ProPharma

A trading division of Pharmacy Retailing (NZ) Limited

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The Chair (Andy Inder) and Members
Pharmaceutical Margins Taskforce
C/- TAS – The Pharmacy Programme

Dear Sir/Madam

Following the release of the Pharmaceutical Margins Consultation Document, we wish to restate ProPharma's position on this topic.

From a ProPharma perspective, the discussion on the Pharmaceutical Margin has been about insufficient funding of the medicine supply chain in New Zealand from the outset. Despite continued increases in the costs to fund, store and distribute medicines, we have held pricing for a significant period of time. This is despite increasing labour and freight costs but also costs associated with increasing standards and requirements such as cold chain supply, scarce product management and controlled drug administration. The consistent pricing has been possible due to the substantial productivity improvements and efficiency gains we have made over the past ten years. Without such improvements we would have been forced to increase the price of products sold to our customers. Despite continued efforts, it simply is not possible to continue to offset increasing costs forever.

The efficiency of the supply chain was acknowledged in the Deloitte Environmental Scan Report. This report also acknowledged that the funding of the New Zealand medicine supply chain was significantly below other countries.

Our objective from the consultation process was that the current lack of supply chain funding be addressed to ensure patients continue to benefit from a world class supply chain and pharmacies do not wear the burden of the increasing supply costs in the future. Without improved funding, future wholesale costs that cannot be offset by productivity gains will need to be passed onto pharmacy.

The consultation document now proposes a hybrid model of a lower margin of 2.5% for all products and a price per pack of 27 cents rather than continue with the current 4% margin for products below $150 and 5% for products priced $150 and above.

In considering whether to support this change to pharmacy remuneration, we have modeled the impact of the proposed changes on our pharmacy group using our sales data for the 12 months ending February 2016. Our analysis finds that the new remuneration model would have resulted in a reduction in the total pharmaceutical margin paid i.e. pharmacy customers, as a group, would be worse off with the new funding regime. It follows therefore that the new model is not cost neutral, but cost negative overall.

We have also modelled the future funding that we estimate will be generated from the hybrid model. Based on our assumptions and the growth in high cost items, we estimate the proposed funding will result in a reduced pharmaceutical margin in the future.

We wish to inform you that ProPharma cannot change its current terms of trade to pharmacies. ProPharma believes a change as proposed would make an already strained supply chain uneconomical to run.

ProPharma would however be willing to consider a small reduction to the margin for very high priced items (i.e. items priced $10,000 or higher) that could be expected to be listed in the future (eg. Gilead's Harvoni), as long as there are no other changes to the current margin structure.

We welcome the opportunity to discuss this with you and to work through options for very high priced products.

Regards

Shaun Smith
General Manager - Pharmacy