

About HDMA

The Healthcare Distribution Management Association (HDMA) and its members are committed to patient safety by delivering life-saving health products and services through a secure and efficient healthcare supply chain. These primary, full-service healthcare distributors are responsible for ensuring that billions of units of medication are safely delivered -- to tens of thousands of retail pharmacies, hospitals, physicians, nursing homes, clinics and providers -- in all 50 states. HDMA and its members are the vital link in the healthcare system that is responsible for medicine safety, quality, integrity and availability in the marketplace. Through leadership on public policy and industry best practices, HDMA and its members focus on providing value, removing costs and developing innovative solutions to deliver care safely and effectively.

www.HealthcareDistribution.org

About HDMA Research & Education Foundation

The HDMA Foundation provided survey and report development services for this project.

The HDMA Research & Education Foundation, a 501(c)3 educational organization, conducts research and creates knowledge about issues in the healthcare supply chain. Its goal is to help shape the future of the healthcare supply chain and increase its value to society. The HDMA Foundation serves as the primary research partner and resource center for the Healthcare Distribution Management Association and its members.

www.HDMAFoundation.org

Enhancing Front-of-Store Profitability with HBC:

A SNAPSHOT OF THE SUPPLY CHAIN

BACKGROUND

As discovered by Roper-Starch research (*Self Care in the New Millennium*), nearly three-quarters of Americans would rather treat themselves at home with an over-the-counter (OTC) medication than see a doctor. This bodes well for community pharmacy, which according to research conducted by Information Resources, Inc., represents the largest market share of OTC sales by outlet. Furthermore, OTCs constitute the largest front-end category in the drug channel.

With recent pressures on Rx margins through new pharmacy reimbursement models, community pharmacies are focusing even more intently on their non-prescription departments as a potential revenue enhancer.

In response to these market dynamics, the Healthcare Distribution Management Association (HDMA) formed a team of leading industry executives as the Health and Beauty Care Advisory Committee (HBCAC). The group then commissioned Hamacher Resource Group, a firm specializing in HBC category management, to conduct an analysis that would potentially validate three main assumptions about the current HBC supply chain:

1. Consumers' purchases of HBC products have been declining in the independent and regional chain pharmacy segment;
2. Distributors must carry HBC products in spite of their increasing complexity and declining profitability; and
3. Manufacturers have varying intentions of continuing to use the current distribution model for their HBC products.

RESEARCH OBJECTIVES

Three research goals were identified by the advisory committee:

1. Quantify the value that distributors provide to suppliers and retailers;
2. Analyze the factors that contribute to poor sales performance among HBC categories today; and
3. Develop recommendations for change based on the best practices discovered.

In the spring and summer of 2006, written survey and in-person interviews were administered to distributors representing all sizes and regions of the country as well as to a cross-section of HBC manufacturers. For purposes of this research, HBC is comprised of the OTC medicine categories, diabetes, incontinence and personal care products. Cosmetics, fragrances and general merchandise were excluded.

HIGHLIGHTS

HDMA Health and Beauty Care Advisory Committee Members

Michael E. Jones (Co-Chair)

Vice President,
Sales Development & Trade Relations
Del Pharmaceuticals, Inc.,
Div. of Del Laboratories, Inc.

Elise H. Scroggs (Co-Chair)

SVP & General Manager,
Business Units & Consumer Health
Product Management
Cardinal Health, Inc.

Neal Allen

VP, Program Management
McKesson Supply Solutions

Barry Burgoyne

Sales Vice President, Coastal Region
Perrigo Pharmaceuticals Company

David Finley

National Account Manager
Novartis Consumer Health, Inc.

William P. Fogarty

Senior Vice President,
Sales & Trade Development
Adams Respiratory Therapeutics, Inc.

David H. Heist

Director, Industry Affairs & Customer Relations
Bayer HealthCare Consumer Care Division

David E. Howenstine

Vice President,
Category & Trade Development
Wyeth Consumer Healthcare

Dan Mendoza

Team Leader
Schering-Plough Healthcare Products

Elizabeth Murphy

Trade Manager
3M Consumer Health Care

Paul G. Nunnari

VP, Trade Development
Johnson & Johnson
Sales and Logistics Company

Fred Stern

VP, Consumer Product Development
AmerisourceBergen Corporation

Dennis Votaw

Director, Consumer Products
H.D. Smith Wholesale Drug Co., Inc.

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Although no clear best practices emerged from the analysis, a number of findings identified potential areas of business process improvement for manufacturers and distributors:

Communications

- Distributors need to better promote their full breadth of capabilities including warehouse availability, technology capabilities and accessibility.
- Resources offered by manufacturers and services offered by distributors to retailers need to be better synchronized.

SKU Rationalization

- The number of HBC inventory items decreased an average 30% among distributors between 2003 and 2005.
- Manufacturers expressed interest in collaborating with distributors to reduce line extensions and hone available product ranges to best fit retail needs.

Marketing Support

- Manufacturers' direct sales coverage is more effective than telemarketing, e-mail or other methods within the distribution channel.
- Distributors desire tools to support their retail pharmacy customers that manufacturers make available to other trade channels.
- Value-added services offered by distributors (e.g., frequent deliveries, category management, educational support, etc.) may not be fully utilized by the retail pharmacy customer base.

New Item Launches

- Better coordination and communication of new items and associated release dates should be a common goal of distributors and manufacturers.
- Distributors and manufacturers need to work together on data sharing and performance metrics to adequately assess new items and consider them for stocking.
- Manufacturers wish to better understand the distributor's customer base to focus their product development efforts in a more efficient manner.

These highlights are observational in nature and will be further explored in an upcoming white paper, to be released in March 2007. This is among several ongoing efforts to analyze opportunities for streamlined industry operations and to promote stronger relationships between trading partners. HDMA supports continual improvements in the safety and efficiency of the supply chain.