

PROFILE OF THE PRESCRIPTION DRUG WHOLESALING INDUSTRY

EXAMINATION OF ENTITIES DEFINING SUPPLY AND DEMAND IN DRUG DISTRIBUTION

FINAL REPORT

1.2 Role and Functions of Wholesalers

Drug wholesalers serve as middlemen between drug manufacturers and prescription drug dispensers (i.e., retail outlets and institutions). Wholesalers provide a cost-effective means for the purchase, delivery, and sale of prescription drugs. They improve purchasing economies and lower manufacturer costs by reducing the number of small volume sales by drug manufacturers. They also relieve retailers and institutions from the burden of dealing with each individual manufacturer for drug purchases.

State	Does State License Out-of-State Wholesalers?	License Renewal Schedule	Number of Wholesale Licenses		
			In-State	Out-of-State	Total
Alabama	Yes	1 year	NA	NA	745
Alaska	No	2 years	9	147	156
Arizona	No[a]	2 years	15	185	200[e]
Arkansas	Yes	1 year	NA	NA	495
California	Yes	1 year	427	276	703
Colorado	Yes[b]	1 year	NA	NA	282
Connecticut	Yes	1 year	NA	NA	362
Delaware	Yes	2 years	32	444	476
District of Columbia	Yes	1 year	NA	NA	0
Florida	Yes	2 years	530	764	1,294
Georgia	Yes	2 years	NA	NA	644
Hawaii	No[c]	2 years	NA	NA	45
Idaho	Yes	1 year	NA	NA	475[e]
Illinois	Yes	2 years	NA	NA	685
Indiana	Yes	2 years	192	450	642
Iowa	Yes	1 year	NA	NA	579
Kansas	Yes	1 year	NA	NA	526
Kentucky	Yes	1 year	NA	NA	450
Louisiana	Yes	1 year	180	606	786
Maine	Yes	1 year	5	277	282
Maryland	Yes	1 year	NA	NA	1,500[e]
Massachusetts	No	1 year	0	140	140[e]
Michigan	Yes	2 years	NA	NA	580

Minnesota	Yes	1 year	NA	NA	352
Mississippi	Yes	2 years	NA	NA	726
Missouri	Yes	1 year	NA	NA	780
Montana	Yes	1 year	NA	NA	298
Nebraska	No	1 year	NA	NA	61
Nevada	Yes	2 years	83	340	423
New Hampshire	Yes	1 year	8	493	501
New Jersey	No	NA	NA	NA	1,000[e]
New Mexico	Yes	1 year	NA	NA	482
New York	No	3 years	349	0	349
North Carolina	Yes	1 year	154	251	405
North Dakota	Yes	1 year	6	450	456
Ohio	Yes	1 year	491	599	1,090
Oklahoma	Yes	1 year	34	335	369
Oregon	Yes	1 year	825	325	1,150
Pennsylvania	NA [d]	1 year	525	0	525
Rhode Island	Yes	1 year	48	210	258
South Carolina	No	1 year	NA	NA	419
South Dakota	Yes	1 year	29	382	411
Tennessee	Yes	Cyclical	350	518	868
Texas	Yes [d]	1 year	1,832	604	2,436[f]
Utah	No	2 years	52	0	52
Vermont	Yes	2 years	3	311	314
Virginia	Yes	1 year	238	432	670
Washington	Yes	1 year	72	301	373
West Virginia	Yes	1 year	NA	NA	412
Wisconsin	Yes	2 years	194	314	508
Wyoming	Yes	1 year	50	431	481
Total	NA	NA	6,733	9,585	28,216 [g]

Source: NABP, 1999, PDA, 2000a, and Texas Department of Health, 2001

"NA" = Not available

[a] Will begin licensing (permitting) non-resident wholesale drug distributors in the year 2000 pursuant to methamphetamine legislation requirement.

[b] For controlled substances only.

[c] However, per Board's informal interpretation, if the out-of-state wholesaler has a vendor-managed inventory system within the State, a wholesale distributor license is required.

[d] Wholesalers are regulated and licensed by Department of Health.

[e] Indicates that the figure is approximate.

[f] The figure represents the number of wholesale distributor licenses that are current as of January 17, 2001 (Texas Department of Health, 2001).

[g] The figure represents the total number of licenses for wholesale operation. Multi-state wholesalers presumably hold licenses in all states where they operate and are required. The total number of licenses does not represent an estimate of the number of unique wholesalers.

Typically, major wholesalers have sophisticated ordering systems that allow customers to place and confirm orders electronically and to determine the availability and prices of wholesalers' stock. Wholesalers' inventory management systems help customers minimize carrying costs while maintaining adequate supplies to meet patients' needs. In most cases, wholesalers can also provide products within 24 hours. In addition to the delivery of drugs, wholesalers also provide a broad range of value-added services to pharmaceutical manufacturers, dispensers, and other customers, such as pharmacy benefit management companies (PBMs), clinical research organizations (CROs), group purchasing

organizations (GPOs), and integrated delivery networks (IDNs). The major supplemental services offered by wholesalers include the following:

- *Private label/Control label programs*—Number of wholesalers offer packaging and labeling operations in accordance with current Good Manufacturing Practices (CGMPs). The services offered typically include package configuration and product label design, filling and capping, labeling, and printing of bar coded product identification stickers.
- *Voluntary and/or co-op advertising programs*—The cooperative advertising program is one in which the wholesaler provides marketing materials (i.e., store displays, flyers, etc.) to and reimburses the retail pharmacy for part or all of the retail pharmacy's advertising expenditures on selected products purchased from the wholesaler.
- *Special handling services for vaccines, frozen products, and orphan drugs.*
- *Generic source programs*—The program enables a wholesaler to combine the purchase volumes of its customers and negotiate prices with generic manufacturers. This results in competitive pricing of generic pharmaceuticals for the customers of the wholesaler.
- *Pharmacy computer systems*—The pharmacy computer system facilitates the processing of prescriptions, drug interactions monitoring and claims processing.
- *Third-party claims processing*—The claims processing system, which is integrated into the pharmacy computer system, facilitates real-time review and adjudication of prescriptions by third-party payers (i.e., health insurance companies). The system allows the pharmacist to establish patient eligibility, perform prospective drug utilization review (DUR), and notify the patient of any formulary requirements or prior authorization restrictions.
- *Retail-zone pricing systems*—The products are delivered to the retail pharmacy with price labels already affixed to the individual containers so that the products can be immediately shelved.
- *Point-of-sale (POS) systems*—The information technology (IT) system allows pharmacies to manage their inventory and ensure drug pricing accuracy. Typically, the POS systems feature bar code scanning and electronic credit card processing capabilities, which promote faster checkout at the cash register. The system also tracks product movement, identifying best and worst sellers, and facilitates better utilization of product shelf space. The system can generate a multitude of customized business management reports, including hourly product sales, monthly profit trends, and various cashier activities.

Table 1-2 describes the percentage of wholesalers providing each common type of value-added service discussed above.

Type of Service	Percent of Wholesalers (1998)
Private Label/Control Label Program	71%
Voluntary and/or Co-op Advertising Program	62%
Special Handling Services	
Vaccines	100%
Frozen Products	100%
Orphan Drugs	35%
Generic Source Programs	84%

Pharmacy Computer Systems	34%
Third Party Claims Processing	32%
Print Universal and Other Claim Forms	33%
Electronic Transmission	100%
Tape-to-tape Transmission	33%
On-line Adjudication	92%
Connectivity (Customer-to-customer communication)	33%
Retail Zone Pricing Systems	63%
Rx Drugs - Branded	38%
Rx Drugs - Generic	46%
OTC Drugs	96%
Health and Personal Care	96%
General Merchandise	54%
Durable Medical Equipment/ Home Health Care	52%
Point-of-Sale (POS) Systems	34%
Source: NWDA, 1999	
Notes:	
[1] Based on a survey of NWDA member wholesalers.	
[2] The total number of responses received is 39.	

Despite the broad range of services available from a full-line wholesaler, most dispensing customers of wholesalers use both a primary, usually a major full-line wholesaler and a backup wholesaler. The backup wholesaler provides products when the primary wholesaler cannot fill the order (U.S. District Court for the District of Columbia, 1998).

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