**Summary of Findings**

- The joint purchasing ventures between Walgreen Co. (WAG), AmerisourceBergen Corp. (ABC) and their Alliance Boots; Cardinal Health Inc. (CAH) and CVS Caremark Corp. (CVS); and McKesson Corp. (MCK) and Rite Aid Corp. (RAD) will squeeze price discounts of at least 2% to 5% out of generic drug manufacturers, according to 23 of 27 sources.

- These three partnerships will hold 60% to 75% of the power in overall U.S. drug purchases, according to 20 of 27 sources.

- Large generic drug manufacturers like Mylan Inc. (MYL), Actavis PLC (ACT) and Teva Pharmaceutical Industries Ltd. (TLV:TEVA/TEVA) will offset the lower prices through increased production volume and larger drug portfolios. Midtier and smaller manufacturers likely will be acquired or forced out of business unless they serve a niche or offer unique products.

- The FDA has stepped up its oversight of generic drug manufacturing. This has hurt several India-based drug firms, and has contributed to drug shortages and manufacturer consolidation.

- Large distributors and retail chains will adjust to and benefit from the purchasing agreements. Small distributors and retailers likely will consolidate and create partnerships to remain viable.

- The joint ventures’ effects on pharmacy benefit managers will vary, but most sources believe PBMs will benefit from or adjust to the changes. Seven others believe PBMs lack transparency in pricing and operations, have no accountability, have reached the end of their usefulness and need to rethink their business model.

**Silo Summaries**

1) **Midtier and Large Generic Drug Manufacturers**

Five of these six sources think the new joint buying partnerships account for at least 60% to 75% of generic drug buying power in the United States. This is expected to lead to price declines of mostly 2% to 12% once discounts, rebates and incentives are included. Manufacturers like Teva, Actavis and Mylan should be able to offer price concessions by increasing their volume and lowering their production costs. Smaller manufacturers will struggle unless they can focus on two or three drugs in a specific therapeutic treatment area.

2) **Drug Distributors**

These five sources said the joint purchasing ventures will be able to secure 2% to 5% price discounts but added that generic prices overall are rising because of higher costs for and shortages of active pharmaceutical ingredients, as well as a result of the decline in manufacturers and the increase in FDA scrutiny. The partners’ buying power comprises 60% to 75% of all generics sold in the United States, according to two sources who commented. Views regarding the agreements’ effects on distributors, retailers and PBMs also were mixed.

3) **Pharmacies**

These five pharmacy sources said the three joint ventures will have 60% to 75% of the drug buying power in the United States, which will lead to discounts of 2% to 5%. Smaller manufacturers must specialize in what they produce and find new distribution avenues in order to survive. Distributors are expected to work through the changes to the channel; smaller firms will team with independent pharmacies to form and expand buying groups. Smaller distributors and small pharmacies will be under intense pricing pressure and must join forces to gain buying power while offering brand-name products and high service levels.

4) **PBMs**

These five sources expect the joint purchasing agreements to realize price concessions of 1% to 20% and will control at least 60% of U.S. drug spending. Larger manufacturers will benefit from the increased volume stemming from these buying groups. Sources expect consolidation in all segments of the drug channel.

5) **Industry Specialists**

Five of these six sources commented on the buying power of the new joint purchasing agreements: Four think it is in the 60% to 70% range. Four of the six expect the joint ventures to obtain price discounts of 2% to 5%.

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Generic Drugs: Joint Drug Purchasing Ventures

Background

In the last 12 months, a large portion of the U.S. drug purchasing power has been consolidated by three joint ventures involving Walgreens, AmerisourceBergen and Alliance Boots; Cardinal Health and CVS; and McKesson and Rite Aid. These partnerships were created to meet the growing demand for generic drugs and to pressure generic drug manufacturers into reducing prices by 1% to 5%.

In a primary interview with a sales executive for a major generic drug manufacturer, Blueshift Research learned that the source’s company was preparing for major pricing pressure from the new joint purchasing entities. He suggested that prices would be driven down sharply by fears of losing out on new contracts and by hopes of gaining significant volume.

Industry mergers are monopolizing the market and uprooting the small and midsize generic drug manufacturers. As companies leave the ecosystem, pricing is left to the big players. In recent months generic drug pricing has increased dramatically and in line with name-brand drugs. These price hikes have helped CVS grow its prescription drug profits by 3.8% year to year. Meanwhile, an increase in the number of insured U.S. consumers and the bans of some low-cost manufacturers from India are placing greater emphasis on generic drug quality rather than price.

In Blueshift’s Jan. 31 report on Teva, sources said the proliferation of generic drugs and the pricing pressure from lower insurance reimbursement rates were challenges for manufacturers. Sources praised Teva’s strong generic drug portfolio but said its higher prices would stymie its ability to maintain or expand its market share. Teva’s sales were heavily focused on the three big wholesaler groups, which could pay off as the drug channel consolidates.

Current Research

In this next study, Blueshift Research assessed whether the recent drug purchasing agreements by the largest pharmaceutical retailers and distributors would account for a significant portion of drug spending power in the United States and would achieve generic drug price reductions. We also researched these partnerships’ effects on the rest of the drug channel. We employed our pattern mining approach to establish six independent silos, comprising 27 primary sources (including seven repeat sources) and four relevant secondary sources focused on the generic drug manufacturing, distribution and retail industries:

1) Midtier and large generic drug manufacturers (6)
2) Drug distributors (5)
3) Pharmacies (5)
4) PBMs (5)
5) Industry specialists (6)
6) Secondary sources (4)

Next Steps

Blueshift Research will monitor generic drug distributors’ contracts with manufacturers as they come up for renegotiation this year. We will assess the joint purchasing agreements’ ability to achieve the anticipated 2% to 5% price reduction. We also will monitor the effects of these partnerships and subsequent contracts on the drug distribution channel. Finally, we will identify industry losers and winners.

Silos

1) Midtier and Large Generic Drug Manufacturers

Five of these six sources think the new joint buying partnerships account for at least 60% to 75% of generic drug buying
Generic Drugs: Joint Drug Purchasing Ventures

Power in the United States. This is expected to lead to price declines of mostly 2% to 12% once discounts, rebates and incentives are included. The remaining source believed commenting on pricing and buying power would be premature as many contracts will not come due until July. Manufacturers like Teva, Actavis and Mylan should be able to offer price concessions by increasing their volume and lowering their production costs. Smaller manufacturers will struggle unless they can focus on two or three drugs in a specific therapeutic treatment area. Mergers and acquisitions of smaller and even new manufacturers will continue. One source believes prices could increase as the number of manufacturers is reduced. Smaller distributors and retailers may struggle in light of consolidated purchasing power, but will remain important based on their level of service. PBMs will experience few effects from the purchasing agreements but must be open to new drug sources.

**KEY SILO FINDINGS**

**Joint Purchasing Agreements’ Effects on Drug Prices**
- 5 of 6 expect manufacturers to decrease prices by 2% to 12% during the next 2 years.
- The joint purchasing ventures have 60% to 75% of the generic drug buying power in the United States.

**Joint Purchasing Agreements’ Effects on Manufacturers**
- Manufacturers are expected to increase volume in order to lower costs.
- Smaller manufacturers will struggle unless they specialize and offer 2 or 3 drugs.
- Longer contracts could be a positive effect of the joint buying partnerships.

**Joint Purchasing Agreements’ Effects on Drug Distributors**
- The second-tier distributors are expected to struggle but are important because of their high level of service.

**Joint Purchasing Agreements’ Effects on Retailers**
- Small chain and independent retailers will be challenged by the new purchasing landscape.
- Larger retailers will benefit and will pass on some of the cost savings.
- 1 source said the purchasing agreements could push retailers to buy directly from manufacturers.

**Joint Purchasing Agreements’ Effects on PBMs**
- Little if any effect is expected for larger PBMs.
- Midsized and smaller PBMs may feel pressure from the partnerships and will have to be open to new drug sources.

**1. Vice president of sourcing for a generic pharmaceutical company**

The three largest wholesalers already control 60% to 70% of all drug spending. The drug-purchasing companies are networking to save money, which will be realized in one to two years and will be in the form of a 2% to 5% discount. The companies should keep this money to avoid a price-war chain reaction. It will be hard for manufacturers to negotiate pricing with the three big networks. Winners will include smaller companies that are willing to take a risk with a few niche products as well as smart companies with reasonable expectations. Some retailers prefer smaller distributors, but distributors may end up merging. Small retailers will need to compete on price to stay in business. Large PBMs will not be affected by the purchasing agreements, but smaller ones could be at risk.

**Joint Purchasing Agreements’ Effects on Drug Prices**
- “How much drug spending is controlled depends on your definition of drug spending. The wholesalers—Cardinal, ABC [AmerisourceBergen] and McKesson—already control 60% to 70% of drug spending, but they are the middlemen with their own programs. I don’t think you’ll see 90%.”
- “The companies will save some money in one to two years or they wouldn’t do this in the first place. But it won’t be a golden egg. Few manufacturers can supply all the countries, and they don’t want to put all their eggs in one basket. It is not a good feeling if you are only supplying one country or company. If something should happen, you could be severely hurt. Walgreens is realizing this and putting in multiple players on one generic.”
- “A discount of 2% to 5% sounds reasonable. If McKesson is smart, they’ll keep the money. McKesson now has a tendency to pass discounts on to retailers, and they start a chain reaction of price wars. They should keep the money in their pocket.”

**How much drug spending is controlled depends on your definition of drug spending. The wholesalers—Cardinal, ABC [AmerisourceBergen] and McKesson—already control 60% to 70% of drug spending, but they are the middlemen with their own programs.**

VP of Sourcing
Generic Pharmaceutical Company
Generic Drugs: Joint Drug Purchasing Ventures

- "They want to save money and consolidate, but there is only so much they can squeeze. A lot has to do with taxes. There's not a lot of extra savings in the cost of drugs."
- "If some manufacturers are driven out of the market, then prices will go up. This is still a commodities business."
- "You need a fair amount of players, but you have to be responsible. Here's an example: Usually we have a few months to review a new RFP, but this last time McKesson came out with a new RFP when everyone was at a convention. They wanted a response in one to two weeks, and the RFP had new terms. They didn't allow redline changes; we could only say yes or no and go with it."
- "We use central formularies, which cover around 500 pharmacies. We use one source, while ABC uses ProGen Pharmaceuticals Ltd./ASX:PGL. Some groups aren't part of this buying group. ABC picked up Walgreens and they are merging, but Walgreens wants to keep control of the formulary. Walgreens is realizing the importance of being larger."
- "CVS and Cardinal control their own formularies, and Walmart [Stores Inc./WMT] still buys its own. Safeway [Inc./SWY] was part of Cardinal, but now that they were bought out by Albertsons, they may buy direct again."
- "There are many facets to this market, and the field always changes. Years ago everyone bought direct. Then everything changed, and everyone went to a source program. Now people want to try something different."

Joint Purchasing Agreements' Effects on Manufacturers

- "These guys are so big that it is hard to negotiate much at all. They will tell you just to go someplace else."
- "There are enough manufacturers for negotiations right now, but we are seeing Indian consolidations. Sun [Pharmaceutical Industries Ltd./BOM:524715] bought some companies starting in the late 1990s. They recently had a stock merger with Ranbaxy [Laboratories Ltd./BOM:500359]. Watson Pharmaceuticals bought Actavis several years ago, and now Actavis recently bought Forest Laboratories [FRX]. There are no real big players left to merge together."
- "It takes a lot of organizing to manufacture 400 to 500 generic drugs and SKUs. The large companies can do this, but they have a slower turnaround time. The smaller companies have niches. They will survive if they have two to three products, make some money, then sell their ancillary portfolio at 20% to 30%."
- "The winners will be the smaller, generic niche companies that are willing to take a risk. The smart players will understand that there are changes. If they are first in the market, others will join, and they will have to give up some market share. If they come into the market as fourth or fifth, they can’t expect to win 40% to 50% of the market. It is a fine balance, but some companies are stupid about their expectations. It is a fact of life."
- "The FDA is now investigating Indian companies, such as Ranbaxy, and the Indians are understanding that they have to follow the rules if they want to play the game. They will have to increase their standards. Mylan and Teva, the other large companies, are watching this closely. We tell our own Indian manufacturing facility all the time that they have to follow FDA procedures."
- "The FTC [Federal Trade Commission] will be OK as long as there are three big players. That's where it will stop. You won't see these three merge because the FTC wouldn't let them. But it is possible that Rite Aid and Walmart may connect."

Joint Purchasing Agreements' Effects on Drug Distributors

- "The smaller drug distributors like Harvard Drug [Group LLC] have been successful so far. There are a lot of people out there that like these second-tier companies. They trust them as a backup to the larger ones. They keep the big guys honest."
- "Some retailers won’t do business with the big guys, and they might pay more to do business with the smaller ones."
- "We may see some smaller distributors merge. Or if an older person is in management, they may sell the business instead."

Joint Purchasing Agreements' Effects on Retailers

- "The smaller retailers already know that the big guys are getting better pricing. Until the FDA makes pricing more transparent, with better pricing that reflects volume, the smaller guys won’t get as good a price as the large guys. But the smaller retailers can’t lose money or they can’t stay in business."

It takes a lot of organizing to manufacture 400 to 500 generic drugs and SKUs. The large companies can do this, but they have a slower turnaround time. The smaller companies have niches. They will survive if they have two to three products, make some money, then sell their ancillary portfolio at 20% to 30%.

VP of Sourcing
Generic Pharmaceutical Company
Generic Drugs: Joint Drug Purchasing Ventures

- “I shake my head at Walgreens, going to wholesale to take care of distribution, ABC pulls this off in part... however, ABC won’t be able to control inventory like Walgreens does, with the same service levels. In the past they could control distribution, but now ABC will need to send short supply drugs to other pharmacies.”
- “With a contract, if you have leftovers, you can sell to someone else. There’s no way for ABC to stop products. McKesson and Cardinal, they can control inventory going out for products in short supply.”
- “I don’t think McKesson and Rite Aid will last long.”
- “Three to five years ago Safeway, Vons, this group, had their own direct buying; then they went wholesale. Then they went back to direct buying and went with Cardinal. A year later they were purchased by Albertsons, and my guess is they will now start buying direct again.”

Joint Purchasing Agreements’ Effects on PBM
- “The big PBMs won’t be affected that much. They don’t control the generic price, only the formulary. Unless they have a mail service price or a selected group of pharmacies with a generic copay, they won’t be hurting.”
- “It will hurt the midsize ones a little, and smaller ones could be at risk.”
- “A true PBM manages benefits; they don’t control where you get a prescription filled at.”

2. Vice president of sales and marketing for a generic pharmaceutical company

The joint purchasing agreements will control close to 70% to 75% of drug spending in 2014. Pricing discounts of 2% to 5% are possible, but AmerisourceBergen (ABC) is realizing a 20% to 25% price reduction, a lot of it hidden in rebates and discounts. Smaller manufacturers, retailers and distributors will suffer from the lower pricing. PBMs are not aware of true drug pricing. Reduced competition eventually will result in higher generic drug prices. This new system will have a global effect, as Asian and Eastern European companies move into the market with lower labor costs. This source’s company will be working on partnerships and negotiating by item.

Joint Purchasing Agreements’ Effects on Drug Prices
- “These groups control close to 70% to 75% of the spending.”
- “The companies could get 2% to 5% discounts as long as the volume is higher, and one person is willing to give up some money to double their volume size. ABC is already clearing in the 20% to 25% range now, and it will just increase from there. We don’t see all the back-end money that McKesson and ABC are getting today. If they make $10 to $15 a prescription, they get $20 back. They may be saving 50%, but it is all hidden money.”
- “Initially, the consumer will realize 0% savings, and the wholesalers, Rite Aid, and CVS will see some reduction. Over the long term, prices will go back up. It is simple economics.”
- “Generic prices have increased because the level of competition has changed. If seven people normally make an item, all are beating each other up for the pricing and no one is making any money. If people quit this market and just four players remain, they can increase prices. Right now there are 27 ANDAs [abbreviated new drug applications] in the United States for one multibillion-dollar item. But so many people will have this that one pill will sell for less than one penny.”
- “There is another whole side to this system. It will bring additional folks into the U.S. market from Asia and Eastern Europe. They all work for lower wages, and they will be difficult to compete with. In addition, they may not be FDA-approved now. People have blinders on, but we need to look at the global perspective.”
- “It is possible that this system is a potential response to Obamacare. I wonder if it is some sort of strategy to combat lower reimbursement rates. This is a very convoluted market, and this may be something to look at.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “We plan on working on our partnerships and not to be adversarial. It needs to be a win-win situation, or we will have to pass.”
- “Manufacturers will be negotiating on an item-by-item basis, but there is not enough additional markup to give away.”
- “This will be an overall reduction for the genetic manufacturers like Mylan, Teva and Watson [Actavis]. They are already eaten up on the programs, and they can go a whole lot lower.”
Generic Drugs: Joint Drug Purchasing Ventures

- “It is true that the manufacturers will be shipping to one place and have one cost, but they will need to ship bigger loads to three places, and the savings will not be there.”
- “This will drive the smaller manufacturers out. They will make no money on an item, but they will buy higher for direct contracts with other retailers ... not the big three. The smaller manufacturer will suffer, and this be counterproductive as a whole.”
- “The FDA is understaffed in India. They claim they will try to increase checks to Eastern Europe, but it will be a big strain on their system. It will not add any value. With these additional checks, it should increase pricing.”
- “Some of the manufacturers have been cutting so many corners that it has become a problem. Ranbaxy completely falsified and lied about what they were doing.”
- “The FDA is regulating and inspecting India now like it did in the United States 25 years ago. Eventually, India will start covering its corners, but right now it is an uneven playing field.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- “Distributors will be affected adversely. Smaller distributors will be judged based on the pricing of the larger distributors. They will perceive that what ABC sells to Walgreens is the assumed pricing; that perception is reality.”
- “For years, McKesson has sold to the VA [U.S. Department of Veterans Affairs] at a reduced cost of 6% to 7%. The rest of the business finances this loss. Someone has to pay so that CVS and Cardinal can still report positive earnings. Others foot the bill because manufacturers have given all they can give.”

Joint Purchasing Agreements’ Effects on Retailers
- “I don’t see any of the chains winning either.”

Joint Purchasing Agreements’ Effects on PBMs
- “PBMs will be good to look at. If they can ever uncover the true cost of a drug, reimbursements to pharmacies will go down. Right now the PBMs do not have a clear picture of what a drug costs.”
- “Walgreens tried to work with Express Scripts [Holding Co./ESRX], and they lost. These companies don’t share information willingly.”

3. Director of national accounts for a large generic pharmaceutical company

The joint agreements comprise 60% of spending power now, and this will increase in the next year. To acquire savings of 2% to 5%, the mergers must negotiate with one large manufacturer that can absorb some losses and meet demand. Smaller companies will not be able to offer similar discounts and drug volume. Manufacturers, especially smaller ones, will lose money because they may sell more for less. Distributors must monitor the big three partnerships and plan a strategy. Retailers and consumers should benefit from lower pricing, and PBMs will continue to do well.

Joint Purchasing Agreements’ Effects on Drug Prices
- “They comprise at least 60% now and will probably hold more in the next year. Last year $4.1 billion of prescriptions were filled, and 84% of them were generic. That means that 3.3 billion generic prescriptions were filled, at approximately 30 units each. That’s a whole bunch of products.”
- “All in all, the big wholesalers and distributors drove this because they knew they’d be winners. They don’t buy something unless they have an exit strategy. Walgreens drove this up, and McKesson got in before it was too late.”
- “To get 2% to 5% savings, the companies can’t shop around. They need to go to one big manufacturer that can absorb the cost because of the economy of scale. Smaller companies don’t have the margins for a discount.”
- “Walgreens will be the biggest winner in this, and McKesson will say they are winning too.”
- “The winner will have the broadest portfolio of products and the largest capacity to turn it out. I can say that McKesson will need these manufacturers. The others don’t have the volume they need.”
- “McKesson has a one-stop generic program. They actually manufacture their own high-commodity products. McKesson will save money, but who else will they distribute to? Maybe more of these companies—if they lower the price.”
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- “CVS and Walgreens have one-third of the market. They buy direct and have their own wholesaling. Walgreens would love to have bigger control of the ABC stock.”
- “This situation will all change again; it goes back and forth.”

**Joint Purchasing Agreements’ Effects on Manufacturers**

- “Manufacturers negotiate on most drugs; it is a matter of price and supply. Their purchasers are knowledgeable. If you have a brand line, you can do low pricing. If you are a buyer, you are concerned about price and availability moving forward. You need to consider everything, and buyers don’t want to negotiate for the cheaper thing if there’s no availability.”
- “From the ABC and McKesson side, they have said they met with the major suppliers. I know they have had those meetings. They are trying to calm our fears.”
- “Manufacturers are caught between a rock and a hard place. When you can choose a number of distributors, you have more leverage. Big manufacturers will be the winners, but they may lose money because they may sell more for less. The smaller guys will be in a world of pain.”
- “If you make specialty drugs, they are harder to formulate. But these companies can still do all right. They would need to offer the products at big discounts. There’s enough balance in the system now that only certain things can logically happen.”
- “If you can roll back the clock, manufacturers would prefer the way it was. Manufacturers don’t want this. They would rather sell to eight or 10 different customers or pharmacies.”
- “Rather than flying around the United States and negotiating with different distributors, we go to one place, to Europe, and sell to one person buying for three groups. We pay more for less.”
- “Teva is comfortable with this situation because they have a broader portfolio. It is possible that Teva may buy Rite Aid, but then CVS and Walgreens won’t buy a thing from Teva. The separation is getting lower and lower. This is vertical integration, with raw material to the end supplier.”
- “Mylan, Actavis and Teva have the capacity to deal with this because they are large enough. Mylan and the others have problems with the Indian companies, however, because they try to beat out our prices.”
- “What would happen if McKesson and Celestis [AG/ETR:CLS1] team up with Teva? They would become like [Actavis’] Anda and Actavis.”
- “With the FDA scrutiny there should be fewer manufacturers, and the price will go higher. That’s the only thing one can say about this. But then things change.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**

- “The drug distributors will need to watch the effect carefully. They need to find out what drugs make the big ones successful and what is left over. If the big three increase share in distribution, only smaller shares will be left over for the other ones.”
- “The FTC weighed in 10 to 15 years ago when the distributors were larger. The FTC stopped them at that time, but three groups are OK now.”
- “There are three big distributors left in Western Europe now as well. [Merckle’s] Phoenix is one, and Cardinal may do something with them. But if they get too big, they must divest.”
- “Anda, which is owned by Actavis, is a mail-order place where people work on commission. It is the fourth-largest distributor, and they dance lightly.”

**Joint Purchasing Agreements’ Effects on Retailers**

- “The big ones are already in it and winning.”
- “This has to be good news for some stores. Surely McKesson won’t profit all the money because they have to compete against the others. The users have it made because they can buy the drugs less expensively.”
- “Pharmacies won’t lose any money; they should be making money with Obamacare. With more people buying drugs, reimbursements should be going up. Generic drug programs are still at $4, not $3.”
- “Pharmacies hate changing suppliers because there’s so much involved; the bottles, the numbers, everything is different. We had to give money to cover stock adjustments. We made our own bigger bottles of 500, and this was an adjustment for the pharmacies.”

To get 2% to 5% savings, the companies can’t shop around. They need to go to one big manufacturer that can absorb the cost because of the economy of scale. Smaller companies don’t have the margins for a discount.

Director of National Accounts
Generic Pharmaceutical Company

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- “The ideal situation is to have one supplier you can count on. You usually buy 90 to 180 days of stock. The pills have a shelf life; you can’t have too much at once, yet you need to have enough supply. When you’re down to 30 days, then you call the rep to reorder again.”

Joint Purchasing Agreements’ Effects on PBMs
- “PBMs are feeling pretty good all the way to the bank.”
- “Express Scripts and CVS Caremark make up one-half of the PBMs now. What will Express Scripts do? They need to be a player somewhere.”
- “Express Scripts manages the purse. They just picked up a U.S. Department of Defense contract extension with the specialty drugs.”

4. Regional sales rep for a generic pharmaceutical company

The joint purchasing agreements control about 60% of drug spending power. They are designed to increase volume and reduce costs, but the source stressed the difficulty in determining how much the partners will save and during what period of time. Mergers will not increase anyone’s market share because there is only so much market to go around. Manufacturers will try to negotiate, but they will benefit only by dealing with one large distributor with less expensive pricing. Some retailers will stick with smaller distributors, which offer better customer service. Large retailers like Walmart will continue to use their own regional distribution centers. PBMs must ensure they have varied drug sourcing.

Joint Purchasing Agreements’ Effects on Drug Prices
- “The agreements you are talking about is a change in environment, with the retail side crossing sides with the wholesalers. This is centralized distribution. They are now large wholesale distribution networks.”
- “They probably have 60%; that would be more accurate. Not 90%. But that still doesn’t explain the Walmarts, Costcos [Costco Wholesale Corp./COST], and Safeways of the market. You need to do a breakout in retail to really see what they have. Although retail is by far and beyond the biggest segment, you need to also look at the hospital side.”
- “I have no idea how much they will be saving over the next few years. Whenever volume goes up, costs go down. These folks hope to increase volume for that reason. They are strengthening their distribution network to cut costs and not necessarily to pass along the savings.”
- “The margins in generics are small. Once a $5 pill becomes generic, it costs 5¢ a pill. The prices decrease dramatically. It costs a lot to develop a drug, but they are very cheap to make. On the generic side, you need to do volume to make any money.”
- “These agreements won’t increase their market share simply because they are wholesaling. They only have so much market.”
- “The generic prices have been up because of a huge supply and demand issue. When manufacturers have problems and report it to the FDA, they have to shut down their lines. This has a domino effect all the way around. The other companies pick up manufacturing of the drug, causing prices to increase through the roof. If you can’t buy chemicals, then you need to wait six to eight months for drug processing, and other companies step in.”
- “The consumer should benefit from all of this. I’m not sure what drives the behavior in this field. I just don’t understand that.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “Manufacturers have no control over anything. They will do the best negotiating they can, but this involves reviewing thousands of drugs. I really can’t say how my company will do.”
- “There will continue to be mergers and acquisitions. There will be new U.S. and Indian companies that start small and build until they become competitive. There won’t be a shortage of companies.”
- “The manufacturers would like to control their inventory, but it is hard with thousands of stores. These agreements will help tremendously.”
- “We pay the big three wholesalers, ABC, McKesson and Cardinal, 4% to 5% to handle our hospital contracts. We only go through the wholesalers because it keeps our discounts together.”

If ABC supplies all of Walgreens, then it makes it easier and cheaper for us. We ship to one source rather than 20 different locations, which is way more expensive. The same goes for the deals with McKesson and Cardinal. We increase their buying power, they make it easier and less expensive for us.

Regional Sales Rep
Generic Pharmaceutical Company

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- “If ABC supplies all of Walgreens, then it makes it easier and cheaper for us. We ship to one source rather than 20 different locations, which is way more expensive. The same goes for the deals with McKesson and Cardinal. We increase their buying power, they make it easier and less expensive for us.”
- “The retail drug business is cutthroat. We only sign month-to-month contracts. We sign a one-month contract with Walgreens; then someone comes out with a drug that is a penny cheaper. Our contract is scratched.”
- “A number of Indian companies have had FDA violations and have had to quit. The FDA used to have 12 full-time inspectors in India, but they recently announced an increase to 19 inspectors. With fewer companies, prices of some drugs could go up, depending on who else is manufacturing them.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**
- “I’m not sure how this will affect the smaller distributors. It all depends on the percentage of market the big guys have. There is strength in numbers. However, the smaller distributors offer better customer service, and some people will stick with them for that reason.”

**Joint Purchasing Agreements’ Effects on Retailers**
- “Walmart has stores all over, and they have distribution warehouses in each region. They do their own distribution, which saves money.”

**Joint Purchasing Agreements’ Effects on PBM**s
- “The PBMs will have to make sure they are covered and be open to other sources.”

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5. Senior pricing manager for a large pharmaceutical company

Commenting on the partnerships’ control and discounts would be premature. McKesson and Cardinal are trying to catch up to Walgreens. The source was unsure how her company would negotiate with the joint agreements because it is in a trial-and-error stage. Smaller distributors may have a harder time. Regional retailers may team up in order to survive, but independent pharmacies will struggle. She was unfamiliar with PBMs.

**Joint Purchasing Agreements’ Effects on Drug Prices**
- “There is a lot of buzz on how this will affect the market and how much they control, but at this point it is all really speculation. Some of the contracts haven’t even taken effect yet. Some begin in July. I couldn’t say how much they control at this point because it is all new. Of course, they expect to make money.”
- “Walgreens is ahead of the game because they communicated their intent a long time ago. The other groups are just catching up.”

**Joint Purchasing Agreements’ Effects on Manufacturers**
- “We are watching this to see how it will unfold. Nothing is in concrete yet. Right now we are in the trial-and-error stage. I’m not sure how this will all operate. It is still too premature.”
- “I am not sure how we will negotiate.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**
- N/A

**Joint Purchasing Agreements’ Effects on Retailers**
- “Regional retailers will be in a better position in the marketplace because the larger joint drug-purchasing agreements will be going in with the retailers. They will be more combined.”
- “The independent pharmacies won’t be able to compete anymore.”

**Joint Purchasing Agreements’ Effects on PBMs**
- N/A

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6. Recent director of corporate accounts for a large generic pharmaceutical company

The source was hesitant to comment on how much drug spending the networks will control but said 60% seemed low. The companies involved in the agreements already are demanding and receiving savings. Once rebates and discounts are accounted for, the companies may experience pricing discounts of as much as 12%. The mergers are bad for manufacturing. Smaller companies will take a hit unless they focus on specific therapeutic areas and expand to international markets. The market can handle a variety of smaller distributors, some of which prefer to service secondary
businesses. The larger networks may change, while some regional retailers may sell out or acquire their own purchasing groups. The PBMs will do well, but some may be bought off.

**Joint Purchasing Agreements’ Effects on Drug Prices**

- “It’s too early to say how much they will control. The ink isn’t even dried yet, but 60% sounds a bit low. It’s hard to say. Some companies are strategic, others are not.”
- “They are already getting the savings upfront, and they are not asking nicely. They are demanding. There are lots of rebates and discounts going on, and I’d say that 2% to 5% is conservative. Maybe 5% to 12% would be more like it. You get cash discounts for paying on time, and they have fees for everything. Companies paying for their services will be lucky to get off with just paying 5%.”
- “Generic prices are up because they can get the money. The companies are just testing the waters to see what fits.”
- “[Our company’s] profits are through the roof, at 110%.”
- “I don’t believe there is a product or supply shortage. It is just artificial. You can create a shortage out of anything if you want to.”
- “The chains are now in bed with the wholesalers, but I’m not sure I believe that any of these contracts are long-term.”
- “McKesson uses several wholesalers such as NorthStar [Rx LLC] and BluePoint [Laboratories]. McKesson was watching and knew that Rite Aid would fall.”
- “ABC would say that each of the networks has one-third. But everyone is confused, and pharmacies don’t know the spiel.”

**Joint Purchasing Agreements’ Effects on Manufacturers**

- “No one knows yet how this will all play out. ... I would be just guessing to say what [my company] will do, but these mergers have put [my company] in heart attack mode. We will take a hit for millions.”
- “This is bad for manufacturing. It is like taking gas and adding fire to it.”
- “Manufacturers are making plans, but a lot of it is already done. Walgreens is done. We are looking at rebates with ABC. It’s a ‘pay me now or pay me later’ game.”
- “These networks could extract a lot out of manufacturers. They could eventually turn around and take manufacturing in-house. ... McKesson is very wealthy, and they could easily do this. They don’t leave money on the table; they make pure profit.”
- “Walmart has a different business model than CVS or Walgreens. They do more mass merchandising, and there is not as much emphasis on scripts.”
- “There are a lot of startups coming up. They are hiring people with experience and are designed to make a few people lucky. It’s like a brass ring.”
- “The smaller manufacturers will have a harder time. To compete, they will need to be on an international level more, and a few companies can do this, like [Novartis AG’s/NVS] Sandoz and Teva. The smaller companies will drown or tie in with other marketing agreements. That may be what will happen, but it is not clear-cut.”
- “Some generic manufacturers want to focus on everything, but they need to focus on one therapeutic and be good at it.”
- “Anything coming from India and China can’t be sold to the VA or any federal supply. The FDA is carefully checking the quality of goods coming from this area. It is a big scandal.”
- “It will be hard to predict the ripples coming up. One company has problems with the FDA, another company steps in. People quickly shift to other manufacturers. They get rid of any problems quickly.”
- “I don’t have faith in the FTC; it depends on who controls Congress.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**

- “Some distributors have their own buying groups, and some have been bought such as Harvard buying Rugby [Laboratories OTC].”
- “Some private distributors, say H.D. Smith in Illinois, are bottom feeders; they make more money on the secondary guys. They don’t like the primary business.”

**Joint Purchasing Agreements’ Effects on Retailers**

- “Rite Aid is the smallest retailer. They are concerned because McKesson is running the show. McKesson does all the purchasing, and they may just buy out Rite Aid.”

They are already getting the savings upfront, and they are not asking nicely. They are demanding. There are lots of rebates and discounts going on, and I’d say that 2% to 5% is conservative. Maybe 5% to 12% would be more like it.

Recent Director of Corporate Accounts
Generic Pharmaceutical Company

Ferry Building, Suite 255, San Francisco, CA 94111 | www.blueshiftideas.com
Generic Drugs: Joint Drug Purchasing Ventures

- “Walgreens has an equity share in ABC although they could take over ABC.”
- “CVS is running the show with Cardinal.”
- “There are several scenarios for smaller chains. Some of the smaller chains have their own purchasing groups like private-label and prescription buying groups. Some of the smaller stores, like Happy Harry’s, have been swallowed up. Other regional chains are privately owned and may sell out.”

Joint Purchasing Agreements’ Effects on PBMs
- “PBMs won’t be affected as much. They deal with everything.”
- “Some will buy each other, some will fade. CVS bought Caremark Rx and picked off what they wanted.”

2) Drug Distributors

These five sources said the joint purchasing ventures will be able to secure 2% to 5% price discounts but added that generic prices overall are rising because of higher costs for and shortages of active pharmaceutical ingredients, as well as a result of the decline in manufacturers and the increase in FDA scrutiny. The partners’ buying power comprises 60% to 75% of all generics sold in the United States, according to two sources who commented. One source expects the larger manufacturers to push back on pricing. Another said the market lacks enough manufacturers to support the purchasing agreements. One source said smaller manufacturers will go out of business, but another sees an opportunity for smaller producers to specialize. Views regarding the agreements’ effects on distributors, retailers and PBMs also were mixed. One source said CMS reimbursement rates will drop if the partnerships do result in lower generic drug prices.

KEY SILO FINDINGS

Joint Purchasing Agreements’ Effects on Drug Prices
- 5 expect 2% to 5% discount to be achieved as a result of the joint purchasing agreements.
- Overall prices are expected to increase because of raw material shortages, fewer producers and high quality-control costs related to FDA oversight.
- 2 see joint purchasing ventures to hold 60% to 75% of drug spending in the U.S.

Joint Purchasing Agreements’ Effects on Manufacturers
- 3 expect larger manufacturers to benefit from the agreements.
- Sources expect consolidation of smaller manufacturers as well as more opportunities for non-U.S. producers.

Joint Purchasing Agreements’ Effects on Drug Distributors
- Mixed views on the impact on distributors, little effect on larger entities, midtier and smaller affected, but smaller retailers will still need service so it could be limited.

Joint Purchasing Agreements’ Effects on Retailers
- Independent retailers will feel the most pressure.
- CMS reimbursement is expected to decline as a result of lower prices.

Joint Purchasing Agreements’ Effects on PBMs
- 1 sees little effect on PBMs while 1 said they have reached the end of their usefulness.

1. Pharmacist in charge of a wholesale distributor’s generic drug program; repeat source

The joint ventures may achieve a 2% to 5% pricing reduction for generic drugs, but the savings will be nominal. Generic pricing spikes mostly are due to raw material and generic drug shortages as well as trepidation about Obamacare.

Joint Purchasing Agreements’ Effects on Drug Prices
- “[The joint ventures will result in] minimal savings because ... they have to satisfy Wall Street.”
- “The winners will be the big three: ABC, McKesson and Cardinal. The [retail chains] will be winners because they control such a significant percent of the market; and just because of their volume, they are just going to get special deals. But it will not be reflected to the consumer; you can bet on that.”
“Most physicians and consumers think if you go to Walmart that every [generic] prescription outside the insurance will be a $4 prescription. Well, it’s not. And if you go in with a prescription that’s not on that $4 list, you’d better be Bill Gates to afford it.”

“[The recent spike in generic drug pricing] is primarily [caused by] the fear of Obamacare and market conditions. There have been some raw material shortages. A lot of manufacturers are discontinuing products that are no longer profitable to them, and it’s limiting the number of manufacturers on that item. When that happens, the price significantly increases.”

**Joint Purchasing Agreements’ Effects on Manufacturers**
- “There are going to be a bunch of companies buying up other companies or just merging with them because of all the regulations. Some of the smaller companies can’t even afford to comply with the regulations.”
- “They were always be a niche [for smaller manufacturers]. But with all these regulations and stuff that’s going on with the government, it’s going to be hard on some of these smaller manufacturers. Like on the distributor side, there is going to be a ton of small distributors going out of business because they can’t afford to comply with government regulations. And that’s going to happen soon. Right now [the government] wants to track and trace. ... Every single bottle is going to have a serialization number and they can track from start to finish where that product is. We have to comply on the wholesale end, from the manufacturer to the pharmacy, starting in 2015. To go down to the consumer level on the prescription end, they are going to phase that in over a 10-year period.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**
- “It’s going to be fairly tough on the smaller and also the midtier. And if you don’t change the way you do business today, you’re not going to last.”

**Joint Purchasing Agreements’ Effects on Retailers**
- “The big major chains are going to benefit a little bit, the midsized chains will benefit a little less, and the regional independent pharmacies will not benefit at all.”

**Joint Purchasing Agreements’ Effects on PBM’s**
- “All the PBMs are is another layer of cost. They are making a jillion dollars. The law means nothing, the patient means nothing. All that means anything to the PBMs is money and profit.”
- “The PBMs are driving these small, independent pharmacies out of business. When you have a price increase, it takes them two, three, four months to change the price. With the technology today, are you kidding me?”

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**2. Sales representative for a secondary wholesaler**

Taking into account that branded drugs are being transitioned into generics, this source expect the joint ventures to hold about 75% of drug spending power in the United States this year. The partnerships may achieve 2% to 5% lower pricing for generics, but certain generic drugs have posted price hikes. Manufacturers hope to capitalize on generic drug price increases and shortages.

**Joint Purchasing Agreements’ Effects on Drug Prices**
- “Sixty percent is actually a pretty safe number to go with, but I’d say around 75%. The reason is that I’m bringing into account the transition from a lot of the branded drugs going generic, and those becoming a bit more popular as far as being utilized in the chain stores with these [joint venture] deals.”
- “I can see the [generic pricing discount being 2% to 5%]. The only thing that they are probably not factoring in, which is happening a lot lately, are the shortages as well as pricing increases specifically in the generic part of the industry. It has a lot to do with the merging of the different generic manufacturers themselves, which is cutting down on the number of manufacturers producing the same product.”
- “If you are paying $100 for a product and now through the contract you’re getting 5% off, but that product doubles to $200, basically you’re still paying more for that product.”

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The winners will be the big three: ABC, McKesson and Cardinal. The [retail chains] will be winners because they control such a significant percent of the market; and just because of their volume, they are just going to get special deals. But it will not be reflected to the consumer; you can bet on that.

Pharmacist
Generic Drug Wholesale Distributor
Generic Drugs: Joint Drug Purchasing Ventures

“Generic manufacturers are also speculating, looking for that next drug that either goes into shortage or has a huge price increase, and hoping they already have the production run set and ready to go and are able to capitalize off of that.”

Joint Purchasing Agreements’ Effects on Manufacturers

- These types of alliances usually are a great thing for the manufacturers because they have a better knowledge of how much production run they need to make for a specific drug. Then in exchange for that, they are able to offer better pricing to those people who are able to buy in bulk.
- “What you'll notice is going to happen in the industry over time is that there won’t be as many competitors making the same drug. At the same time, if you have the buying power such as the big three to come in and buy up a whole production run then, of course, you are going to be able to get a better discount.”
- “[The increased FDA scrutiny] will probably cause [pricing] to increase depending on how big the [manufacturer’s] portfolio is. Ranbaxy actually had a very large portfolio. Once the FDA came in and said these products can’t actually specifically be sold to the U.S. because of the issues that [Ranbaxy] ran into, then ... somebody had to fill that gap ... which meant [those manufacturers’] production rates had to go up. I can’t speculate as far as how or when a manufacturer decides to raise their prices, but I know that the end game of it is that the prices did end up going up because of it.”

Joint Purchasing Agreements’ Effects on Distributors

- “If it [affects] the independent pharmacy, then at that point it affects wholesalers such as ourselves.”

Joint Purchasing Agreements’ Effects on Retailers

- N/A

Joint Purchasing Agreements’ Effects on PBMs

- N/A

3. Executive at a regional drug wholesaler

Consortiums might get a 2% to 5% discount for lowering the manufacturer’s distribution costs, but the wholesaler then will have to pay for distributing the products to the retailer. The larger generic manufacturers likely will be less open to negotiating prices with the consortiums. If the consortiums do receive lower prices, the government and PBMs will use that as a basis for reducing payments.

Joint Purchasing Agreements’ Effects on Drug Prices

- “All this coming about just made great press because when one of the big three announced they’ve formed a consortium, the second one and third one had to announce they have done the same thing or better.”
- “[The 2% to 5% generic drug price discount] could be because there may be some [distribution] efficiencies. ... In other words, if you can cut costs out of distribution and let somebody else handle the cost, the manufacturer can reduce his cost. That could very well be true, but the distributor on the other hand has then to distribute it so they have the cost of distribution. It’s added back in to the total price on the way down.”
- “The price from the manufacturer to the distributor might go down by 2% to 5%, but then the distributor has to distribute it to the CVSs, Walgreens or Rite Aids of the world.”
- “The generic manufacturers have been squeezed terribly by the generic cliff we hit this year where there are many fewer generic drugs coming on the market. Their earnings per share would have been impacted except for one thing: They raised the price of their drugs so that their earnings per share stayed up.”
- “Everybody says competition won’t allow you to raise prices. Well, a lot of the prices on generic drugs are way below where they should be, in my opinion. They have great value and are underpriced. ... When they raise their price, it is actually still of value, but the prices are going to go up.”
Generic Drugs: Joint Drug Purchasing Ventures

- "Are [these joint ventures] going to achieve what their press releases say? No."
- "The only person getting lower pricing is the [retail] chain in this thing, if they get any at all."

**Joint Purchasing Agreements’ Effects on Manufacturers**
- "The turnip has been squeezed already, and the 2% to 5% [price reduction] is about all [the manufacturers] are going to probably offer. That’s mainly because of cutting distribution costs."
- "The negotiation part against manufacturers of like products will be intense. It will just depend on who holds the line and who doesn’t."
- "There probably aren’t [enough manufacturers in the ecosystem to negotiate better prices]. Right now there’s been a huge amount of consolidation in the midsize to small generic companies; they have come way down. And as you look at the top four or five, those guys have gotten bigger and are more resistant to price negotiation."
- "Smaller manufacturers will look for niches and will find them either through regional wholesalers or through hospital GPOs or other areas where they won’t be selling millions of bottles. But they might be selling hundreds of thousands of bottles."
- "Any time you have more regulations like I do, it costs me more. The question is how much can I absorb and how much do I need to pass on."

**Joint purchasing impact on distributors**
- "I don’t think it’s going to be a significant impact [on small and midtier distributors] for the simple reason that this is all focused into the big chains and the big wholesalers. I firmly believe right now that unless something happens that those lower prices aren’t going to filter into my customer market."
- "Most of the buying groups may get good prices on what we call the A, B and possibly the C velocity items, but they get higher prices on the D velocity items, which allow them to get a rebate and feel good about themselves. A ‘D’ velocity is an item you only pick for a store once a week. It’s like going to the grocery store and they tell you that they have a great deal on macaroni and cheese and then you buy the toilet paper and pay for the difference."

**Joint Purchasing Impact on Retailer**
- "As we move to more acquisition-priced metrics for CMS and for Medicare, Medicaid and the states, once those lower prices get out the government is going to take the money off the table and nobody is going to win."
- "My customers are having more volume, but their reimbursements are being reduced. The first word in Obamacare is ‘affordable.’ That doesn’t mean you get paid more for what you do; it means you get paid less for what you do. [The government] is going to be looking for every nickel they can cut out of this, and one of those things is the average manufacturer price. If the manufacturer lists the price they are selling to these consortiums for the federal government, which actually helps them because it reduces their rebate from Medicaid, then Medicaid is going to be paying those prices."

**Joint Purchasing Impact on PBMs**
- "The PBMs will be just like the government: They will look for the lowest price out there and reimburse on that."
- "PBMs have reached the end of their usefulness, and they can’t show that they are that effective at doing what they are doing except adjudicating claims. They do that pretty well. But they are the only person in the entire formula that makes money with no assets and no skin in the game and no products."
- "Medco sold to Express Scripts. Now Medco was the biggest and sold to the second biggest. Now if you are the biggest in the country of anything, do you sell to the second biggest and walk away and take your money, if you don’t see that the end is near?"

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**4. Director of business development for a pharmaceutical distributor**

The three joint ventures account for 60% of drug spending, but their future savings and potential discounts will be insignificant because of continued price hikes. Generic manufacturers cannot sustain lower pricing; there are continuous active pharmaceutical ingredient (API) shortages; and the FDA has increased its scrutiny of manufacturers. The large manufacturers will be the winners, while small companies will go out of business or sell out. If regional or smaller wholesalers do not receive competitive pricing, they should try to “capture” the independent pharmacy market.
Generic Drugs: Joint Drug Purchasing Ventures

Joint Purchasing Agreements’ Effects on Drug Prices
- “[Their future savings will be] nothing significant because of the price increase [that occur].”
- “In an effort to thwart all the consolidation for better pricing, the generic manufacturers cannot sustain offering even lower pricing than they already are with the chain stores, so they are forced to raise prices.”
- “What does a discount percentage matter with a price increase?”
- “[Pricing will] still be affected by API shortages and FDA manufacturing issues.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “The winners will be the larger manufacturers due to increasing prices.”
- “There are not enough manufacturers [to support joint purchasing organizations].”
- “Smaller manufacturers with either go out of business or attempt to sell their companies.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- N/A

Joint Purchasing Agreements’ Effects on Retailers
- “With the joint purchasing agreement, the chain stores and independents should be around the same pricing level as their chain store competitors. If not, the time is ripe for the regional or smaller wholesalers to capture the independent pharmacy market if they do not receive more competitive pricing. Remember, the wholesalers also use the independents volume for pricing leverage as well. If the independents left the big three wholesalers and went to others, their volume would decrease. Why go through the exercise of these joint ventures [if they] could likely backfire in the end?”

Joint Purchasing Agreements’ Effects on PBM
- N/A

5. Operations manager for a small, regional private-label distributor

This source views a 2% to 5% generic pricing discount as realistic. Smaller manufacturers and midtier retailers will struggle in light of the purchasing agreements.

Joint Purchasing Agreements’ Effects on Drug Prices
- “[An additional 2% to 5%] sounds like a reasonable discount for a larger buying group. It doesn’t sound unusual.”
- “Generics are being offered at retailers like Walgreens, CVS and Walmart for $4 scripts, so this may be the venue they are using to be able to get to those $4 scripts—that is, for anyone who doesn’t have insurance. If you have insurance, they are going to process it through insurance. I think they all have some kind of a program where the generic cash price is quite low.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “A lot of these generic manufacturers are out of the country and ... the FDA is not doing enough to watchdog these manufacturing facilities.”
- “Stateside, smaller manufacturers producing generics may be harmed by this because the offshore manufacturers are really offering huge discounts.”

Joint Purchasing Agreements’ Effects on Distributors
- “There’s a lot of people who are still utilizing small mom-and-pop pharmacies, so it probably wouldn’t affect some of these small wholesalers who sell to those small companies.”

Joint Purchasing Agreements’ Effects on Retailers
- “It will probably affect the midtier. I think the independents and small retailers have a dedicated customer base. ... I would think [the grocery store pharmacies] would fall into the midtier.”
- “Some insurance companies dictate which retailer you can use.”

Joint Purchasing Agreements’ Effects on PBM
- N/A
3) Pharmacies
These five pharmacy sources (one large national chain, one regional chain and three small chains) said the three joint ventures will have 60% to 75% of the drug buying power in the United States, which will lead to discounts of 2% to 5%. The market has enough manufacturers for these discounts to be negotiated. However, if prices get much lower, one source fears manufacturers will leave the market and possibly result in a supply shortage and higher prices. The recent price spike for generics was due to industry consolidation, increased FDA oversight, and greed. Smaller manufacturers must specialize in what they produce and find new distribution avenues in order to survive. Distributors are expected to work through the changes to the channel; smaller firms will team with independent pharmacies to form and expand buying groups. Smaller distributors and small pharmacies will be under intense pricing pressure and must join forces to gain buying power while offering brand-name products and high service levels. PBMs that operate in less than transparent conditions should benefit from the joint buying groups.

KEY SILO FINDINGS
Joint Purchasing Agreements’ Effects on Drug Prices
- 4 expect pricing for the joint purchasing ventures to decline 2% to 5%. 1 was not sure.
- All 5 said the joint ventures possess 60% to 75% of U.S. drug buying power.

Joint Purchasing Agreements’ Effects on Manufacturers
- Large generic drug manufacturers must drop prices and guarantee quantities in order to secure contracts.
- This may lead to some manufacturers dropping out of some markets, resulting in a shortage.
- Smaller manufacturers will need to specialize to remain viable.

Joint Purchasing Agreements’ Effects on Drug Distributors
- Larger distributors will do well while smaller distributors will have to create more purchasing power by joining with smaller retailers.

Joint Purchasing Agreements’ Effects on Retailers
- The joint buying agreements will further differentiate pricing between the large chains and the independent retailers.
- Small retailers will have to join buying co-ops, and offer brand-name products and high levels of customer service.

Joint Purchasing Agreements’ Effects on PBMs
- PBMs’ nontransparent operations are expected to help them benefit from the joint purchasing agreements.

1. Pharmacy director with a regional grocery chain
The large partnerships will achieve at least 2% to 5% price reductions within a year. Manufacturers cut prices deeply to obtain market share a year ago, but overall should fare well with their recent price hikes. Smaller distributors and retailers will be affected and will rely more on buying groups, while PBMs should continue to do well.

Joint Purchasing Agreements’ Effects on Drug Prices
- “I think 60% is fairly accurate, even a little conservative since these aggregates are typically who get sent the RFPs.”
- “I would say [the price discounts] would be at least 2% to 5%. It will certainly be more than if you were a small regional wholesaler negotiating with Teva.”
- “From the time the RFP goes out and the contract gets signed, it can take a fair amount of time, maybe six months. But once the contract is signed, the changes happen right away. A four- to five-year contract is typical, but it’s important what safeguards and adjustments are negotiated to make sure it still works year after year.”
- “Everyone is guessing about the reasons for price increases. Some have a fear with the ACA and more government involvement, so they’re making hay while they can. Others think it’s the generics getting cheaper and cheaper until generics had priced themselves so low they weren’t doing very well, so they’re trying to adjust the market.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “I really don’t know how those negotiations work, but when generic prices go up they seem to go up for all manufacturers now. I don’t think it’s a concern to the smaller ones that sell to the smaller retailers.”
- “The experience we have is buying direct. We have our own wholesaler side, and we would be paying so much for one generic and get a good reduction from another company so would go back [to our supplier] for first right of
Generic Drugs: Joint Drug Purchasing Ventures

refusal. For about a year and a half it was freewheeling. They would cut the price and sweeten it more. We’ve seen three to four manufacturers change prices within one day. But it’s gotten a little more conservative; they’re more interested in the volume they can do. Now one [manufacturer] increases prices, and the others tend to go with the others. We have one generic that was $3 to $4 for 1,000; now it’s $129 for a bottle of 100. I don’t know why.”

- “[Manufacturers] will be better off since they’ve reached a point where they’ve put some value back in generics. Retaining the customer was the major thing. Now they’re wondering ‘what have we done? We have market share but look.’ They’re either all aware or all in the same boat. I think the manufacturers will be OK unless we all get down to one or two huge groups.”

Joint Purchasing Agreements’ Effects on Drug Distributors

- “The smaller distributors are going to be competing the same way we compete: Keep the acquisition cost as low as possible. They’ll be in a precarious position unless they can offer a buying group. They’re better in customer service, but the big ones are pretty responsive. And does it matter? Walmart is at the bottom for customer service and customer satisfaction, but they’re in more preferred networks. We’re all in the same playing field.”
- “They can get a small [generic] company and give a very competitive price because they don’t want to go big. They don’t want to be the generic for Walgreens because they don’t have the ability to make that much product. They can have lower overheads and go to the regionals. We have our own wholesaler where we have the 300 to 400 most used generics. In our buying group, 20% of people have their own wholesale.”

Joint Purchasing Agreements’ Effects on Retailers

- “The bigger you are, the bigger discount you get. Even in our buying group the bigger ones get a different pricing than the smaller ones [based on volume]. I don’t know how a true independent pharmacy even makes money on some insurance claims without a buying group. There are hundreds of buying groups now.”
- “You want to make sure [the manufacturer] has the pedigree and will be able to continue to supply it, but pricing remains No. 1.”

Joint Purchasing Agreements’ Effects on PBMs

- “No matter what happens, the PBMs will win because they have a monopoly. You have to fill prescriptions regardless of the price. And it might take PBMs three to four months to recognize a price increase. They always win and will continue to until someone makes them more transparent.”
- “Our regional just lost a big chunk of business because of these preferred providers. You can never reach the PBM, or it’s never their decision and you can never find the person who decides. Our contracts with PBMs are so one-sided.”

2. Pharmacy manager for large chain pharmacy store

The three joint ventures have close to 60% of drug spending power, although independent pharmacies continue to do a high volume. It is hard to say if and when these three will save money because the cost of generics is so “distorted.” Smaller manufacturers will have a hard time selling directly to retailers. Most distributors will be able to work through the system, and PBMs will not be affected.

Joint Purchasing Agreements’ Effects on Drug Prices

- “I can’t base this on any research, but I would imagine the joint ventures have close to 60%. I’ve been told that a few years ago there were still more independent pharmacies than chains. Independents continue to do a high volume.”
- “I’m not sure if they will be able to save money or when that would happen. No one tracks the cost of generics. The wholesalers don’t pay any attention to it. I suppose ABC should make enough off of Walgreens.”
- “It is hard to say if they will save 2% or 5% or whatever. The acquisition costs of generics are different and can easily be distorted.”
- “Obamacare will increase sales, not profitability.”
Generic Drugs: Joint Drug Purchasing Ventures

- “Walgreens is getting rid of its distribution centers slowly. It’s been seven months now, and they still have their own distribution centers. They aren’t totally shut down. Walgreens has invested staff, a building, a majority of expenses, and they have to let all of this go. You have to wonder why they would give them up if they were profitable. But if they aren’t profitable, why is ABC getting in it? Why are they working together?”

Joint Purchasing Agreements’ Effects on Manufacturers
- “Some smaller manufacturers sell straight to the retailers. It still happens. Now they may have a harder time going straight to the retailers.”
- “The big groups should be illegal. Walgreens now owns 5% of ABC, and I would think this would lead to favoritism. They will be helping each other, and this won’t benefit anyone else. ABC is locked in now. They sold off 5% and hope to make it up in generic sales.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- “Wholesalers are a very decisive group. They know how to operate. They will find a way to pick it up, although some distribution centers may become totally neglected.”

Joint Purchasing Agreements’ Effects on Retailers
- “If ABC is giving Walgreens a better price, it seems like the smaller chains will have a harder time. Retailers will end up spending more than saving.”
- “The only time independent pharmacies can make a profit is when the price of a generic drug drops. The PBMs reimburse the pharmacies the MAC minus the acquisition cost.”
- “I’m not sure how the chains will do. It is never really black or white, and the chains may even cheat on each other.”

Joint Purchasing Agreements’ Effects on PBMs
- “I don’t see how the PBMs are going to be affected.”
- “Several years ago Walgreens stock went down, and they started accepting Express Scripts to boost sales. It worked, and sales went up 18%. It made everyone, Wall Street, very happy. They looked good on paper. But then Express Scripts wanted to negotiate lower fees, and Walgreens pulled out. Sales went back down 17%.”

3. Community Pharmacy Owner

The joint ventures’ generic pricing discount will be at least 2% to 5%, and the manufacturers could respond to even lower prices by departing the market. Lower preferred network copays, which no longer are deemed illegal, create an uneven playing field for the small pharmacy chains and independents.

Joint Purchasing Agreements’ Effects on Drug Prices
- “I think [60%] is probably fairly accurate. I think [the three joint ventures] are some of the largest suppliers in the country, so I’d think it would be at least that.”
- “I think it’d be at least [a 2% to 5% generic pricing discount] or more.”
- “I am not sure [what the savings will be in 24 months]. Some of my concerns would be how do the generic houses react to these even deeper discounts. Will they create more shortages than there have been, and will prices climb and spike simply because there won’t be enough supply to meet the demand?”
- “Many of the manufacturers are claiming that they cannot make any profit off of some of those drugs. The drugs are so heavily discounted, they may just discontinue them and drop off of that market. I think that’s some of what we are seeing now with these generic shortages we’re seeing. I think it’s a reaction back to the market: ‘If the prices are too low, I’m going to leave the market.’”
- “There will be some benefit with lower prices for the consumer, but so many of the consumers are using the PBMs. Nine out of 10 prescriptions I fill are through a prescription benefit manager. But I’m not sure that there’s any direct effect to the patient.”
- “My thoughts [about the recent spike in generic pricing] are that you are seeing some manufacturers leave the market for that particular drug and some companies are seizing the moment and taking advantage of the high
Generic Drugs: Joint Drug Purchasing Ventures

Demand and low supply and raising prices. And I think there are some quality control issues in some plants for generics. Some are temporarily shut down until they improve their quality, and that is going to drive prices up.

**Joint Purchasing Agreements’ Effects on Manufacturers**
- “What I think is going to happen is these joint purchasing agreements will drive prices down so low that some companies will leave the market and others will stay. The ones that will stay will have the market share for those particular products and absolutely can [get a higher price].”
- “I am wondering if there is an insufficient [number of manufacturers in the ecosystem to negotiate better prices], especially for certain drugs. I know normal saline [for IV solutions] right now is in high demand and in very, very short supply. And because of the quality control, not enough manufacturers can spend the money to produce it at the high standards that are required.”
- “The smaller manufacturers are going to have to find niche markets that they can make a profit in and then leave other markets alone in generics.”
- “[Increased FDA scrutiny of manufacturers] is going to drive the cost up—the more regulations, the more cost.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**
- “The wholesaler is going to make more money out of it, of course, and how much of that actually gets passed down to the drugstore level remains to be seen.”
- “[The midtier and small drug distributors] are going to be under intense pressure. It’s going to be very difficult for them. I wouldn’t want their job.”

**Joint Purchasing Agreements’ Effects on Retailers**
- “I am an independent. The nice thing about it is I belong to a wholesale cooperative.”
- “The buying groups are very effective [in getting discounts].”
- “If the wholesaler company is going to make money off these [joint ventures], then we want our share too of better pricing.”
- “[The CMS] is interpreting it ... that if you are willing to take lower fees, then these large chains can offer preferred copay and draw business away from nonpreferred pharmacies. It used to be illegal but now it’s interpreted as being legal, and they are allowing the large chains to do this is against the smaller chains and against independents.”

**Joint Purchasing Agreements’ Effects on PBMs**
- “I don’t know [what the effect will be]. There’ve been so many mergers in the market. I think even in that business they have consolidated into about three or four large PBMs now that have the lion’s share of the business.”

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**4. Pharmacist owner of an independent pharmacy with two stores**

A 2% to 5% generic drug discount is most likely on the mark. The joint ventures will further increase the pricing difference between the independent and the large retailers. PBMs likely will make more money as a result of the purchasing agreements.

**Joint Purchasing Agreements’ Effects on Drug Prices**
- “I think 60% [of spending on drugs] is probably a ballpark. I’d say 50% to 60%, but really that’s just an estimate.”
- “The big losers are going to be the independent pharmacies. The pricing gap will widen even more between the independents and the big boys.”
- “Overall I don’t think the consumer will benefit from it.”
- “[The recent generic pricing spikes are due to] consolidation in the [generic manufacturing] marketplace with companies buying each other and merging. I also think it’s due to the FDA shutting down some of the facilities, and greed on the part of manufacturers.”

**Joint Purchasing Agreements’ Effects on Manufacturers**
- “Manufacturers that have the contracts now can end up losing those contracts if they aren’t the lowest price.”
- “The big boys require 20 million tablets or whatever it is. If the [small manufacturer] can’t provide that, then they are not going to do business with them for that drug. If the [small manufacturer] wants to still sell that drug, they are going to have to go through different routes of distribution—smaller distributors, for instance, which the independent pharmacies usually buy from. [The independents] buy from the big boys but also from the smaller ones.”

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The big losers are going to be the independent pharmacies. The pricing gap will widen even more between the independents and the big boys.

Pharmacist Owner
Independent Pharmacy w/ Two Stores
Generic Drugs: Joint Drug Purchasing Ventures

- “As the [FDA] puts more controls on, it decreases the amount of product on the market; for supply and demand it’s going to increase the price.”

**Joint Purchasing Agreements’ Effects on Distributors**
- “I do belong to [a buying group].”
- “A lot of independents will just go to wherever is cheapest. Small wholesalers call us with weekly, daily, monthly specials, and a lot of people will cherry-pick those and bring those in.”

**Joint Purchasing Agreements’ Effects on PBMs**
- “It will probably make more money for the PBMs because they are going to ... lower their reimbursement costs, and PBMs never pass that along to their customers, which are companies. They just keep more money for themselves.”

**Other**
- “Things are definitely going to partnerships or partnering units. ... Even the group of independents to stay in business will probably have to have something like that to happen as well.”

5. **Pharmacist and owner of a small group of independent pharmacies**

Smaller distributors eventually could have less access to drugs. Quite a few patients come to the source’s pharmacy to obtain brand-name drugs because the chain stores do not stock them.

**Joint Purchasing Agreements’ Effects on Drug Prices**
- “I’d say it’ll be at least 60% to 75% of [drug spending]. Other than Walmart, those are the three main players in the marketplace.”
- “It’s hard to say [who the winners and losers will be]. I have to believe that the large retailers are not doing [the joint venture] for no reason, so they must have some indication that it’s going to help their bottom line eventually.”
- “There’s no reason to team up like that if it isn’t to your advantage. They are going to expect a good price and guaranteed shipments.”
- “The [recent generic drug price spikes] have been horrendous from the retail standpoint.”
- “The market is just so volatile right now; it’s just kind of hard to tell what direction it’s going to go. With prices going up as high as they are, it’s probably affecting everybody in the whole supply chain.”

**Joint Purchasing Agreements’ Effects on Manufacturers**
- “If the manufacturer wants to stay the primary source, they are probably going to have to probably come down on their prices as well as guarantee supply.”
- “There has been a lot of consolidation in the generic manufacturing, but right now I think there are still enough big players that they will be able to [negotiate better pricing].”
- “If the smaller manufacturers have the unique products, they will be OK. I think that will be kind of the key. If they have something that the big guys don’t, they will be OK.”
- “At some point price isn’t going to be an issue if you can’t get [the drugs]. To me, the supply issues right now are almost as disturbing as the pricing.”
- “I’m sure the [increased FDA scrutiny] has been part of why the prices have gone up so high. There have been several manufacturers that the FDA said, ‘No, you aren’t going to be able to bring your products in anymore.’ Then that culls down the number of sources. The fewer the sources, the higher the price goes.”
- “When I used to get a generic in, I felt like I kind of knew [the manufacturer’s] history. Now they all merge and this, that and the other. ... When you look at the fine print [on the bottle you see that] it’s actually being manufactured by someone totally different.”
- “The FDA needs to continue to pretty much scrutinize things. Once a product hits the market ... and causes a problem, it’s so difficult to contact everybody and get the product recalled. I think they need to be very careful before it’s released.”

**Joint Purchasing Agreements’ Effects on Distributors**
- “We use [one of the big three wholesalers] as our primary, and I use a couple of different distributors on a limited basis either as a secondary or for items that I’m unable to get through my [primary] wholesaler.”
"It seems that most of the [smaller] distributors that I have dealt with can move quickly [because they are smaller]. When they know something is going to go up, they purchase it, and then they are able to continue to sell it at a reasonable price. As things change and if more and more of the product goes to the big three, I would think the small distributors would eventually start having more trouble getting access to things."

"The [small distributors] that I deal with—if they have it, it’s great, you can get it at a good price and it’s reputable as far as I have been able to tell ... but then when it’s gone, it’s gone. You may you call the next week and they may not have any more on hand."

**Joint Purchasing Agreements’ Effects on Retailers**
- "Some customers are strictly [looking] for convenience and will go to the first store at the corner. But we have a lot of people who go out of their way to come to us because they trust us, they know we have been around for a long time and the same pharmacists are going to be here day after day. I think they trust that we will make sure we get our drugs from good sources."
- "A lot of the chains just flat won’t stock brand names anymore because they are so expensive. And we have quite a few patients who come to us because if they want the brand name, we feel like that’s that choice."

**Joint Purchasing Agreements’ Effects on PBM**
- N/A

**Other**
- "[The generic drug channel] has changed quite a bit because of all the consolidation, and the companies all just keep buying each other up."
- "I would think the brand-name manufacturers are going to start buying some of the generic manufacturers shortly because there are so few brand-name products anymore, they aren’t going to have any profit for Wall Street."
- "A lot of them are deciding they are going to go into the chemotherapy-type things or the specialties because that’s the only place you can make much money. You can come out with brand-name drugs for diabetes or whatever all day long, but if the PBMs aren’t going to pay for them, then nobody is going to use them."
- "I’ve been reading a lot about how a lot of companies are really putting all their marbles in the cancer medication basket."

### 4) PBMs

These five sources expect the joint purchasing agreements to realize price concessions of 1% to 20% and will control at least 60% of U.S. drug spending. Larger manufacturers will benefit from the increased volume stemming from these buying groups. The recent spike in generic drug prices was due to raw material shortages and manufacturer consolidation. Sources expect consolidation in all segments of the drug channel. Small entities must specialize or join forces if they want to survive. Reimbursement rates will decline as the drug industry becomes more transparent.

### KEY SILO FINDINGS

**Joint Purchasing Agreements’ Effects on Drug Prices**
- All 5 expect the joint purchasing organizations to achieve price declines ranging from 1% to as high as 20%.
- The 3 joint purchasing ventures control at least 60% of drug buying power; the Econdisc agreement between Express Scripts, The Kroger Co. (KR) and Supervalu Inc. (SVU) raises the control to 83%.
- Recent generic drug price spikes are due to raw material shortages and consolidation of manufacturers.

**Joint Purchasing Agreements’ Effects on Manufacturers**
- Smaller manufacturers will have to specialize to survive.
- Larger manufacturers will benefit from the increased volume, but they will have to diversify their product offerings.
- Consolidation is expected to continue.

**Joint Purchasing Agreements’ Effects on Drug Distributors**
- There will still be a need for the second-tier distributors.
- Consolidation of midsized and small distributors is expected.

**Joint Purchasing Agreements’ Effects on Retailers**
- Reimbursement rates likely will decline.
- Consolidation of the smaller retailers will occur, and midsized retail chains will join buying co-ops.
Generic Drugs: Joint Drug Purchasing Ventures

Joint Purchasing Agreements’ Effects on PBMs
- PBMs will benefit from the joint buying ventures but will have to become more competitive and transparent.
- 1 source noted some movement toward acquiring drugs without PBMs.

1. PBM consultant; repeat source

The large retailers are the primary winners and should receive at least a 10% savings starting within six months. Generic drug manufacturers will be squeezed and likely will undergo further consolidation, but also will benefit from growing generic use and the increase in insured U.S. consumers. Consolidation among PBMs will slow in light of fewer small PBMs in the marketplace. Increased transparency will decrease PBM reimbursements. Smaller distributors will be less affected because of their buying group agreements with independent pharmacies.

Joint Purchasing Agreements’ Effects on Drug Prices
- “I would think that 60% to 70% seems about right [for the three joint ventures’ buying power]. The others are regional wholesalers and direct purchases from manufacturers. These alliances continue to grow. Certainly when these large chain drugstores combine with a particular wholesaler, they can provide better incentives on brand and generic drugs. Then they buy cheaper and make some money off PBMs. Besides PBMs, the major ones doing reimbursement are Medicare, managed care and employer sponsored plans, and cash paying.”
- “I think [the price discount] would be much more than 2% to 5%. I work for [a large pharmacy chain], and we collect acquisition data. The average unit for generic price is 25¢. If you take 2% to 5%, that’s a little more than a penny. I would expect 10% to 20% savings.”
- “I think you’ll see it at the inception of the contracts, not for example in year two. If they have an arrangement in play, it will happen within six months. It’s an automated order system; when inventory drops, the order will reflect the pricing arrangement.”
- “There are a number of reasons for the generic price increases. Shortages in ingredients occur, the demand goes up and manufacturers raise prices. Then there’s consolidation in the generic manufacturing space. Manufacturers buy other manufacturers, so there’s less competition, which increases prices. But the biggest reason is called generic rationalization. Manufacturers of older products are seeing lower utilization where manufacturers competed with each other, basically cutting prices to the bone, and the manufacturers aren’t making enough money to justify continuing to make the generic.”
- “The winners are the retail pharmacies because they buy at a lower cost per unit. Manufacturers will be pressured to give better deals, but with increased generic volume at the end of the day, manufacturers will be looking good. There are more generics, more people covered with ACA [Affordable Care Act].”

PBM Consultant

Joint Purchasing Agreements’ Effects on Manufacturers
- “I don’t know if there's anything different in negotiations, though it’s difficult to determine what [manufacturers] are doing with pricing. Some of the info to gauge that is not available to the public. But if you look at the Health and Human Services 2015 budget, CMS is proposing to put in a rebate penalty for generic drug companies that increase prices more than CPI [consumer price index]. Since the inception of the Medicare rebate program in the 1990s, there’s never been a CPI penalty for generic drugs. Manufacturers might adopt some different strategy since they will have to pay some penalties with some deals.”
- “We’ll continue to see consolidation of generic manufacturers, which is similar to the PBM industry. Small players have a tougher job of competing, so large manufacturers will buy out the smaller ones. We won’t see the consolidation we did during the last few years. There are always smaller manufacturers for niche products because large manufacturers don’t want to deal with those.”
- “When the FDA steps in, that decreases the number of manufacturers, which decreases the supply and prices go up.”

Joint Purchasing Agreements’ Effects on Drug Distributors
I don’t think there will be a big impact on the smaller distributors because a lot of independent purchases are done through buying groups. There might be 1,000 independent pharmacies that go into a purchasing group. The buying group can go to any wholesaler and get a deal worked out. The thing that will compromise the growth of the independent buying group is the acquisition-based cost. CMS has the NADAC so everyone can look for the best cost. They’re getting away from the old benchmark Average Wholesale Price and MAC [Maximum Allowable Cost] lists, which are not maintained accurately by the commercial PBMs. You have acquisition cost pressure on the reimbursement side and have PBMs pressured to pay networks less. The payers pay less as everyone looks for the best deal.

Joint Purchasing Agreements’ Effects on Retailers
- The payers are probably going to be in a reduced capacity. They’re paying at MAC rates. As less is paid for these products, the rates [PBMs] pay to pharmacies will go down as well. There’s more transparency with reimbursements. When the chain pays less, the clear winner is the chain.
- It’s true that now PBMs don’t revise their MAC lists as the states, fee for service/Medicaid programs do. Commercial PBMs don’t have a good handle on average acquisition costs. Four to five states have transparency laws that allow their pharmacies to contest their payment rate. PBMs will set their MAC, but what the independent and chain pharmacies won’t tell you is how many times they’re being reimbursed above what they paid. In general commercial PBM payers set MAC prices too high. Also keep in mind that larger PBMs such as CVS and Express Scripts have mail order, and they typically eliminate dispensing fees as an incentive. The PBMs maintain their own MAC list to pay retailers and themselves through their mail order operations. So, in essence the commercial PBMs pay themselves with excessively high MAC rates and then pass those costs along to the sponsoring groups.

Joint Purchasing Agreements’ Effects on PBMs
- PBMs have to become more competitive and transparent. The focus for smaller PBMs has been governmental work, municipalities and unions. They have to continue to get creative and savvy. More will get into mail order and specialty drug distributions.

2. Executive vice president of sales and marketing for a PBM; repeat source

Big changes in the drug channel are underway, with generics comprising a large part of the market. The big three partnerships likely will comprise 65% to 70% of U.S. drug spending, and should achieve 5% or higher price discounting. The bulk of the discounts will hit after one year of Obamacare, when there’s pressure -

Joint Purchasing Agreements’ Effects on Drug Prices
- I see a major realignment going on—a big shift. On the macro level over the last 15 years we’ve seen brands go from 85% of the market to now 15%. Now alternatives are being formed between generic manufacturers, retail pharmacies, distributors and health plans, which will put pressure on manufacturers.
- [The three represent] at least 60%, maybe 65% to 70% [in buying power], but it won’t go higher than that because of the alternative models being developed.
- I would think higher than 2% to 5% [price discounts]. First they have an organized marketplace, and now you have entrepreneurial companies that are competing for market share and creating opportunity for competition. There are emerging models for wholesalers and manufacturers.
- There’s a little calm before the storm, but [the pricing changes are] happening right now. We have uncertainty with healthcare reform, but it will really start next year—after one year of Obamacare, when there’s pressure by insurance companies and pressure on brand-name manufacturers.
- There’s a combination of reasons [for recent generic spikes]. Aside from [ingredient and product shortages], you have winners and losers, and when someone goes out of the marketplace there can be subtle manipulation. The generic marketplace is more of a true marketplace as they don’t have...
so many protections as big pharma.”

- “Generic companies are forming alliances with retailers, and distributors. Generic companies will benefit [from higher volume], and wholesalers and the health plans will benefit. Brand companies are the big losers, but they’re using a new model of direct shipping with drugs like Nexium ... so we’ll see how that goes. Walgreens is partnering with a bunch of pharmacies in hospitals to develop distribution models. You’ll have a lot of that.”

**Joint Purchasing Agreements’ Effects on Manufacturers**

- “Generic manufacturers will most likely be very price-competitive because they have brands on the rope and will go for share.”
- “I’m not close enough to know [how manufacturers negotiate], but they always work to maximize their profits. The cost of entry into being a generic manufacturer will limit the new wholesalers and manufacturers coming into the marketplace.”
- “The wild card in all this is the FDA, which is being pressured by big pharma to influence regulations. Big pharma is creating requirements that benefit them and hurt others.”

**Joint Purchasing Agreements’ Effects on Drug Distributors**

- “Right now it’s the big three that are driving competition, and they’ll benefit.”

**Joint Purchasing Agreements’ Effects on Retailers**

- “You’re going to see continued consolidation with retailers and small generic manufacturers.”

**Joint Purchasing Agreements’ Effects on PBMs**

- “From a PBM perspective, brands are loss leaders. And you make money off generics. You’ll have more generic utilization and more conversion from brands. PBMs will benefit from that in managing costs. As they say, rising tides lift all ships. There are some movements to access drugs without PBMs, though it’s not a dominant trend.”

**Other**

- “Pfizer [PFE] making their offer for AstraZeneca [AZN], which is an attempt by Pfizer to make sure they have the 15% [that makes up brands] in the marketplace.”

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### 3. Sales director of a midtier PBM

This source expects generic price discounts from the partnerships but said inflation and price spikes resulting from a lower number of manufacturers will counter some of the price savings. Smaller manufacturers will diversify with niche or specialty products, while smaller retailers will continue with derive benefits from established relationships with large distributors or they will join GPOs. The source does not expect his company to be affected but said other PBMs will form relationships or innovate to improve their purchasing power.

**Joint Purchasing Agreements’ Effects on Drug Prices**

- “There are really four with ESI/Kroger/Supervalu. I have knowledge that 83% of generics are through those four. ESI is very clever in saying it’s a PBM, especially with its experience in purchasing Medco, the largest mail order. ... If each [of those four] have 20% to 30% of the market, yes, the three have about 60%.”
- “Absolutely, these big groups can drive pricing. But the bigger question is do they pass any of that savings on? With Medicare Part D they have to pass some on to the government and the end payer such as UnitedHealth. And even some PBMs might get involved. But does any get passed on to the consumers and others?”
- “I would say they won’t get 2% to 5% because of inflation and because of the restructuring of the market. Fewer generic companies are making these generics. These drug companies are dropping out.”
- “We do point-of-sale with rebates. If we get better pricing on our generics it’s passed through as soon as we get it. But we’re still the minority in that. In our model, we pass it on to the payer.”
- “Generic pricing is absolutely directly proportional to size. Unlike brands, where size doesn’t matter in being able to shift market share, size matters with generics.”
- “[The price spikes are] due to the consolidation going on among generic manufacturers. Generic companies are dropping off, they give the argument it’s ingredient availability, but they’re really reducing the supply and the demand goes up.”

*If you’re a pure-play generic company you’ll get commoditized, and you have to branch out into specialty or other pharmaceuticals. Or other pharma will buy them and diversify.*

*Sales Director, Midtier PBM*
Generic Drugs: Joint Drug Purchasing Ventures

Joint Purchasing Agreements’ Effects on Manufacturers

- “If you’re a pure-play generic company you’ll get commoditized, and you have to branch out into specialty or other pharmaceuticals. Or other phamas will buy them and diversify.”
- “The smaller ones are fine if they have a niche or are in biotech. Otherwise, I don’t know how they survive.”

Joint Purchasing Agreements’ Effects on Drug Distributors

- “Once again, on the generic side size matters and [small and midsized distributors] need to move into brand or specialty and provide a service niche.”
- “These large distributors have relationships with midtier, independents and smaller grocery chains and they’ll want to grow those relationships. They’ll pass on some of the purchasing power to them. ... Smaller ones will have to join a GPO.”

Joint Purchasing Agreements’ Effects on Manufacturers

- “It will affect those that own their mail order and specialties, such as ESI, Caremark, Catamaran [Corp./TSE:CCT], MedImpact [Healthcare Systems] doesn’t own their own mail order.”
- “They’ll negotiate a good price. ... As long as there are competitors they have to turn around and get larger to push their purchasing power.”
- “It’s not going to affect us. ... There are always innovators out there creating new [PBM models]. We started ours not long ago and have a very effective model that is taking market share. I suppose the larger ones can gobble us up. But ESI is not doing that well; Catamaran is not doing that well. There are lots of problems, and we’ll continue to take advantage of that.”

4. Sales Director of a small PBM in the Midwest

Price discounting of around 3% is likely, and the big three will be responsible for about 70% of drug spending in the United States. The increase in specialty drugs is hurting the generics market. Small manufacturers and small to midsized distributors will be the biggest losers from the joint ventures. Among PBMs, the larger players will emerge as winners.

Joint Purchasing Agreements’ Effects on Drug Prices

- “I think 60% to 70% is accurate, a little higher than 60%.”
- “They’ll get 2% to 5%, probably closer to 3%. I think they’ll happen much faster than six months, as soon as they strike the deal.”
- “[The spikes in generic price increases] are due to consolidation in the industry.”
- “The other big trend is the specialty drugs. I think that’s the big game-changer for generics. Instead of a $5 generic, patients will get a specialty drug, and that will lower the need for some generics. Most go through mail order, which is horrible. Specialties need to have a pharmacist to help the patient. It affects the retail pharmacy who can’t stay in business.”

Joint Purchasing Agreements’ Effects on Manufacturers

- “When [the large joint ventures] strike a deal, the small manufacturers get pushed out of the loop and face the danger of being pushed out of the market.”
- “There used to be a lot more manufacturers, but I keep coming back to the consolidation in PBM manufacturers, with little savings passed on. What this is really doing is making it difficult for the smaller manufacturers to gain any traction. At some point, though, the pendulum will shift back.”
- “The biggest problem for small generic manufacturers is making sure they’re making enough generics and have the stock available to the people trying to buy it, whether its PBMs or wholesalers.”

Joint Purchasing Agreements’ Effects on Drug Distributors

- “They have to consolidate or fail. Kinney Drugs had to sell, and I know H.D. Smith in Springfield is struggling. They have 3% of the market and do $6 million sales, but they just can’t compete.”

Joint Purchasing Agreements’ Effects on Retailers

- “The small chains and independents will get more into pharmacy co-ops that purchase drugs from wholesalers and manufacturers to sell to the independent pharmacies. There will be more consolidation of pharmacy co-ops.”

When [the large joint ventures] strike a deal, the small manufacturers get pushed out of the loop and face the danger of being pushed out of the market.

Sales Director
Small PBM, Midwest
Generic Drugs: Joint Drug Purchasing Ventures

Joint Purchasing Agreements’ Effects on PBM

- “Only the large PBMs will benefit. The biggest problem is the largest PBMs are publicly traded and their client is the stockholder. They have to make more money each year, and the money they make drops to their bottom line.”
- “I don’t think it will have much effect on us.”

5. PBM executive

Given that generic drug pricing depends on volume, the joint ventures may see a 2% to 5% pricing discount. The partnerships could produce generic price reductions for consumers, but a lot of manipulation can be done to prevent retail prices from declining.

Joint Purchasing Agreements’ Effects on Drug Prices

- “I’m not sure the [joint purchasing] agreements are going to have as much impact as the fact that a lot of branded drugs are becoming generic, and there does not seem to be a whole lot of pipeline building by the pharmaceutical companies. They are specializing more than broadening the offering of drugs to the patient population.”
- “The [2% to 5% generic pricing discount] could be accurate. The whole pricing on drugs is based upon volume. If you can bring in significant volume, you have always been able to get more than the next guy who doesn’t bring in as much volume, especially in generics.”
- “There have been a number of branded drugs that have gone into the generic marketplace; their patent ran out. There was a flood of those actually in the last three or so years. For the first two or three years, they are kind of able to command a high price for that drug. It takes awhile to rev down.”
- “You would hope that the [joint ventures would achieve generic price reductions for consumers]. It should, but whether it does or not depends on who is policing the contracts. ... If nobody is watching it, then a lot of manipulation can be done, and the price may not go down—it may stay the same or it may go up on the retail side.”

Joint Purchasing Agreements’ Effects on Manufacturers

- N/A

Joint Purchasing Agreements’ Effects on Drug Distributors

- “If you go to any pharmacy in the country, they all have a primary and usually one or two secondary wholesalers. And the [secondary’s] pricing has always been because of volume probably a little bit worse than the major [wholesalers].”
- “You have to have a secondary supplier just to make sure you get the product that you need. And sometimes you might get a better deal on one or two drugs or a small group of drugs that you would get from a secondary supplier versus one of the majors, usually in the area of generics. Branded drugs are too tightly controlled; there is not that much leeway in pricing between distributors for those drugs.”
- “Some of the small distributors ... have gotten into the business basically by buying near-outdated products from major distributors and then selling them before their expiration date.”

Joint Purchasing Agreements’ Effects on Retailers

- N/A

Joint Purchasing Agreements’ Effects on PBMs

- “[The joint ventures] are probably not going to make a difference to the PBMs because they have their pharmacy networks that cover the gamut from the large [pharmacies] to the small ones.”

Other

- “Most people don’t really understand how the process of getting drugs from a manufacturer to a patient works in America. And I think it’s convoluted on purpose just so that the drug pricing can be somewhat manipulated where it is, which is higher than in most countries.”

5) Industry Specialists

Five of these six sources commented on the buying power of the new joint purchasing agreements: Four think it is in the 60% to 70% range, but one believes buying power is overrated because of government mandates. Four of the six expect the joint ventures to obtain price discounts of 2% to 5%, while one source said the partnerships will have little effect on pricing. The
remaining source expects prices to increase because of raw material shortages and greater FDA oversight. Manufacturers can expect to see an growing number of buying groups, and small manufacturers will struggle unless they offer something unique or are in the specialty drug segment. Manufacturers outside of the United States have an opportunity to benefit in the U.S. generic drug market. Two sources expect small distributors and pharmacies to be challenged by the partnerships. One source each expects changes in the drug channel to be minimal, innovations from these groups to emerge, and mergers to continue.

**KEY SILO FINDINGS**

Joint Purchasing Agreements’ Effects on Drug Prices
- 4 of 6 think drug spending control is in the 60% to 75% range.
- 1 thinks the buying power is overrated because of the best price values required by the Medicaid system.
- 4 of 6 expect the joint purchasing agreement to produce 2% to 5% price discounts.

Joint Purchasing Agreements’ Effects on Manufacturers
- Manufacturers will face additional buying groups as more are expected to form.
- Smaller manufacturers will be challenged to compete unless they specialize or offer something unique.

Joint Purchasing Agreements’ Effects on Drug Distributors
- The larger distributors are expected to be winners.
- The smaller distributors will face challenges.

Joint Purchasing Agreements’ Effects on Retailers
- Retailers will see lower reimbursements, more mergers in the mid and small tiers, and the need for more innovation such as joining or forming buying groups.

Joint Purchasing Agreements’ Effects on PBMs
- 1 said PBMs have no accountability.
- 1 said PBMs would adjust to the new channel.
- 2 said PBMs would have to rethink their business model.

1. Spokesperson for a national pharmacy association

Price reductions of at least 2% to 5% are probable. This pharmacy association hopes independent pharmacies will benefit based on their relationships with the large distributors. The concern for the independent pharmacies is the MAC lists, which are not updated in a timely manner. The source welcomes national legislation and improved pricing transparency. Small distributors and small manufacturers will face challenges from the joint agreements.

**Joint Purchasing Agreements’ Effects on Drug Prices**
- “There’s definitely a merger-happy dynamic going on. From our vantage point, it’s not a fundamental issue because we have our own relationship with those distributors. The mergers haven’t raised any concerns. Representing 60% of the drug spend absolutely makes sense.”
- “It’s hard to know the upcoming price decreases because these mergers are relatively new, but I don’t see it being any less than 2% to 5%. These generic drugs should create a lot in savings. All we hope is that all the partners partake in it because historically most are for the members of the deal.”
- “Drug or ingredient shortages can cause price spikes or some plant can be red-flagged. ... We want the FDA to work with these manufacturers.”
- “[Our association’s pharmacies get] our drugs from [one of the big three joint buying ventures], and the PBMs are responsible for reimbursing us. They’re creating a loss-leader dynamic.”
- “Nine states have passed laws for transparency. Nationally, there is an attempt to create transparency and fairness. There’s definitely a push on a federal level.”

**Joint Purchasing Agreements’ Effects on Manufacturers**

Manufacturers play very aggressively. They’re always going to watch the bottom line. I do think there are enough to negotiate better prices with more volume.

Spokesperson
National Pharmacy Association
“Manufacturers play very aggressively. They’re always going to watch the bottom line. I do think there are enough to negotiate better prices with more volume.”

“If you’re a smaller manufacturer, you’re obviously at a disadvantage.”

“I don’t know about the FDA, but it’s the FTC’s call on whether to halt a lot of mergers. There’s not going to be a slowing up of this merger trend. When they allowed the CVS/Caremark merger, where we thought there were some concerns, we realized they let the mergers go through unless there’s a big red flag.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- “When it comes to wholesalers we have a long-established relationship with them. We have 20,000-plus pharmacies that one large distributor has helped us get established.”
- “The smaller drug distributors will have less clientele, and they’re going to be squeezed. They need to have a new business model because they’re not operating on the same field.”

Joint Purchasing Agreements’ Effects on Retailers
- “Because of the patent cliff and more generics, some of the drug pricing issue has gone away. But with low reimbursement, many pharmacies barely break even or they lose money. If we’re squeezed too much, the pharmacies are pushed to breaking point and patients lose because they lose access to pharmacies.”
- “CVS and Walgreens are not our natural competitors because we try to serve underserved areas. Our issue is with the PBMs and the mail order pharmacists.”

Joint Purchasing Agreements’ Effects on PBMs
- “There’s not a lot of accountability with PBMs. They are able to dictate how market works.”

2. President of a pharmaceutical consulting firm; repeat source

This consultant believes 2% to 5% generic price reductions are probable for the three partnerships, which he estimates hold close to 70% of the power in drug spending. More buying groups will form, along with mergers among the smaller manufacturers, retailers, distributors and PBMs.

Joint Purchasing Agreements’ Effects on Drug Prices
- “I would say 60% to 70% is a rough guess, closer to 70% of drug spend, because of their enormous attraction and buying power.”
- “I think there will be a cost plus 2% to 5%, depending on volume and the players. I think it should happen sooner rather than later. The marketplace is very crowded and most of these contracts are for two to five years, so managed care will be looking to benefit ASAP.”
- “More and more companies are getting selected out of generic manufacturing, which enables the existing companies to spike prices based on utilization or therapeutic category.”
- “The generic drug spend is now closer to 80%. You will start to see more brand companies becoming more competitive with their brands as generics become available, so they can remain an active part of the market.”
- “The main winners will be the big chains obviously and the large PBMs that can manipulate the market. Especially in brands, more managed care organizations are going to specific types of formulary to limit prices, and the drug companies are offering bundling to get their drugs represented.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “I don’t know what small manufacturers are doing aside from making deals with HMOs for better places on formularies.”
- “There are so many manufacturers merging. The market will get more competitive.”
- “I think it’s about time the FDA got their act together. I’m surprised how dishonest the drug companies have been. ... The increased scrutiny may cause generics to rise [in price] a little but not as much as they have.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- “The big three will be fixing the WAC [Wholesale Acquisition Cost] prices to reflect this 2% to 5% reduction in prices.”
- “We’ll see more of the conglomeration and more buying groups as the small ones don’t want to be pushed out of the picture. They’ll get together with three or four small PBMs to be more aggressive in what they’re negotiating for.”

We’ll see more of the conglomeration and more buying groups as the small ones don’t want to be pushed out of the picture. They’ll get together with three or four small PBMs to be more aggressive in what they’re negotiating for.

President
Pharmaceutical Consulting Firm
Generic Drugs: Joint Drug Purchasing Ventures

with three or four small PBMs to be more aggressive in what they’re negotiating for.”

Joint Purchasing Agreements’ Effects on Retailers
- “It’s a good time to be in the retail business today. You can pick and choose different PBMs.”
- “The smaller chains will stick together to get a sweeter deal. There will be mergers with small chains.”

Joint Purchasing Agreements’ Effects on PBMs
- “PBMs will set a reimbursement price that will not go up more than X percent of the established AWP.”
- “There will be fewer PBMs. When we see the PBMs go from 12 to six, then we’ll see a reversal of the current pricing trend.”

3. Executive vice president of a trade association

The joint ventures control more than 60% of drug spending, but how much they will save over time remains unclear. They could achieve a 3% to 5% discount. Only 5% of all generic drugs had a price increase; the rest stayed the same. Pricing is affected by supply and demand. The joint ventures are cutting price deals with Mylan, Actavis and Teva. The source was unsure how the smaller manufacturers will fare.

Joint Purchasing Agreements’ Effects on Drug Prices
- “There is no way their percentage is under 60%, but it is more on the higher end, not up to 90%.”
- “I’m not sure how much savings they will see over time. We’ll have to look at the earnings calls. A lot of money comes from generics.”
- “Maybe they will get savings of 3% to 5%. I’m not sure. They could get 10% to 15% discounts on a high commodity item, but not on a new drug.”
- “Pricing is the most complicated of all areas because it covers everyone, from chemical manufacturers to the medicine cabinet. All the discounts and chase-backs are hard to understand.”
- “Only a select group of drugs have had price spikes, just the minority of drugs. There are 10,000 generic products, and 95% stayed the same price.”
- “They raised the prices because they can. It’s that simple. There are no price controls, and this is a free market. But generics still have more margin and are cheaper than the brand.”
- “There are also shortages of some raw materials, which affects price, and there are fewer manufacturers out there, which affects product lines.”
- “Pricing is affected by supply and demand. A few years ago there were so many competitors; everything was so commoditized that pricing stayed in the gutter. But now there are so few competitors. With one competitor, you can get a 15% discount; with two competitors, you can get 25% off; and with lots of competitors, you can get 95% off.”
- “The $4 prescription products still make a profit because the pills cost 10¢ a product. They buy those pills for 1¢ a pill, then have a 900% markup.”
- “The street value of a drug is what a pharmacist pays. Six cents for every dollar goes back to the manufacturer, and 94¢ of that dollar is stuck somewhere in the supply chain.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “They are cutting deals with the big players, Mylan, Teva, Actavis, and giving them the share they are looking for. I don’t know about the little guys.”

Executive VP, Trade Association

They are cutting deals with the big players, Mylan, Teva, Actavis, and giving them the share they are looking for. I don’t know about the little guys.

Joint Purchasing Agreements’ Effects on Drug Distributors
- N/A

Joint Purchasing Agreements’ Effects on Retailers
- N/A

Joint Purchasing Agreements’ Effects on PBMs
- N/A
4. Bartholomew Clark, Ph.D., associate professor and pharmacy benefits consultant; repeat source

Purchasing power in this market is overvalued because of the “best price” values given to the Medicaid system. The three alliances will end up realizing little gain. Pricing discounts could reach 2% to 5%, given that generics account for 80% to 90% of drugs sold. The recent spike in generic drug pricing was a normal response to a new generic covering its startup costs, but several other trends, including Medicare and Medicaid reimbursements, will affect pricing this year. Manufacturers will need to closely watch the best price practice, resultant class of trade exemption, and the HRSA 340b drug pricing program. The agreements may make distributors and retailers alike attractive to manufacturers, and regional alliances should be able to see similar discounts as the three big alliances. In reality, generic drugs are saving working capital and allowing stores much higher margins. PBMs will have to adjust as pricing changes.

Joint Purchasing Agreements’ Effects on Drug Prices

- “Purchasing power is overvalued in this market place by most analysts. Simply put, it is limited in the U.S. market by the U.S. Medicaid system, in which the ‘best price’ of any drug is to be given to the U.S. Medicaid system. The best price legislation [and resultant class of trade exemption] is often a barrier for large corporations like Walmart to buy at a deeper discount. According to federal law, Medicaid must receive the best price, a price that is not published because legislation prohibits publication of the best price. This flies in the face of the assumption that large volume purchasers get the best price. I see an issue with the best price for these alignments and the hype behind them. See the Congressional Budget Office report that makes mention of ‘best price.’”

- “The expectation is that the teams realize a margin impact at each layer of their vertically integrated alliance. In these three alliances, it may end up being neutral or little gain. I see an eBay-type of model emerging whereby Walgreens channel-surfs and discovers the prices paid by others for Drug X and relays this to [Alliance] Boots and AmerisourceBergen, who have to match the price or lose the business.”

- “The pricing discounts could be 2% to 5%, but I see a short-term benefit to retail pharmacies, and the 2% is a generous number on brand-name drugs. It is alleged that the best price impact limits the discount points of a given market of drugs so they will cost their shareholders dearly if they reset best price to every state Medicaid program in the U.S. system. There will need to be a substantial gain in volume to overcome this impact if that were to happen.”

- “The stores are dispensing 80% to 90% of the medications in a generic version and only 10% to 20% of the time in a brand. This is getting bigger for generic all of the time. Watch for generic drugs to hit 90% to 95% of the meds dispensed. Even though the brand drugs are approximately only 15% of the prescription volume at any store today, they control more than 85% of the dollars.”

- “The recent spike in generic drug pricing is a normal cycle. Few people realize that there are not too many manufacturers in the world, as many brand companies rent out their facility to generic companies to make their projected volume of pills for the coming year. If the demand exceeds the supply because they did not correctly anticipate the demand, then prices should increase until they can get more facility time to make more of their generic version of their product.”

- “Other trends affecting pricing this year include: 1) specialty drugs moving out of the medical channel and into the retail or PBM channel; 2) best price provision and the Medicare Part D ‘donut hole.’ Medicaid is demanding more money from pharmaceutical companies, and the higher the inflation, the more rebate paid back to the states. The donut hole is paid for by brand and generic companies, not the government, so manufacturers increase the cost to recoup their loss. 3) explosion or abuse of the [HRSA] 340b program, causing a loss to brand makers; and (4) the five-star rating impact, with Medicare pressuring stores to do more for less money.”

- “The power of competition in generic drugs is exceptional in driving prices down.”

- “I am not sure there are any winners yet. At this point it could be the same three portals [McKesson, Cardinal and ABC] that are winners. Most of this is hype at best.”
Generic Drugs: Joint Drug Purchasing Ventures

- “From what I understand, the three alliances are done in collaboration to make/purchase/distribute/sell generic drugs. This may have little or no impact on brand-name drugs in regard to purchasing power.”
- “These three firms seem to want to align with each other to protect the revenue channels, but Walgreens has been acting more aggressively than others at the PBM layer and getting themselves tossed out. See the Express Scripts and Walgreens collaboration; say what you want to, but these two do not get along.”
- “CVS Caremark looks like the more likely winner as it has a vertical integration model. It has SilverScript, a CMS plan; it owns a PBM that owns a large network panel of providers and a very large mail order system; and [it has] specialty pharmacy operations. The problem for CVS is the CMS sanctions and its lack of commitment to compliance to the CIAs [Corporate Integrity Agreements].”
- “CVS has recently been hit with some tough CIAs, and if they were to be eliminated from the Medicaid or Medicare programs because of a breach in one of the CIA deals, it could have a devastating impact on the other.layers in their alignment with other entities, for example with Cardinal Health.”
- “The answer to the question [on the percentage of drug spending by the three joint ventures] depends on the metric used to quantify that statement. Class of trade matters most; it is the issue in pharmaceutical pricing. Class of trade deals with what type of customer the pharmacy is filling a prescription for and/or what type of facility the pharmacy is. Depending on the class of trade a facility operates in will determine the amount of discount allowed in that class of trade on purchases from any drug company; some of these discounts are legally mandated.”

Joint Purchasing Agreements’ Effects on Manufacturers

- “I believe that brand makers are not too willing to set off a new best price war. That would be extremely expensive to each of them.”
- “Class of trade is again the issue, and you should watch the 340b concerns of brand makers very closely. The brand makers are very upset with the explosion of 340b in America and are asking HRSA to address the issue. 340b is a deeply discounted program, but it is not used as intended, according to many in the industry. Many hospitals are taking advantage of the brand makers in 340b and selling cheaply acquired drugs to private insurance plans to gain large margins for themselves.”
- “I think you should research how many [manufacturers] there really are in the ecosystem. I believe that there are enough, but the surprise is that many brand companies rent their facilities to generic companies and make their products. Sort of like Coca-Cola allowing Pepsi and RC Cola to use their facility, as it is beneficial to each.”
- “[The success of smaller manufacturers] depends on the product they are making. Some focus on a few drugs and others make many. The boutique ones are most likely going to be making these products for a long time to come. I don’t see Boots wanting to make every generic in the U.S. marketplace. Outside entities seem to have the advantage. India and Israel, along with Puerto Rico ... seem to be building new facilities to sell drugs to the U.S. marketplace.”
- “[FDA scrutiny] may cause the prices to increase. Compliance is expensive. More FDA scrutiny to make things safer is good, but they may take a maker out of the ecosystem, allowing the others to move prices up as supply is now limited and demand is as strong.”

Joint Purchasing Agreements’ Effects on Drug Distributors

- “[The agreements] may make the distributors more innovative and attractive to other manufacturers. The danger to Boots and others is picking a horse to race with Walgreens, and 35,000 other stores may not do business with Boots. Companies like [Actavis] Anda may become more attractive because of these alignments. Anda has a rock-solid reputation with retail drugstores and a very good distribution method that does not require any of the big three distribution portals.”

Joint Purchasing Agreements’ Effects on Retailers

- “Retailers may also become more innovative and attractive to manufacturers. They may become more active in analytics, in predicting the use of certain drugs, and do more speculative buying to their benefit. If they become more like a Walmart and use analytics to their advantage they will be fine.”
- “From a retail perspective, the most logical place to squeeze is the distribution side. If they give up 1% to 3% margin on brands and gain more on generic sales, they are OK.”
- “I see Walmart as one of the brightest minds in using analytics to predict purchases, yet they see no need to align to some of these makers of generic drugs to protect themselves.”
- “Regional alliances are popping up, and underrated ones like Smart-Fill in Minnesota are emerging. They are 800 to 900 retail stores of independents that can accomplish similar margin shifts without having to get into a marriage like these systems have demonstrated.”

Joint Purchasing Agreements’ Effects on PBMs
Generic Drugs: Joint Drug Purchasing Ventures

- “PBM’s will have to adjust up or down as these prices change. Many own facilities and can determine the prices paid by providers so they can authenticate the numbers. Because Walgreens wants to use Boots as its sole source of generics is not really a PBM issue, but if Walgreens owns these NDC numbers and can legally move the SWP, AWP at Medi-Span, then their contract with the OGER terms in it could have an impact at all PBM levels, not just one or two.”

6. Pharmacist, industry expert and former pharmaceutical company employee; repeat source

The joint ventures are a “smart move” that will help lower acquisition costs for distributors and retailers alike, but consumers likely will not share in the benefits. Generic pricing discounts should be in the 5% range.

Joint Purchasing Agreements’ Effects on Drug Prices
- “I think 60% [spending on drugs] could be low. The only thing that keeps it at the 60% range is the fact that branded drugs generally have a higher price per unit than generics.”
- “The pricing discount, if it’s between the two players [in the joint ventures], is probably more in the 5% range.”
- “[Doing the joint ventures] was a smart move, and it’s going to help the pharmacies and the distributors get lower acquisition costs on both ends: the distributors from the manufacturers and the pharmacies from the distributors.”
- “They’ll probably throw the consumer, the patient, a bone; they’ll give them something. But I don’t think we are going to see drastic discounts passed along to the consumer. All of that discount is going to be sucked up in the companies’ earnings.”
- “[The recent spike in generic drug pricing] is a push to drive and increase profits. I remember when generics were 20%, 30%, 50% of the costs of the branded prescription product, where now as long as they are not within I would say 10%, people are going to buy the generic. There’s an opportunity to increase the price of the generic, increasing the company’s profitability and still grow that market because people still want to pay less.”
- “It’s getting to where the insurance companies are going to get a little aggravated because they are supposed to be saving costs by offering the generics. The consumer is going to get upset, the insurance company is going to get upset and we’ll see where it goes.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “I think it’s going to help the manufacturers that win the contracts.”
- “I don’t have any insight into [how manufacturers are preparing for negotiations/renegotiations], but I’d have to think it’s going to make them nervous.”
- “I see this definitely tipping the scales more into the distributor/pharmacy side of the table versus the manufacturer because the distributor and the pharmacy are increasing their leverage with the manufacturers.”
- “Smaller players are continuing to get pushed out unless they have something unique specialty-wise they manufacture that none of the big boys manufacture.”
- “Increased FDA scrutiny will increase the cost of manufacturing.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- “The majority of mid-tier and smaller ones will get hurt overall because of this [unless they are specialized], because basically you are talking about consolidation and more vertical integration of delivering a product to the end consumer through the distribution and the pharmacy chain.”

Joint Purchasing Agreements’ Effects on Retailers
- “Your independent pharmacies are the losers.”

Joint Purchasing Agreements’ Effects on PBMs
- “It’s going to cause PBMs to rethink their strategy. Again, it goes back to leverage because you have the [joint ventures] that are now going to have a bigger influence in the whole process.”

[Doing the joint ventures] was a smart move, and it’s going to help the pharmacies and the distributors get lower acquisition costs on both ends: the distributors from the manufacturers and the pharmacies from the distributors.

Pharmacist, Industry Expert & Former Pharmaceutical Company Employee
6. Editor of a trade magazine; repeat source

Generic pricing will continue to increase because of drug shortages and the FDA’s crackdown. Ingredient shortages involve older generic drugs. Non-U.S. generic manufacturers may be forced to leave the business based on quality control issues, and even U.S. generic manufacturers may be affected by the new drug labeling rules. However, payers will benefit once the “patent cliff” subsides.

Joint Purchasing Agreements’ Effects on Drug Prices
- “I’m told that ingredient shortages, as well as reduced competition, are affecting generic pricing. The ingredient shortages are most common in old, reliable drugs like anti-infectives that have been generic for a long time. I don’t know much about brand shortages honestly, and this hasn’t been a huge issue for my readers.”
- “Something to keep an eye on is an upcoming final [FDA] rule on generic drug labeling that would expose generic manufacturers to ‘failure to warn’ lawsuits and increase their liability expenses, which could result in some exiting the generics business.”

Joint Purchasing Agreements’ Effects on Manufacturers
- “I do recall reading somewhere that the FDA was cracking down on quality control in some of the foreign generic manufacturing facilities, and that was affecting competition as well by temporarily precluding some of the manufacturers from making a product for which they’d submitted an abbreviated new drug application.”

Joint Purchasing Agreements’ Effects on Drug Distributors
- N/A

Joint Purchasing Agreements’ Effects on Retailers
- “CVS Caremark’s joint venture with Cardinal has created the largest generic drug purchaser in the United States, and that’s supposed to be very good news for payers as the patent cliff plateaus and tapers off over the next few years.”

Joint Purchasing Agreements’ Effects on PBMs
- N/A

Secondary Sources

The following four secondary sources centered on the three joint purchasing ventures controlling 85% of the U.S. generic drug market; pricing increasing for one-third of generic drugs but declining for the remaining two-thirds; the industry turning its focus from low pricing to higher quality in generic drugs; and proposed FDA labeling that could lead to more generic drug shortages.

April 26 article from The Economic Times

Three consolidation deals between large wholesale drug distributors and pharmacies in the United States, which control approximately 85% of the U.S. generic drug market, are demanding cheaper generic drugs and are squeezing out small and mid-sized pharmaceutical companies in India. This downward pricing on generics is expected to result in $300 million of savings for McKesson and $100 million for Cardinal during the next three to four years.

- “Several mid-sized Indian drug makers heavily dependent on the United States are beginning to suffer because consolidation in the US pharmacy market has created a few dominant players who are demanding cheaper generic drugs, analysts and industry experts said.”
- “The North American pharmacy market saw at least three mega consolidation deals involving large wholesale distributors, resulting in emergence of seven large pharmacies that together control nearly 85% of the $90 billion (Rs 5.4 lakh crore) US market.”
- “Last March, three large pharmacy distributors—Walgreen, Alliance Boots and Amerisource-Bergen—formed a 10-year international alliance. In December, the second-largest US wholesale distributor Cardinal Heath formed an equal joint venture with another large player CVS Caremark. In January this year, another US pharmacy company McKesson agreed to acquire the European Union’s largest distributor Celesio, further consolidating its position.”
- “Of India’s $15-billion global pharmaceutical exports, domestic drug makers depend on the US market for at least $4 billion in sales. Close to $3 billion of sales is garnered by larger players like Dr Reddy’s, Sun PharmaBSE -0.59 %, RanbaxyBSE -0.57 % and LupinBSE -1.13 %. Dozens of mid-sized drug makers such as Torrent Pharma, IPCA LaboratoriesBSE 0.25 % and Alembic Pharma together account for the rest.”
“The new adverse position is forcing mid-sized drug makers to rework their US market strategy. This involves forging alliances with large global pharmaceutical companies or strengthening the product portfolio with unique, niche and difficult to make generic products,” said the same CEO, whose company forged alliances with global firms to launch niche generics.

“Through the large consolidations, the US pharmacy players have set ambitious targets on savings through downward price bargaining on generic drugs. According to IDFC Securities, McKesson set a target of $300 million of savings over the next 3-4 years, while Cardinal estimated some $100 million savings.”

“We believe that the US pharmacy giants will extract most of these benefits from generic companies, leading to pricing pressure on small to medium drug makers and resultant margin erosion from this fiscal onwards. In the process, we expect the bigger players to grab larger market share in the US,” said IDFC’s [Analyst Nitin] Agarwal.”

April 27 Missoulian article
The generic drug market has seen prices increase for approximately one-third of generic drugs but price declines for the remaining two-thirds during the last six to 12 months. This development is a result of mostly lower supplies and a decline in producers, but also from mergers and acquisitions as well as the Affordable Healthcare Act.

“Pharmacist Larry Cowan can flip through his records and spot the generic drugs that have taken big price jumps in the past year or so.”

“There’s doxycycline, a decades-old antibiotic that went on the Food and Drug Administration’s shortage list in 2012 and became the poster child for generic price spikes. Cowan said a tablet of doxycycline went from about 6 cents in late 2012 to $3.65 in late 2013, a 6,100 percent increase.”

“For many years, generics went down and down,’ said Joe Harmison, owner of DFW Prescriptions in Grand Prairie, Texas. ‘Within the last six to 12 months, they’ve been going up, some really drastically,’ said Harmison, who said he has operated his pharmacy for 30 years.”

“Factors behind the unusual price spikes, experts say, include a wave of industry mergers and decisions by some manufacturers to stop making certain drugs.”

“Not every generic drug that Americans take has gotten more expensive. Most have not.”

“On average, the price of generics—medicines that are not protected by a patent and can be produced by FDA-licensed manufacturers—declined 15.9 percent last year, according to Express Scripts, a big prescription-management firm. Prices on brand-name drugs rose 13.9 percent. Both are years-long trends.”

“In all, U.S. spending on medicines rose 3.2 percent in 2013, Express Scripps said.”

“Another analysis of the CMS data, by Pembroke Consulting, found that from November 2012 to November 2013, two-thirds of the 16,000 different generic drugs and dosages saw a price decline while a third rose in price. Six percent more than doubled, and a dozen increased by 20 times or more.”

“Drug shortages appear to be the primary culprit,’ Pembroke President Adam Fein wrote at the time.”

“David Whitrap, director of corporate communications at Express Scripts, said the price increases ‘for a handful of generic medications’ were due largely to ‘natural market factors, including shortages of active ingredients and a reduction in the number of manufacturers.’”

“The market tends to correct itself when instances like this occur,’ Whitrap said.”

“Like Fein, most analysts don’t think the Affordable Care Act has played much of a role in the higher costs of some generic drugs.”

“According to an analysis by Bloomberg Industries, three drug makers—Teva, Actavis and Mylan—accounted for 44 percent of global generic drug revenue in 2013. That was up from 34 percent in 2007, Bloomberg said.”

“Actavis merged with Watson Pharmaceuticals in 2012 to create one of the world’s largest generic drugmakers, and in February announced it would buy Forest Labs for $25 billion. The Federal Trade Commission last week asked for more information related to the deal.”

March 25 Reuters article
Recent regulatory warnings directed at India’s generic drug manufacturers are shifting industry sentiment from low-cost generic drugs to higher and consistent quality. Large generic manufacturers like Teva, Actavis and Mylan are expected to benefit in the short term from the departure of some manufacturers.

“A spate of regulatory warnings for India’s generic drug manufacturers will add a new emphasis on the quality of such medicines in an industry long dominated by the ability to deliver treatments as cheaply as possible, analysts say.”
Generic Drugs: Joint Drug Purchasing Ventures

- “In the short term, that is expected to benefit larger global competitors, such as Teva Pharmaceutical Industries Ltd, Actavis Plc and Mylan Inc, which will be called upon to supply drugs no longer available from some of their rivals in India, they said.”
- “These companies have to spend six months or a year fixing a manufacturing quality control problem, so Teva is likely to pick up a little bit of growth because this is not their problem,” [Jason Kolbert, an analyst with Maxim Group] said.
- “The FDA overall is trying to raise the bar because it’s a brutal industry for a lot of these companies where the pricing pressure is so hefty.”
- “Ultimately you would think standards would be raised in India and they would still remain a formidable opponent,” [said Morningstar analyst Michael Waterhouse].”

April 16 Newsmax article
Product labeling proposed by the FDA could result in greater generic drug shortages and reduced Medicare reimbursements.

- “A proposed Food and Drug Administration rule on product labeling will exacerbate shortages of generic drugs already resulting from regulations on Medicare reimbursement rates and other factors, critics charge.”
- “Patient advocacy groups, lawmakers, and industry representatives warn that the FDA rule, which requires generic drug makers to update information on products if they become aware of new safety information, would add to the drug shortages.”
- “Meanwhile, Roger Pilon, vice president for legal affairs at the Cato Institute, said one of the primary causes of shortages in the generic market is the government’s role in regulating Medicare reimbursement rates and not allowing prices to match market demand.”
- “There is a problem [of generic drug shortages] because of the price controls included in the 2003 Medicare Modernization Act. When you have caps on prices, the result is you see manufacturers producing fewer drugs or getting out of the market altogether,” Pilon said.
- “In 2011, the Government Accountability Office reported a substantial increase in the number of drug shortages since 2006, with many involving generic drugs.”
- “According to the GAO, a total of 1,190 shortages were reported from Jan. 1, 2001, through June 20, 2011. From 2006 through 2010, the number of drug shortages increased each year, growing by more than 200 percent over that period.”
- “The FDA rule on labeling came in response to a 2013 Supreme Court ruling in Mutual Pharmaceutical v. Bartlett, which said generic drug makers could be sued under state law for side effects that may arise from use of their drugs.”
- “GPhA President Ralph Neas testified at a recent hearing of the House Energy and Commerce Committee that the rule could spark a rise in generic drug prices and lead to more shortages rather than less.”
- “On March 19, more than 15 patient and disability advocacy organizations sent a letter to the FDA expressing similar concerns about the proposal.”
- “In October 2013, the FDA required manufacturers to report to them any drugs that were actively experiencing shortages or any potential for a ‘meaningful disruption in supply.’”
- “In comments submitted on Jan. 3, the GPhA said that ‘reporting within a specific period of days may lead to significant over-reporting given the voluminous number of routine disruptions that occur daily and may have the unintended impact of contributing to a shortage situation.’”
- “Industry analysts attribute the drug shortages to a myriad of others factors as well, including pharmaceutical companies’ opting to cease production of older, cheaper drugs in favor of newer, more profitable ones, and unanticipated production problems, such as unavailable drug components.”
- “Researchers surveyed 358 pharmacy directors at health systems across the United States and found that 98 percent reported at least one drug shortage during the previous 12 months, and 63 percent of respondents reported that their facility had completely run out of at least one injectable oncology drug in the past year.”

Additional research by Linda Richards, Renee Euchner and Karen Lusky
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