

Pharmaceuticals to go big or go home

Government has proposed new measures to further reduce medicine costs - a move likely to be opposed by sections of the pharmaceutical industry.

Some industry players are still smarting from the introduction of what is known as the single exit price (SEP) in 2004. This is the government-regulated price that manufacturers can charge for medicines.

Government thinks that in order to make up some of the margin lost through SEP, a number of industry players in the medicine supply chain, including manufacturers, wholesalers and pharmacies, have been adding a transport premium to the cost of the medicines.

Dr Anban Pillay, the health department's cluster manager for financial planning and health economics, says there has been clear evidence of margin recovery through transportation costs and the use of preferential suppliers.

Pillay says some of these small wholesale operations are known to purchase the medicines from bigger wholesalers, then sell the medicines on with a premium for transport to pharmacies, gaining an additional margin.

Transport-costs model

The proposed transport-costs model offers a minimum distribution charge of 6% for a medicine or prescription drug costing less than R100 and a maximum of 2% plus R10 for a medicine or prescription drug worth more than R1000.

Clicks Group CEO David Kneale welcomes the health department's plan to regulate logistics fees. Clicks earns logistics fees from its subsidiary, United Pharmaceutical Distributors.

"We are assessing the impact of the draft regulations on the business," he says.

Good news for some

While the proposals are viewed positively by the larger chains with their own distribution networks that can achieve economies of scale to maintain margins, the proposed limit on the transportation costs is not good news for some of the smaller distributors, which offer a limited range of products. Pillay says these smaller players will be able to remain viable if they increase their stock and the number of medicines they distribute. It seems, though, that government would like to see fewer wholesalers.

"In Europe there are only nine large pharmaceutical wholesalers, and some countries have three. This is the direction we

hope the SA market will eventually take," says Pillay.

"One of the side effects of the regulation, though not the intention, might be an eventual amalgamation of wholesalers, reducing the wholesaler numbers in the market."

Source: Financial Mail

For more, visit: <https://www.bizcommunity.com>