



## **OP-ED FOR PHARMA DISPATCH**

By **MARK HOOPER**, National Pharmaceutical Services Association (NPSA) Chair

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## **Patients will suffer if we don't get the revenue structure right**

The analogy of the boiling frog – the one where the paddling amphibian is blissfully ignorant that the water is getting gradually hotter until it's too late – is unfortunately apt for Australia's pharmaceutical supply chain.

A model that has proven to be robust, inclusive and effective for communities across Australia is now becoming critically unbalanced because it relies on a funding structure that is not coping with change.

As we said in our presentation to APP, PBS price reforms have had a significant impact on the viability of the delivery model. The lower the cost of each medicine, the smaller the margin the CSO wholesalers have to help defray the cost of getting the product to the pharmacy, let alone generate a return on what is a significant and ongoing investment in the supporting infrastructure.

Don't get me wrong – cheaper medicines are good for patients, communities and our health system.

However, there's no point in having more affordable medicines if access is compromised.

If things continue as they are, the CSO wholesalers are forecast to distribute PBS medicines at an economic loss of 23 cents per unit by 2020. In fact, the ongoing impact of price disclosure means that less than 10% of PBS medicines are now profitable to distribute.

Unlike the frog, we've felt the water getting hotter and we've acted. A study by global management and consulting firm L.E.K. found Australia's full-line wholesalers had, over the past five-plus years, drastically reduced operating costs, significantly improved productivity and invested millions in new technologies and facilities.

But it's not enough.

The 6th CPA creates the ability for the CSO wholesalers to charge additional delivery fees in certain circumstances. However, this is not – and has never been – our preferred solution.

The NPSA has provided a thoroughly researched, evidenced-based response to the Review of Pharmacy Remuneration and Regulation. Like everyone else, we await viable options with interest. And we are encouraged by what we're hearing from Greg Hunt, who clearly understands implications for wholesalers from changes to other parts of the medicines supply system.

As we have communicated to the Health Minister, we believe there is a compelling case to index the CSO to ensure it keeps pace with inflation and increasing volumes. In addition, we are also arguing for a floor on margins to make distribution of cheaper medicines more viable, and a tiered mark-up structure on high-cost drugs to compensate wholesalers for the costs we bear in their distribution. All this can be achieved within the government's existing budget estimates.

These are common-sense solutions to a problem that is threatening to undermine this system we have all worked so hard to support.

Doing nothing is not an option. Just ask the frog.