Pharmaceutical Alternative Distribution Models: How Manufacturers are Creating Savings and Enhancing Transparency Through Direct Distribution

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The pharmaceutical distribution model has remained largely unchanged since the 1960s. There are an increasing amount of new product types and new regulations to meet. Yes, the traditional model has made some changes, but it still lags behind the evolution of the pharmaceutical environment over the last decade. Wholesalers have consolidated into a few mega brands. However, the basic distribution model remains the same: the manufacturer sells to the wholesaler, the wholesaler sells to the provider or pharmacy, then the wholesaler sends a chargeback or cash request to the manufacturer. This has been the distribution process used for over 60 years. While the traditional business model is still effective, it lacks transparency and offers only limited flexibility to manufacturers, especially as channel costs continue to rise. An increase in Wholesale Acquisition Costs (WAC) means higher distribution costs, even if unit sales remain constant. Any product with requirements incur higher costs and manual workarounds, as additional efforts are needed to capture and process the data necessary to complete the distribution process. Simply, the current distribution model needs to further evolve to become more efficient and transparent to address contemporary challenges for products, patients, and regulations.

With traditional wholesalers maintaining stagnant practices, manufacturers' interest in new distribution models continue to grow. Wholesaler fees erode the ability to lower cost to patients and limit the ability to invest in growth strategies that directly benefit the business. As manufacturers grapple with these financial constraints, it becomes clear that a new approach is needed—one that prioritizes customer service and cost savings without compromising the operational efficiency of the current model.

For example, the growth of 340B and the implications for Maximum Fair Price, as required under the IRA, bring new challenges that are not easily addressed in the current distribution model. Lilly launched a direct-to-patient model, "Lilly Direct," in an effort to improve efficiency and patient adherence with lower channel costs for their GLP-1 products. Pfizer has launched a direct-to-patient model for their oral COVID products and migraine nasal spray. Other manufacturers have adopted direct-to-provider or pharmacy models as well in an effort to control where their product is shipped and gather necessary data, all at a lower cost than the aforementioned traditional model. As of today, there are no clear answers on how Maximum Fair Price or 340B distribution will work and it is hard to make a case for traditional distribution practices to continue.

So, the question remains: How do I, as a manufacturer, change my distribution model without compromising service and care?

What if that solution already exists and has been adopted by other peer organizations?

DCS' partner manufacturers have embraced our unique distribution model, resulting in them taking control of their supply chain. They have gained access to the following operational capabilities without having to build internally, all while incorporating into current operations and launch plans. Our solution immediately provides you:

- End-to-End Visibility of Product Movement, Inventory, and Billing / Contracts
- Flexible and Comprehensive Customer Relations
- Integrated Distribution, Logistics, and Warehousing Solutions
- Insightful Data to Further Organizational Objectives

I've found that the manufacturers who have engaged with Direct Distribution strategies have embraced and integrated the following benefits into their organizational work flows and business planning:

1. Controlled, Precise Distribution

Manufacturers often find themselves locked into existing and increasingly expensive distribution models that lack the flexibility required to enhance efficiency, provide visibility, and reduce risks on a product-by-product basis. The increasing demand for "just in time" inventory at traditional distribution outlets coupled with the expectation of expedient delivery of therapies to patients shouldn't mean resorting to the way we have always done things. When streamlined, an optimized Direct Distribution model can provide the following benefits:

- **Reduce product locations to simplify the processing of orders and reduce inventory on hold.**
- **Use live inventory and order data to plan business operations and forecast accurately.**
- **Deliver medication to the correct customer and location at the correct contract price.**
- **Ensure temperature control throughout the journey.**
- **Check licensing and all eligibility requirements in a compliant and timely manner.**
- **Improve product allocation and visibility of all pertinent customer data.**

2. Reduction in Distribution Costs

The distribution fees on many medications today are higher than the actual cost of the drug. Direct Distribution allows manufacturers to lower costs and increase cash flow. When a shift is made to a direct model, manufacturers see meaningful improvement to their balance sheet immediately. These funds are retained by manufacturers instead of being sent to third-party wholesalers. This savings allows manufacturers to increase services to pharmacies, improve accessibility for patients, and boost R&D expenditures.

In a direct title model, the product is never transferred to the intermediary and is only transferred when it reaches the end customer. This nuance allows for a per unit fee per NDC at a single negotiated cost that is not connected to WAC or contract price. The other inherent advantage to this model is elimination of chargebacks. Manufacturers bill at specific contract cost and are no longer bound to the credit/debit balance accounts at wholesalers.

Overall, a cost-effective distribution system benefits both healthcare providers and manufacturers, creating a more effective and affordable healthcare ecosystem. By reducing intermediary costs, it extends the product lifecycle and prevents drugs from being removed from the market.

3. Transparent Data and Financial Services

In today's sales environment, data is invaluable. In the standard model, where manufacturers rely on the traditional wholesalers, they lose visibility into where their products are located and which customers are purchasing. Without full visibility, how can manufacturers effectively strategize and prepare? For example, at DCS, manufacturers have access to all their crucial data. This allows for precise shaping of commercial strategy in ways that most manufacturers have not been able to before. By building direct relationships with end customers, manufacturers can regain control over their brand and customer experience by receiving inventory, shipping, and invoice details in real time. Even more importantly, having access to that data empowers manufacturers to make informed decisions on allocations and contracts. A comprehensive, full-service business intelligence platform enables manufacturers to make the leap to Direct Distribution—eliminating the need for intermediaries like wholesalers, specialty distributors, and other middle players in the supply chain.

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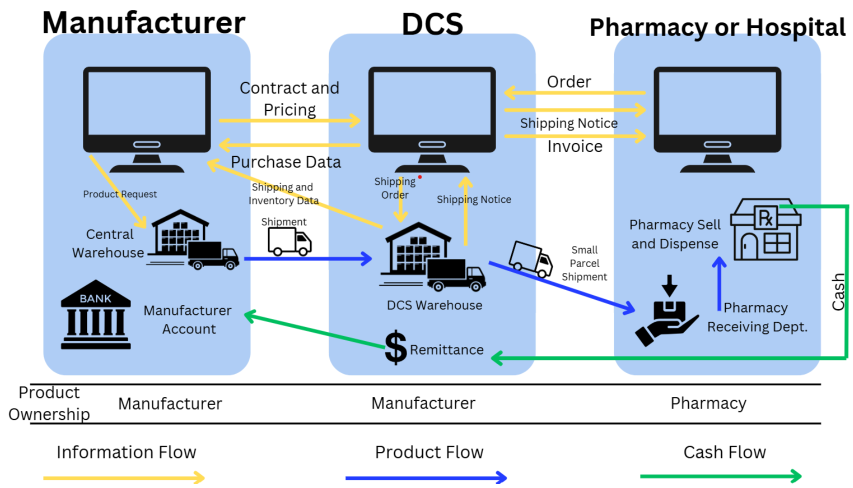
Why DCS?

The DCS Direct Distribution model can deliver financial stability and control for manufacturers. However, for a manufacturer to transition to this model, it must prove that the new system is financially advantageous for the organization. The process of building a warehouse and the necessary infrastructure is often a significant barrier for most bio-pharma companies. That's where DCS comes in as your white-label solution for distribution.



How do you use our roadmap to solve the aforementioned concerns?

We set up secure order processing and invoicing in collaboration with our financial services team, ensuring that products are shipped on time and to the correct location. To minimize customer disruption, our national sales team helps ensure smooth sign-ups and alignment to your organization's contractual requirements. Our fees, based on a per-item rate, maximize savings and operational efficiencies for each client, while also providing you with real-time data and brand promotion that a traditional model is incapable of offering.

Through simple discussions, DCS can scope direct distribution fees against your current distribution model. The unit fee covers pick/pack/ship, freight, AR functions, quality checks, DSCSA compliance, and data reporting. The program yields reduced costs, improved cash flow, and deeper insights to drive projection efficiency. With fully integrated channel services, manufacturers can develop more effective sales and distribution strategies aligned with their commercial goals.

DCS recently onboarded a pharmaceutical manufacturer for exclusive 340B sales through distribution of three newly acquired branded oral oncology products. The company was able to utilize our automated warehouse, carrier contracts, customer service, and national sales team, along with financial services, to fulfill its obligations under the 340B program. In the first two quarters of the program, our partner was able to capture a 50% reduction in wholesaler service fees and achieved a 100% reduction in chargeback liability by going direct. This is only one example.

This solution is available to you as well.

How is Direct Distribution my solution?

In summary, Direct Distribution is a vital option manufacturers can leverage to solve challenges, enhance their overall market access, and solidify distribution operations.

As the number of new products with unique characteristics continues to grow, along with the sustained growth of the 340B program and increasing manufacturer restrictions, traditional distribution faces significant challenges in meeting the ever-evolving needs of the pharmaceutical industry. Furthermore, the IRA presents several new obstacles for manufacturers (and providers) that outdated distribution processes fail to resolve. Specialty and rare products often require limited distribution, data, and adherence services along with more favorable channel cost structures to improve their gross-to-net. Manufacturers require inventory transparency, full access to sales data, and significant distribution savings, including improved cash flow for sustainability and/or growth. DCS provides turnkey solutions that provide flexibility and meet the needs of the modern pharmaceutical manufacturer.

DIRECT CUSTOMER SOLUTIONS

About DCS
DCS is revolutionizing pharmaceutical logistics by providing manufacturers with innovative distribution alternatives. We deliver exceptional service with integrity, transparent communication, and world-class capabilities, offering our partners superior value over the competition.

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