

## Healthcare Distribution in 2024: Growth and Efficiency Hold Amid Margin Pressure

### U.S. Economy and Distributor Sales

U.S. businesses, including those in the healthcare distribution sector, operated in a relatively stable yet still challenging economic environment in 2024. The labor market remained tight, with unemployment at a consistent and historically low level near 4 percent. Inflation moderated to 2.9 percent by year-end — a healthier level than the 8 percent rate in 2022 and 4.1 percent in 2023 — while borrowing costs stayed elevated.

Despite these larger economic pressures, sales through the traditional pharmaceutical distribution sector rose 10.4 percent in 2024. This follows strong gains of 15.5 percent in 2022 and 13.7 percent in 2023. Pharmaceutical distributor sales reached \$862 billion in 2024, accounting for 96 percent of all prescription drug sales.

### Sales by Customer and Category

Sales by type of product showed only minor changes in 2024, though continuing the long-term shift toward greater sales of specialty brand name prescription drugs. Specialty brand name prescriptions accounted for 38.5 percent of total sales in 2024, up slightly from 38.1 percent in 2023 — though a significant increase from 16.1 percent a decade earlier. Brand name prescriptions represented 52 percent of dollar volume in 2024, nearly unchanged from 53 percent in 2023, while generics also remained steady, at 6 percent.

Sales across customer types shifted more noticeably in 2024. Chain drug stores rebounded to 40.5 percent of total sales, up from 36.4 percent in 2023. Specialty pharmacies increased their share to 6.4 percent, compared with 5.2 percent in the prior year, while independent drug stores fell to 11.7 percent from 13.1 percent in 2023. Other customer categories showed smaller year-to-year fluctuations and generally held in line with recent patterns.

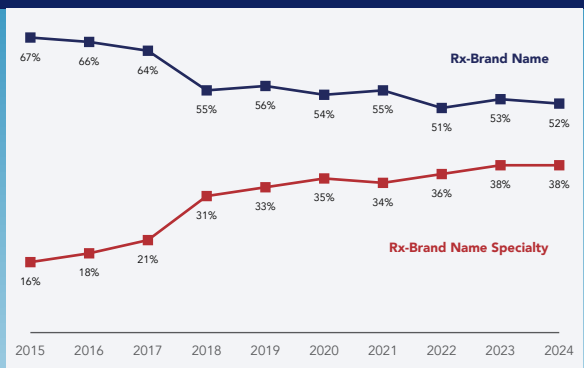
2024  
Sales Growth  
**10.4%**

### DISTRIBUTOR SALES



**8.6%**  
CAGR  
Since 2015

### PRODUCT TYPES (% OF \$)



# EXECUTIVE SUMMARY

## Margins

Changing product mixes and ongoing administrative cost pressures continued to weigh on distributors' profitability. Gross margins declined again in 2024, slipping to 1.68 percent of revenue from 1.74 percent in 2023, and down from 3 percent in 2015, marking the eleventh consecutive year of margin erosion. Bottom-line (net) profits also fell to 0.26 percent of revenue. With cost of goods sold totaling 100.6 percent of revenue, distributors once again relied on vendor payment-term discounts to generate positive margins.

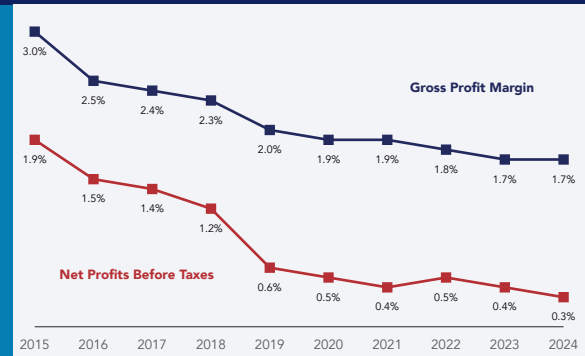
## Employees

Labor costs continued to increase in 2024. Average employee compensation rose to \$86,500, up from \$82,500 in 2023, with total payroll costs reaching 17.4 percent of gross margin — a significant rise from 14.1 percent in 2019. This growth reflects both rising employee costs and shrinking gross margins. Healthcare distributors generally provided salary increases of 3.5 percent in 2024, with slightly smaller raises of 3 percent expected for 2025.

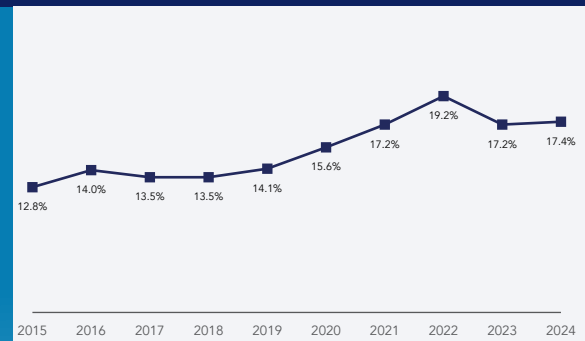
Employee turnover rates for warehouse employees improved only slightly in 2024. On a weighted basis, turnover averaged approximately 42 percent, with 40 percent of day-shift employees and 46 percent of night-shift employees leaving their positions. Day-shift turnover has remained largely consistent since 2022, while night-shift turnover has improved more substantially from its peak of 61 percent in 2022.

Employee productivity continued to climb in 2024, with net sales per employee growing 8 percent to \$29.7 million. This trend reflects continued improvements from investments in automation and process enhancements. Overall, 68 percent of distribution centers used automated picking methods in 2024, up from 66 percent in 2023, and of those using automation, 50 percent of invoice lines were picked through automated processes.

### GROSS PROFIT MARGIN



### TOTAL COMPANY PAYROLL AS A PERCENT OF GROSS PROFIT MARGIN (%)



### SALES PER EMPLOYEE (Millions)



# EXECUTIVE SUMMARY

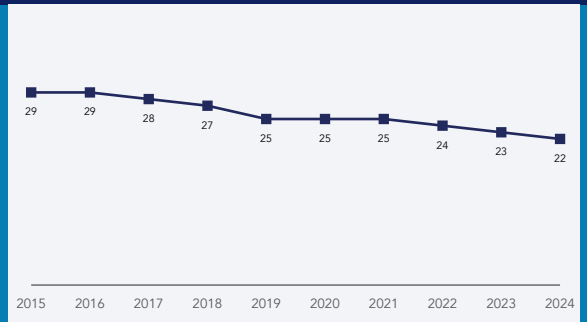
## Asset Management

Healthcare distributors continued to refine their balance sheets in 2024. They boosted cash levels while reducing relative amounts of inventory and receivables, leading to additional improvement in the industry's asset turnover rate. The rate rose to 6.2 times in 2024, up from 6.1 times in 2023. In practical terms, this means the industry's net sales were 6.2 times the book value of its assets. A higher asset turnover rate signals more efficient use of assets to generate revenue, and the industry's steady range of 5.5 to 6.5 over the past 15 years underscores consistent operational efficiency.

Capital expenditures have shifted notably over the past several years. After large infrastructure investments to support COVID-19 vaccine distribution and then increased information technology spending to meet serialization requirements, 2024 capital expenditures totaled \$386 million — up 16 percent from 2023. "Land, buildings, and vehicles" accounted for 53 percent of the total, information technology comprised 31 percent, and the remaining 16 percent went toward machinery and equipment.

Healthcare distributors carried a total of \$50 billion in inventory throughout 2024, and inventory management remained a particular strength for the industry as companies continued to streamline operations. Inventory averaged 22 days on hand, down slightly from 23 days in 2023. Branded products typically stayed on shelves just 15 days, while generic products averaged 30 days.

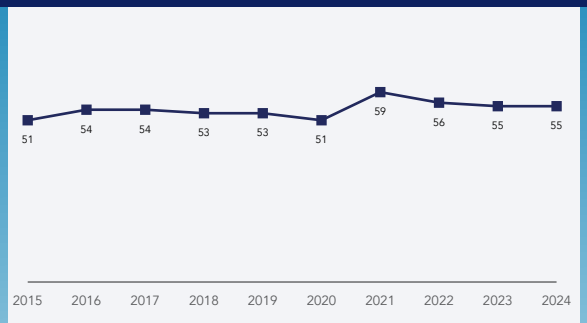
## INVENTORY DAYS



## RECEIVABLE DAYS



## PAYABLE DAYS



# EXECUTIVE SUMMARY

## Liquidity and Leverage

Healthcare distributors maintained tight control over working capital in 2024. They fortified their cash levels significantly and reduced their relative levels of inventory and receivables. These actions helped keep liquidity tight yet stable, with key measures such as the current ratio holding at 0.7 times and the acid test ratio at 0.3 times — levels unchanged since 2022. This lean approach reflects the industry's ability to operate efficiently while relying on disciplined management of receivables, payables and inventory to support cash flow.

On average, distributors collected receivables in just 19.4 days, marking the lowest level in the past decade. Accounts payable averaged 54.6 days, allowing companies to take full advantage of favorable vendor terms. This combination of faster collections and extended payment cycles provided important cash flow support despite ongoing margin pressure.

Following years of volatility, the industry's debt level (measured by financial leverage) declined sharply in 2024, falling to 14.4 times from 28.7 times in 2023 — its lowest point since 2017. While still high compared with the general norm of roughly 7 times before 2018, the improvement reflects both stronger equity positions and reduced reliance on debt financing. Leverage fluctuated dramatically over the past several years, peaking at 44.2 times in 2020 before trending downward.

## Orders

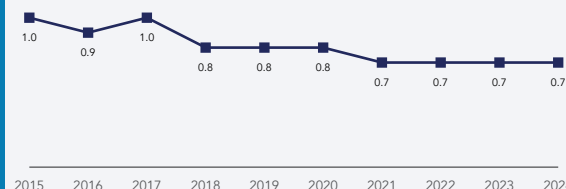
In 2024, distributors picked more than 10.5 million units per day. Each traditional distribution center processed an average of 4,100 orders per business day, with each order consisting of 12 invoice lines and 25 units. The average sale per invoice line increased to \$542 in 2024, up from \$432 in 2023, while the average invoice increased to \$6,300. Distributors filled 89 percent of invoice lines for "raw orders," a modest gain from 88 percent in 2023. The primary reasons for unfilled orders were manufacturers' inability to ship (70 percent) and distributors being out of stock (30 percent).

**Note:** this summary is focused on traditional distribution

### PREPARED BY

Scott Hackworth, CPA, and Marcy Dolnicek  
Industry Insights, Inc.

## CURRENT RATIO



## PERCENT OF ASSETS FUNDED BY DEBT

