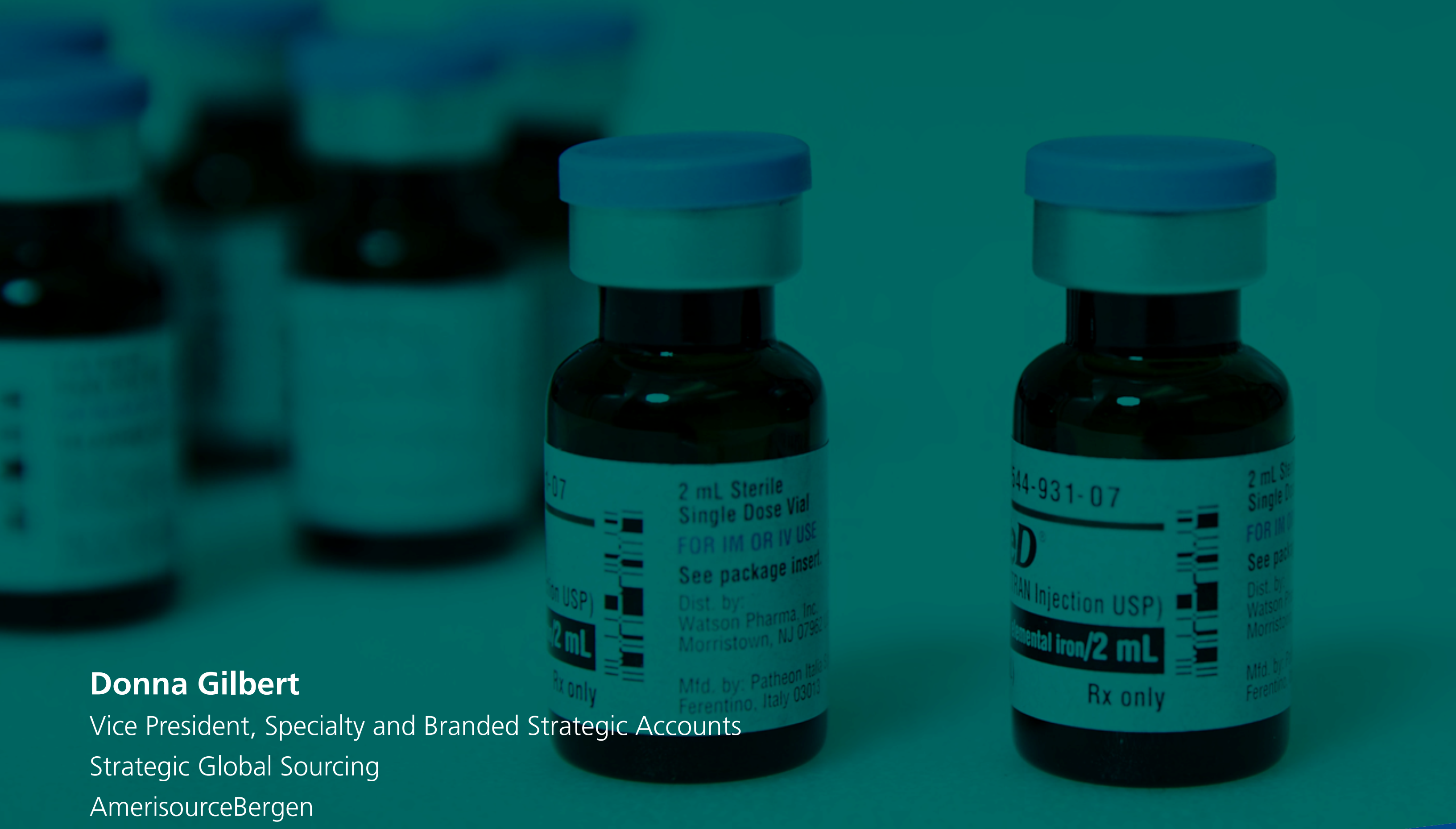
# Changing Channels

## How channel strategy impacts product access and commercial success.





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As pharmaceutical companies continue to launch new specialty products, the right channel strategy can mean the difference between a successful launch and not meeting forecast. Understanding the differences between full-line wholesale and specialty distribution, and the impact on your customers and patients, is critical to ensuring a successful launch. And choosing between the two requires strategic thinking and has a significant impact on the uptake of your product and your commercial success.

Patient expectations and influence on their own treatment is growing. So, too, is provider demand for access to specialty therapies. That's why it is important that any brand team speak with channel stakeholders who are experienced in delivering the right product to the right patient at the right time. Understanding both the commercialization impact of distribution and customer channel decisions and the truth behind a few common misconceptions will help manufacturers evaluate channel strategy through the lens of patient access and product success.

## Understanding the Impact of Distribution Decisions

There are a number of reasons a manufacturer might consider different distribution strategies — downstream customer pressures, patient population, product storage risk, sales targets and more. But there are also aspects that can become very costly if overlooked. When thinking about using an exclusive distribution model, or a direct model, manufacturers need to factor in the impact to the patient and the unintended additional costs that can occur.

## Unintended Consequences of Limited SP Networks

- Product access barriers that impact performance

## Unintended Consequences of Going Direct

- Some patients may be left behind
- Disaggregating products from customer workflow can be disruptive and costly
- Dramatic increase in financial exposure/receivables risk for manufacturers

# Misconception 1

## Availability is the same as access.

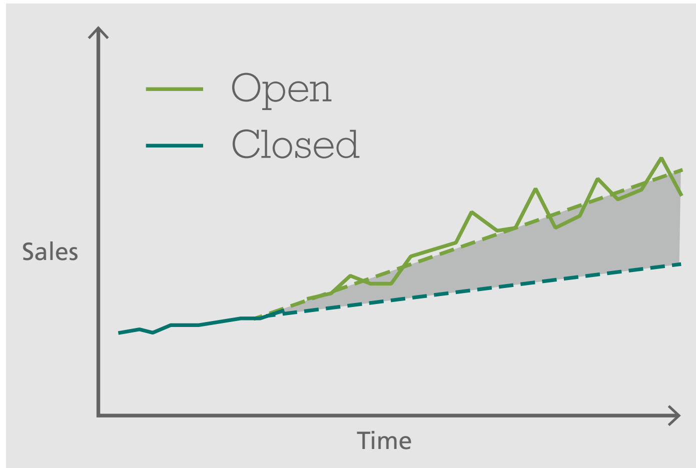
### Are limited networks really easier to manage?

With pharmacy benefit products, there is a persistent myth that "less is more" when designing a specialty pharmacy (SP) network. Depending upon the product, what if you knew that a restricted or closed SP network could significantly impede access to your product?

Thinking more deeply about your channel strategy should mean ensuring access to your product in all the appropriate channels to minimize complexity for patients and healthcare providers. While availability is an important component of product access, just putting your product on the market isn't enough anymore. Is it going to convenient sites of care where patients need it? Have you minimized access hurdles with the appropriate patient support services? Does your channel strategy minimize the barriers that could prevent your product from being available in any site of care where patients could present? **Figure 1** to the right shows the performance over time for a product that went from a closed network to open distribution with no change in indication or formulary.

The fact is, accessibility becomes a commercialization differentiator. Savvy manufacturers begin evaluating their channel strategies with their distribution partners as far in advance as two years pre-launch. As laid out in **Figure 2**, the right channel strategy meets the needs of your product, patients and customers.

**Figure 1** Commercialization Curve: Open vs. Closed SP Network




*Data Source: QuintilesIMS*

**Figure 2** Drivers of Network Design

**Product Characteristics**

- High cost
- Special storage or handling
- Severe side effect profile
- Complex or inconvenient regimen
- Narrow therapeutic range

**Patient Population**

- Small populations
- High level of training needs
- Frequent patient monitoring and dosage adjustments

**Therapy Access & Coordination**

- Reimbursement and financial assistance services needed
- FDA REMS requirements
- Nurse or physician administered

**Manufacturer Requirements**

- Enhanced data reporting
- Pharmacovigilance and AE reporting
- Inventory management

# Misconception 2

## Innovation ensures product success.

How much disruption will your customers tolerate?

When a manufacturer invests billions of dollars[1] to develop an innovative, clinically differentiated product or enter a new market, it seems logical to want to extract as much value as possible while insulating the product from any hits that could impact the return on investment when the product launches. For this reason, manufacturers of first-to-market products (or those with modified approaches to the market) are often tempted to disrupt the supply chain with distribution strategies that force providers away from their regular workflows to access these products. And while this approach may have providers and patients making an extra effort to access the product in the short term, it doesn't account for second or third market entrants with channel strategies that offer a superior customer experience.

In addition, think of examples like the hospital with access to an innovative new product throughout clinical trials that could no longer get the product when it launched due to a restricted model that did not include the hospital. Such models, while they may offer the manufacturer data insights and control over the patient experience, make practical care delivery more complicated by placing the most novel therapies further away from patients' preferred site of care and preventing access for the patient's healthcare provider that enables ongoing treatment and close monitoring of the patient's progress. And though these consequences may be unintended, they should be an important part of product commercialization decisions.

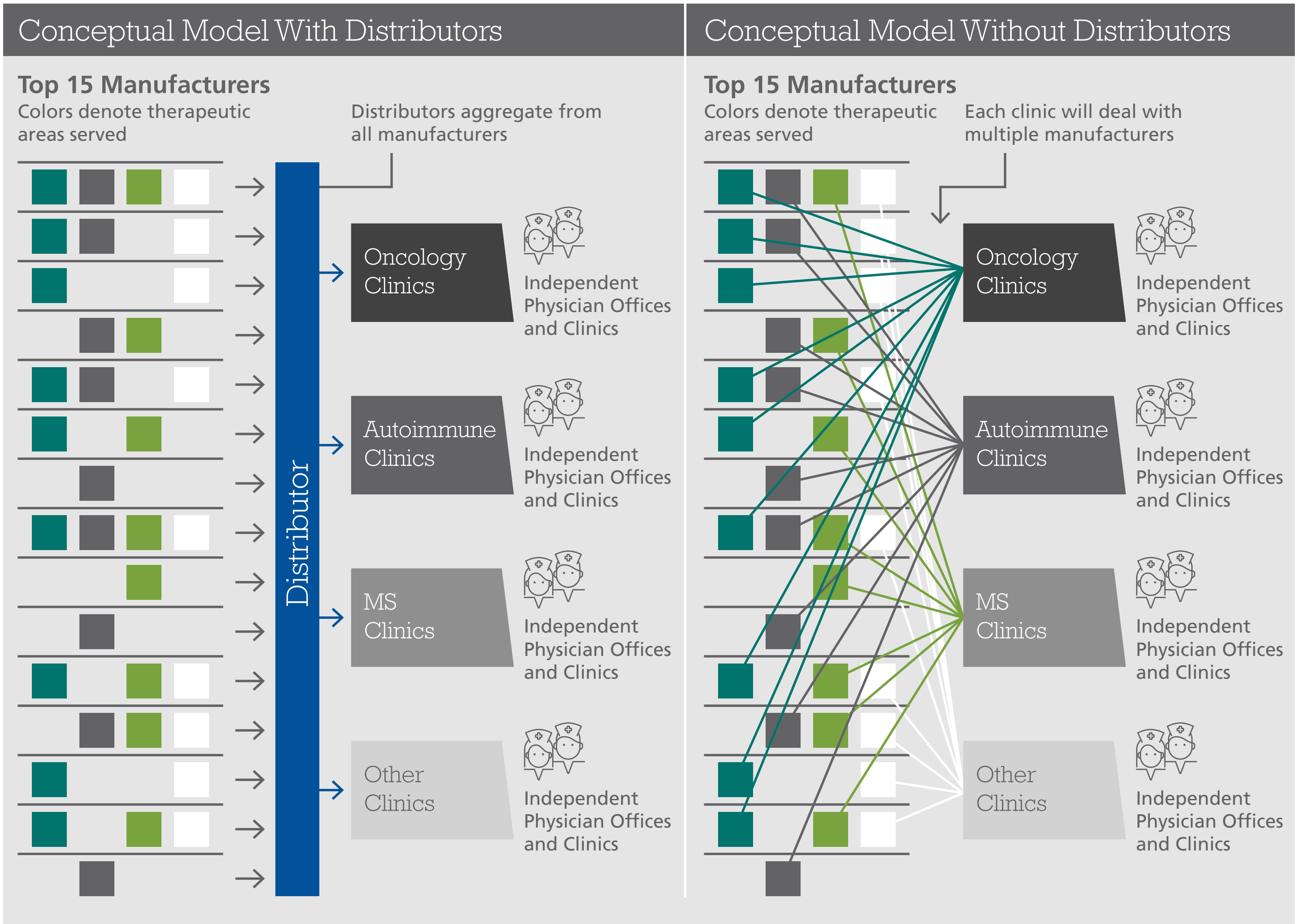
# Misconception 3

## The distributor is just a middleman.

### Where are you investing in value?

When downstream customers are willing to make long-term modifications to their workflows to accommodate relationships with manufacturers, serious consideration should be given to whether such a scenario has the best interest of the customer — or the patient — in mind. Health systems, for example, often order multiple products from a small set of sources per day. In a direct model, the staffing and infrastructure requirements to order thousands of drugs direct from multiple manufacturers would burden both parties in nearly innumerable ways. **Figure 3** demonstrates just a portion of the potential impact on the healthcare system.

**Figure 3** Conceptual Transactional Models




Under this economic model, a few thousand transactions per day through distributors fragment into millions of transactions between physician clinics and manufacturers. The transaction flow becomes even more complex when other customers – hospitals, retail, mail order, specialty pharmacies – are considered.

*Source: PwC Strategy & Analysis, Center for Healthcare Supply Chain Research*

Direct models are absent the partnerships that can help manufacturers weigh the real-world impact of their decisions. While it's easy to think of a drug distributor as the entity that moves a product from point A to point B, the right distribution partner can help you evaluate how channel strategy will affect your customers and their patients. It's not as simple as pick, pack and ship. As product value increases, so does the value of the distributor and the many services they provide. The distributor is actually providing far more than pick, pack and ship services. **Figure 4** illustrates the role of the modern distribution partner.

To contextualize the value of distribution services, consider an example. Both a $5 generic drug and a $20K-per-vial branded product could fit in the same package and incur the same shipping cost based on weight. Should a manufacturer invest more to insure the high-value product? The more expensive the product, the more it logically costs to handle it. In today's dynamic market, applying a generic distribution model for a specialty drug is not enough. Manufacturers must look beyond class of drug to additional considerations around access and value.

It isn't just the management of high-cost receivables where the distributor's work has value. The distributor also takes on financial risk for those receivables, insulating the manufacturer from risk once product arrives at its distribution centers. That means both logistics risk if product is broken or lost in transit, as well as AR risk when a customer can't pay on time. Distributors are purpose-built to address these issues — scaled and staffed to deal with logistics, customer experience, accounting and more. Why would a manufacturer want to turn its focus away from developing life-saving medicines to instead build out a complex and costly distribution infrastructure? Some have actually explored it — they've done the math of investing in "self distribution" and concluded that it would be much more costly and inefficient than the distribution partnerships they have today.

It's the unseen services within this infrastructure, such as financial management, supply chain security, customer experience and more, that add value to manufacturer/ distribution partnerships.

**Figure 4** The Role of the Distributor

### The Banker

- Receivables management, taking on AR and logistics risk for the manufacturer – and scaled and staffed to do so

### The Storefront

- Contract, order and pricing management

### The Distributor

- Distribution of high-value products and ability to scale logistics offerings and make investments in customer experience

### The Intelligence Provider

- Essential, appregated data on pricing, orders and inventory across all COTs manufacturers and products

### The Guardian

- Protecting the healthcare supply chain against fraudulent activities that harm patient care deliveries

### The Industry Builder

- Customer service and sales outreach to tens of thousands of healthcare organizations
- Strategically investing to grow key markets

# Contextualizing Value

The manufacturer-distributor relationship.

Insight from vested parties can positively impact commercialization curves for manufacturers. The right distribution partner is vested in a product's success because it's also their success. Look for distribution partners that have bench strength — broad reach that extends across the industry and offers both experience and perspective. That experience also lends itself to a deep understanding of customers and insight that can be used to inform recommendations for your channel strategy. In fact, the strongest partners will have the scale and infrastructure to make strategic investments in the customer experience that will benefit your business. A distributor who invests in studying and consistently improving their own customers' experience will be able to evaluate your product's channel strategy from all different stakeholder perspectives before making a recommendation.

Choosing between specialty distribution and full-line wholesale, or a combination of both relevant to the site of care is an important decision that should be made with informed stakeholders. Ultimately, successful partnerships between manufacturers and distribution partners are built on trust. Each partner is transparent. Both parties should bear in mind the potential for success or the unintended consequences patients, customers and product performance can face if ill-informed channel strategies are implemented. Most of all, both parties should bear in mind their common goal and shared passion: improving patient lives.

## Four Questions to Ask About Your Channel Strategy

The right distribution partner will know…

1. What has/hasn't worked well for this product's attributes/this patient population?
2. What is going on across the market that might affect my product launch?
3. How will my product's clinical roadmap/other indications affect the channel strategy?
4. What sites of care should I be thinking about?

[1]American Action Forum. Understanding Pharmaceutical Drug Costs. 2 June 2016. Accessed 1 March 2017. Available online at https://www.americanactionforum.org/research/understanding-pharmaceutical-drug-costs/

# About AmerisourceBergen

AmerisourceBergen (NYSE: ABC) is one of the world's largest pharmaceutical sourcing and distribution services companies, working alongside healthcare providers and pharmaceutical manufacturers to improve access to products and enhance patient care.

With services ranging from drug distribution and supply chain management to patient support solutions and pharmaceutical commercialization, AmerisourceBergen enables quality care and innovation in human and animal health. Tens of thousands of pharmacies, physician practices, health systems, veterinary practices, livestock producers and pharmaceutical manufacturers turn to AmerisourceBergen for the expertise they need to drive business performance.

Learn more about how distributors enable access at **amerisourcebergen.com**.

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