ears open, tracking trends in the drug manufacturing industry and also listening to the needs of their clients. This writer has coined the term '*medication futures*', because like any other stock speculator, it is their job to follow the sojourn of a product, from raw material to shipment to a hospital. In short, they can be your eyes and ears, as well as your forecasters for problems. Another thing this writer has discovered is that they can discover trends in shortages and becomes sort of an early warning system for the smart buyer. In this writer's experience it has been noticed that many times shortages travel from West to East. The West Coast will become aware of a shortage, then transmit this need to a secondary distributor representative. If a representative receives several requests for the same item, the good representative will begin mentioning this item to their other clients. On several occasions, this writer has actually averted a shortage by discovering a trend forwarded by a secondary industry representative. Some of the methods that they use in acquiring items are direct purchases and through multi-wholesaler relationships. As purchasers, we are 'married' to a primary wholesaler, and most of us have secondary wholesalers as a backup. The secondary distributor has the advantage of buying from several wholesalers, if not them all. That gives them the advantage to purchase for a client an item that may not necessarily be available from either your primary or secondary wholesaler. In addition, this writer has even had the experience of having a secondary distributor representative borrow a drug from a neighboring hospital in their area to supply a client clear across the country!

It has also been the experience of this writer, that secondary distributors experience the same shortage problems as we do. Their advantage is that while we must locate these drugs in addition to preparing our regular orders, processing invoices, unpacking orders, putting out fires, etc., their sole responsibility is to find these drugs and get them to us. Again their advantage is a resource for us to use.

### **Do secondary distributors over inflate price to increase their profit margin?**

This one is simpler to explain. As Pharmacy Purchasers, we enjoy the benefits of Group Purchasing Organizations and Private Contracts; both designed to give hospitals the best possible price for the products we purchase. Sometimes these discounts can go as deep as 90%, depending on the product. Secondary distributors do not enjoy such a luxury. When they acquire a drug, it is quite possible that they will pay the retail price, and sometimes more. That, in addition to charging a mark-up for their services, perceive the prices they charge to be inflated. After all, if you are used to paying \$10 for a drug and suddenly someone tells you they will sell it to you for \$100, it is natural to feel something underhanded is going on. BUT if you knew that product actually cost the secondary wholesaler \$95, that \$100 doesn't seem so bad. As a practice, this writer routinely checks the AWP listing of a drug before agreeing to make a purchase.

Although to most of us this information was not common knowledge, those who regularly do business with the secondary distributors have developed very good professional relationships with them. As with any business, the true barometer of confidence in a company is measured in dollars. Pharmacy Purchasers do not have the luxury to spend the hospital's budget on extraneous or frivolous purchases. Quite the contrary, most of our budgets are carefully scrutinized to make sure we get the maximum benefit from our dollar. We have to be accountable for every cent of a multi-million dollar budget. And even through all this scrutiny, all this evaluation, the secondary distributors enjoy a thriving business. Those who do business with them trust that their representative is doing the best they can in an extremely volatile and dynamic market. As was mentioned before, this is not a blanket commendation of the industry. There are the companies who create the bad publicity for the industry, creating the telemarketing/convenience store myth, and in time, they will be ferreted out and eventually disappear. Such is the nature of business.

What have we learned?

This writer would hope that secondary distributors now would seem a little less like the ghouls some have made them out to be and more of a tool to be used when necessary. This writer suggests that in order to keep your jobs and maintain your budgets, that you exhaust all avenues to acquire a drug before consulting a secondary wholesaler. They are and should be a last resort after all other avenues are explored to the best of your time and priorities. For as good as their intentions may be, most of us still have a budget to maintain. And like any other industry, there are unethical factions that will prey on a purchaser's naivety. This cannot be avoided. Most good purchasers will easily pick up on the danger signals and avoid these companies. It is up to the good purchaser to use this resource as wisely as you would use any other resource at your command: with intelligence, moderation and frugality.

We are coming into the most critical time of the year. Already companies are recording shortages for some of their products. Some companies actually close shop at the end of the year, or simply cease production of the product for whatever are their reasons. This is the time of the year when purchasers are at their most frantic. Secondary distributors may be a resource to consider, if you have not used them before. This writer predicts a very bad winter for supplies. So don't toss that faxed circular. Take a second to take a look. Or take a moment to listen to a representative. They may help cure one headache of one product you may need.

It's worth it just to keep an open mind.