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Information Management: A Priority for Tomorrow's Pharma Distributors

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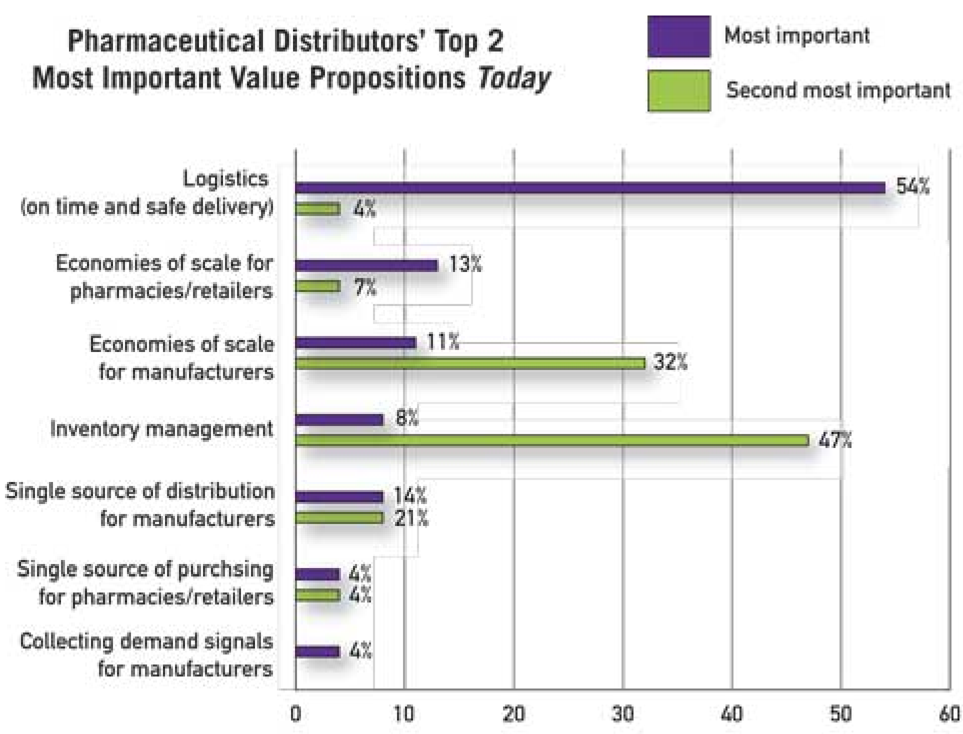
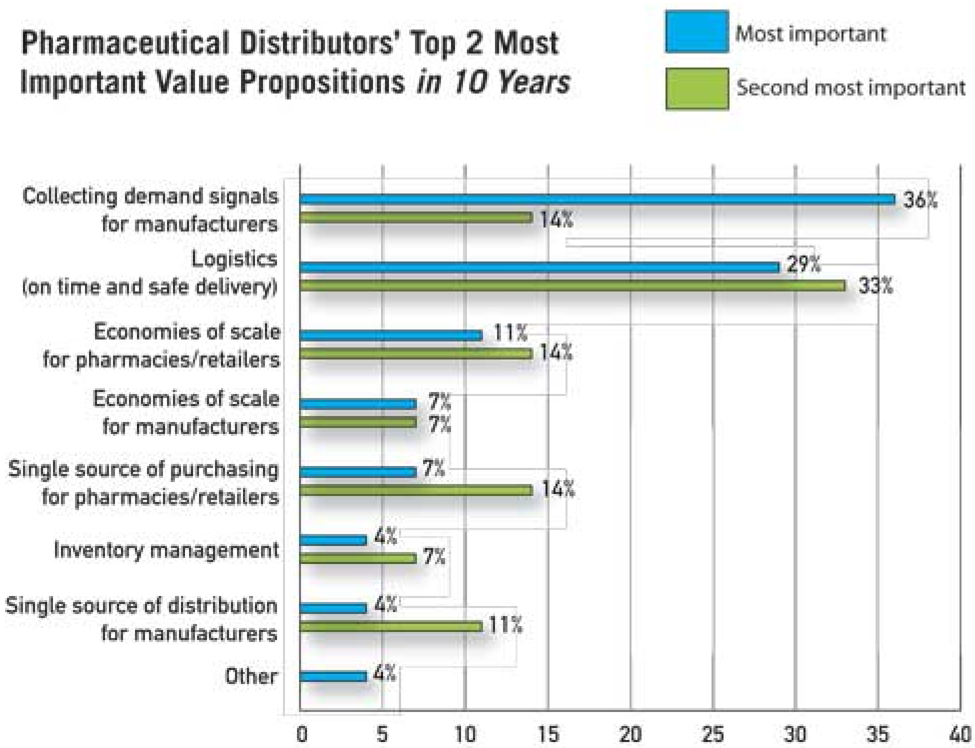
Market survey finds that 'demand signals' will be a future distributor service

A new study from Health Industries Insights, an IDC Company, captures a snapshot of distribution from the manufacturers' perspectives. The upshot: while direct distribution has its appeal, especially for unit-level fulfillment, specialty pharmaceuticals and new product introductions, manufacturers “have lost interest” in it; mass distributors will “sit firmly in the middle” between manufacturers and customers. At the same time, the logistics and inventory management services that are the backbone of wholesale distribution have become a low-margin “commodity.” Market leaders will pull ahead to the extent that they can become information brokers, transmitting timely, comprehensive market signals back to the manufacturers. “Manufacturers are currently completely underwhelmed by the level of information provided to them,” states Eric Newmark, an IDC analyst and author of the report.

The study, entitled “Supply Chain Evolution: the Changing Role of Pharmaceutical Distributors,” was based on a survey and in-depth interviews of companies representing manufacturing, distribution, retailing and software or IT services for pharmaceutical distribution. Newmark says that previous interest in direct distribution was on the increase over the past decade, especially during the era of speculative buying, but the imposition of inventory-management agreements, combined with rising concern over the safety of the supply chain, has diminished that interest. (The report uses the inappropriate term “direct to consumer [DTC] distribution,” but what is really meant is direct-to-dispenser or -retailer.)





Source: Health Industries Insights

Interestingly, the current, dominant factor affecting the structure of drug distribution—the imposition of state-level pedigree programs, and the concomitant availability of track-and-trace data—could wind up solidifying mass distributors' hold on the supply chain. "Distributors will be expected to help map product movement, thereby providing manufacturers with access to more real-time demand information," he says. Pharma companies managing both ethical and OTC pharmaceuticals have seen the value of real-time data coming from point-of-sale data coming from retailers like Wal-Mart and its Retail Link. "Many pharma companies believe wholesalers are the roadblock to this information and are exploring ways to remedy the situation."

Place for 3PLs

Three application areas stand out for direct distribution, possibly with the involvement of third-party logistics (3PLs) providers such as DHL, FedEx and UPS, according to Newmark:

• ***Unit-level fulfillment.*** 3PLs that practice "perfect order performance" of filling and delivering small-package delivery, and which already have sophisticated package-tracking systems, will be able to capture more of this market.
• ***Product segmentation.*** High-value, low-volume products, such as biotech products or vaccines, or those that need cold-chain delivery are good direct-distribution candidates; several manufacturers "are already shipping these products direct using 3PLs," says Newmark. The major distributors are laying claim to the market as well, especially when they can additionally provide order management and financial administration.
• ***New product introduction.*** Manufacturers monitor launches carefully "as a form of investment protection," says Newmark. 3PLs are in a position to provide the precise service requirements; alternatively, they have also acted as a backup to eliminate possible stock-outs.

Shape of the future

Data integration and data mining are two of the top IT needs among life sciences companies, according to previous Health Industries Insights studies. In the supply chain context, these needs are expected to dramatically shift the value proposition of wholesaler-distributors over the next 10 years.

According to the survey data, the most important services distributors provide today are logistics, and economies of scale for both manufacturers and retailers (see Fig. 1). But in ten years, "collecting demand signals for manufacturers" will rise from the lowest priority today to the highest. The Health Industries Insights study also ranked the level of performance for various distributors' activities. Delivery and warehousing services ranked highest; collecting market data ranked much lower.

Newmark advises manufacturers adopt a product life-cycle management (PLM) model for at least some of their products: Introduce the product into the marketplace through direct distribution with a 3PL, then hand distribution over to a mass distributor when the product is in a stable growth curve. Manufacturers should also seek better demand visibility, and distributors should "proactively design transparency into distribution processes and invest in the necessary infrastructure to track product." Some "emerging product tracking services" or "networkwide subscription models" of data delivery could become an alternative source.