June 11, 2026

The Honorable Andrew N. Ferguson, Chair
Honorable Commissioners
U.S. Federal Trade Commission
600 Pennsylvania Avenue, NW
Washington, DC 20580

Via Electronic mail

Re: Pharmaceutical Supply Chain Function and the Role of Distributors and Pharmacy Services Administrative Organizations (PSAOs)

Dear Chairman Ferguson and Commissioners:

The Healthcare Distribution Alliance (HDA) appreciates the Federal Trade Commission's ongoing efforts to promote competition and protect consumers. We recently noted a submission to Docket No. ATR-2026-001 in response to the Commission's request for public comments for guidance on business collaborations. HDA also supports revisiting and reviving the 2000 Guidelines, and while we do not believe the submission was germane to that comment request, we wanted to ensure that you and Commission staff had the benefit of more accurate information about the topics raised, specifically pharmacy service administrative organizations (PSAOs) and generic drug sourcing.

In that spirit, HDA submits this public letter to share its perspective on the pharmaceutical supply chain and the role that distributors play in supporting patient access, pharmacy viability, and efficiencies in the healthcare ecosystem.

This role includes administrative, logistical and operational support services, like PSAOs, through which some distributors serve independent and community pharmacies, as well as the generic sourcing and supply chain safety programs that help maintain a competitive and reliable pharmaceutical marketplace. As enforcers, regulators and policymakers continue to examine affordability and competition, it is important that these discussions reflect how the system works in practice, including the distinct roles of different participants, and the infrastructure and support that allows smaller pharmacies to remain viable and competitive.

I. Distributor-Affiliated PSAOs Help Independent Pharmacies Manage Administrative Complexity and Focus on Patient Care

Pharmaceutical distributors operate the infrastructure that allows medicines to reach patients across the country, every day, without disruption. This model depends on scale, coordination, and operational precision. Distributors manage complex inventories, navigate rigorous regulatory requirements, and deliver medicines to a wide range of providers across the United States: from large health systems in urban centers to single-site independent pharmacies in rural communities. This scale is what enables reliability and resilience, and it reflects the vast

volume of medicines moving through a highly regulated distribution network to hospitals and pharmacies around the country.

This scale is also an important factor when considering the impact of PSAOs and other services that have developed around the pharmaceutical supply chain. These services emerged as a practical and necessary response to the growing administrative complexity faced by independent and community pharmacies, who sought support from organizations with the capability and expertise to help them manage these mounting hurdles to patient care.

Independent pharmacies face reimbursement structures, audit processes, and diverse network participation requirements—largely originating from and driven by large pharmacy benefit managers (PBMs)—that have become increasingly technical, administratively burdensome, and resource-intensive. PSAOs provide independent community pharmacies with the administrative support needed to navigate this complexity, helping level the playing field and reduce operational friction so they can continue serving their communities and focus on patient care.

Independent pharmacies account for nearly 20,000 locations nationwide and approximately 35% of all retail pharmacies, yet they dispensed just 9% of 30-day equivalent prescriptions in 2024.[1] [2] While dispensing a small share of prescriptions (an average 67,601 scripts per store per year), independent pharmacies remain essential healthcare access points in communities across the country.

Many, especially smaller independent pharmacies, turn to PSAOs to help navigate increasingly complex PBM contracting and reimbursement requirements. Today, 83% of independent pharmacies participate in a PSAO, highlighting the role these organizations can play in supporting pharmacy sustainability and patient access for independent pharmacies.[3]

Unlike other supply chain participants, however, PSAOs do not design formularies, determine or define network participation criteria, retain manufacturer rebates, or establish patient cost-sharing. Those decisions are made by payers and PBMs, which establish the financial terms governing pharmacy participation and reimbursement.[4]

Instead, PSAOs serve an administrative and facilitative function—helping pharmacies evaluate and respond to PBM and payer terms, manage compliance obligations, and resolve claims-related issues. PSAOs, which present a *voluntary* option for independent pharmacies, typically charge a transparent, fixed fee for these services, and their widespread use reflects the operational value they provide to resource-constrained independent pharmacies, not any control over the economic outcomes that define drug pricing. Ultimately, PSAOs facilitate participation in an existing system rather than influencing the terms of that system.

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[1] National Community Pharmacists Association, "NCPA Releases 2025 Digest Report.

[2] *The 2025 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers.* Drug Channels Institute

[3] *The 2025-26 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors,* Drug Channels Institute, 2025.

[4] *See* Federal Trade Commission, "Specialty Generic Drugs: A Growing Profit Center for Vertically Integrated Pharmacy Benefit Managers" (2025) (finding that markup among "specialty generic drugs dispensed by PBM-affiliated pharmacies for commercial health plan members, 22 percent (10 out of 46 drugs in [the] sample…) were marked up more than 1,000 percent, with 50 percent of these marked up by more than 2,000 percent, while 41 percent (19 drugs) were marked up between 100 and 1,000 percent (median =223 percent). Another 20 percent (nine drugs) were marked up between 10 and 100 percent, while only 17 percent (eight drugs) were marked up by less than 10 percent").

In short, PSAOs do not possess the capacity to shape market outcomes in the manner often attributed to other entities like PBMs.[5] Instead, PSAOs harness scale and expertise to play a small but significant role in ensuring the continued viability of independent and community pharmacies, helping them to navigate increasing pressure and complexity within the supply chain originating from PBMs and the structure of the healthcare market. Thus, a clear delineation between these models is essential to ensure that conclusions about PSAO resources for independent pharmacies in the pharmaceutical supply chain, and any resulting policy or regulatory responses accurately reflect the structure, incentives, and competitive dynamics of the marketplace.

II. Distributors' Generic Sourcing and Supply Chain Safety Programs Help Maintain a Competitive and Reliable Pharmaceutical Marketplace

A similar dynamic applies to generic sourcing programs. These programs are procurement tools designed to ensure that pharmacies have access to consistent, affordable supply in a market where reliability is just as important as price. By aggregating demand and creating predictable purchasing volume, distributors enable manufacturers to compete more effectively, support stable supply chains, and reduce volatility in product availability, thereby promoting both affordability and access.

The market for generic pharmaceuticals, particularly at the wholesale level, is characterized by robust and persistent competition, with numerous manufacturers and suppliers driving pricing dynamics in a way that benefits downstream purchasers, including community pharmacies. Distributors source product from an average of 1,429 drug manufacturers with numerous companies among them competing to supply generic drugs [6] in a model where prices typically decline as additional entrants participate.[7] Wholesalers, in turn, compete actively for pharmacies' business, which represents a substantial demand for generic drugs, reinforcing incentives to offer competitive pricing and reliable supply arrangements.

Recent trends in drug availability further underscore the resilience and competitiveness of this segment. A recent FDA analysis shows that the number of new shortages has significantly decreased since the peak in 2011, and the number of generic drug products in ongoing shortage decreased in the years following the COVID-19-related spike.[8] These improvements coincide with wholesalers improving access and availability through sourcing, inventory management, and distribution, including maintaining relationships with multiple manufacturers, long-term contracts and deploying backup supply strategies, factors that can help mitigate supply disruptions.

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[5] Indeed, as the Commission itself reported, "[N]umerous independent pharmacies and large PSAO have commented that they are forced to enter into one-sided, non-negotiable contracts with leading PBMs . . . For instance, multiple PBMs have during negotiations referred to their 'no redlining policy' (i.e., no editing policy) for standard contract terms and conditions, even with large PSAOs." Federal Trade Commission, "Pharmacy Benefit Managers: The Powerful Middlemen Inflating Drug Costs and Squeezing Main Street Pharmacies" (2024).

[6] *HDA Factbook 96th Edition*: *The Facts, Figures and Trends in Healthcare (2025–2026)*, HDA Research Foundation, 2025.
[7] HDA, "Perspectives - The Rx for Drug Shortages? A Better Understanding of the Supply Chain and Collaborative Solutions" (March 7, 2024).
[8] FDA Drug Shortages Report CY23.

At the same time, the development of private-label generic offerings by wholesalers represents additional competitive mechanisms. Downstream, such products are simply another opportunity for multi-source supply, expanding the range of purchasing options available to pharmacies. Upstream, contract manufacturers compete for such long-term contracts in order to supply product for the "private label."

More fundamentally, it is important to distinguish between mechanisms that affect acquisition cost and those that determine what patients ultimately pay. Purchasing arrangements for generic drugs at the distribution level operate upstream and are one of many inputs into pharmacy operations. The factors that most directly influence patient costs—reimbursement methodologies, network participation, formulary placement, and cost-sharing design—are established by payers and PBMs.

As such, distributor sourcing arrangements are not a primary driver of patient affordability risk, in contrast to these more direct and consequential levers, which are holistically within the PBMs' and payers' control. This is apparent from the wholesalers' modest share of profits from generic drug sales compared to others in the pharmaceutical supply chain.[9] Moreover, nearly 90% of drug spending is devoted to brand drugs, which produce a bigger economic impact than lower-cost generic alternatives. Distributors' generic sourcing programs serve as a bulwark to ensure reliable access to these alternatives, with a variety of services and safeguards ensuring generic drugs remain both affordable and available.

Moreover, while other participants in the supply chain may limit pharmacy or patient access to specific products — for example, based on formulary preferences, wholesale distributors do not. Distributors make all products available to their pharmacy customers and fulfill whatever the pharmacies order.

III. The Way Distributors Operate in Practice Reveals the Vital Role They Play Within a Resilient and Competitive Global Supply Chain

Much of the current discussion around the healthcare ecosystem is framed around structural possibilities—for example, the idea that access to information or vertical relationships could, in theory, create incentives or risks. While hypotheticals may be interesting from an academic perspective, policy conclusions should be grounded in evidence of how the system actually operates. In practice, the distributor model is characterized by operational separation of functions, significant transparency through public benchmarks and market dynamics, and strong competitive pressures across both procurement and distribution. Assertions that rely on what "could" occur, without demonstrating what does occur, do not provide a sound basis for intervention.

For example, it has been suggested that distributors may use reimbursement information from their affiliated PSAOs to set wholesaler pricing for generics. In reality, this is not practical for wholesale distributors. For example, when Maximum Allowable Cost (MAC) is used as the basis

[9] A study of high utilization-generic drugs found that for Medicare Part D claims in 2021, the average value per claim was $22.50. That $22.50 was distributed as follows: $9.18 (40.8%) represents PBM gross profit; $3.87 (17.2%) pharmacy gross profit; $2.71 (12.0%) wholesaler gross profit; and $6.73 (29.9%) manufacturer revenue. JAMA Health Forum, "Pharmacy Benefit Manager Pricing and Spread Pricing for High-Utilization Generic Drugs."

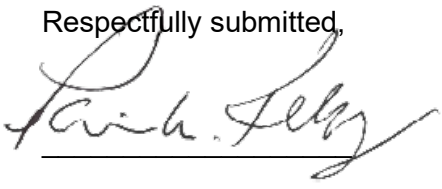
for reimbursement, PBMs unilaterally set the MAC for generics, the pharmacy's reimbursement at point of sale. This is not set by contract with a PSAO but rather, PBMs are solely responsible for setting MACs and are able to change a MAC at any time. MACs for a specific drug may vary across a state or across the country and are subject to change at any time. The MAC for a pharmacy's dispense is not known until dispense, potentially long after the purchase of that drug from the wholesaler. Since generic pricing changes regularly, reimbursement details come too late after a wholesaler's sale to pharmacy to be of use in setting pricing.

In practice, PSAOs and sourcing programs provide tremendous value to community and independent pharmacies and the patients they serve. Independent pharmacies continue to turn to PSAOs to access networks, manage administrative requirements, and sustain their operations. Generic sourcing programs allow community pharmacies to maintain access to needed drugs at lower prices. These are precisely the types of efficiency-enhancing services that enable smaller market participants to compete and remain viable, particularly in rural and underserved areas. Any intervention made on the basis of hypothetical harms risks undermining the very real infrastructure that supports access to care.

The pharmaceutical supply chain is complex, but the role of wholesalers within it is straightforward and transparent. Its core functions are well understood: manufacturers develop and price products, payers and PBMs design and administer benefits, distributors move medicines efficiently and reliably, and pharmacies deliver care to patients. PSAOs fit within this system as a support mechanism that helps independent pharmacies access and operate within it. Maintaining clarity about these roles is essential to ensuring that policy efforts are directed where they can have the greatest impact.

HDA supports continued engagement on these issues and welcomes the opportunity to provide additional information on how distributors and their affiliated service models contribute to a stable, efficient, and accessible pharmaceutical supply chain. As enforcers and policymakers evaluate potential changes, it will be important to preserve the elements of the system that are working well, particularly those that support access, reliability, and the continued viability of community-based pharmacy care. If you have questions, please contact me or Elizabeth Gallenagh, Chief Legal Officer, at egallenagh@hda.org.

Respectfully submitted,



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