

HEALTHCARE DISTRIBUTION MANAGEMENT ASSOCIATION

**Testimony before the  
House Energy and Commerce Committee  
Subcommittee on Health  
United States House of Representatives**

September 23, 2011

**John M. Gray, President and CEO  
Healthcare Distribution Management Association**

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Good morning Chairman Pitts, Ranking Member Pallone and Members of the Energy and Commerce Subcommittee on Health. I am John Gray, president and CEO of the Healthcare Distribution Management Association (HDMA). Thank you for the opportunity to provide an overview of the pharmaceutical distribution system and to inform the Subcommittee's efforts regarding the critically important issue of drug shortages.

HDMA is the national association representing America's primary healthcare distributors – the vital link in our nation's healthcare system. Each business day, HDMA's 34 member companies ensure that nearly nine million prescription medicines and healthcare products are delivered safely and efficiently to nearly 200,000 pharmacies, hospitals, nursing homes, clinics and others nationwide. Approximately 90% of all pharmaceutical product sales in the United States flow through HDMA distributor members. Continuous innovation and operational efficiency have

allowed our members to annually contribute an estimated \$42 billion in value to the nation's healthcare system.

Federal law defines wholesale distribution as the “distribution of prescription drugs ... to other than the consumer or patient.” Wholesale distributors are licensed entities that are bound by a range of federal and state laws. In addition, distributors must comply with the licensure requirements of each state in which they operate. It is important to note that HDMA's members are *primary distributors* – they buy predominately from pharmaceutical manufacturers and sell only to appropriately licensed customers, the vast majority of which are pharmacies and other healthcare providers.

Pharmaceutical products are distributed through a highly coordinated supply chain that is designed to provide maximum efficiency. Pharmacies and other healthcare entities generally place orders for prescription medicines by 8 p.m. and receive deliveries from their distributors the next morning. The average distribution center processes 1,965 orders daily. On average, warehouses maintain 30-day inventory levels. This number varies by product and is subject to demand, seasonality, cost and other factors. Pharmaceutical products with special handling requirements typically have shorter cycle times.

Distributors provide an array of services for manufacturers beyond the movement of product, including but not limited to receivables risk management, customer validation, order management, inventory management tracking, processing returns and recalls, and contract management. For pharmacy and provider customers, distributors provide an equal array of services including aggregate ordering, assistance with stocking needs, support for information systems and software, as well as accounting and credit support. In the case of inventory management, distributors are able to fill customer orders six or seven days per week, which limits the need for large inventories at the pharmacy level.

In sum, distributors serve to maximize efficiencies between manufacturers and healthcare providers by managing a complex supply network and efficiently providing a mechanism for seamless interaction.

Through the unique position of distributors and their close partnerships with all of the stakeholders across the supply chain, they are acutely aware of the impact of drug shortages, especially on patients.

Effectively addressing a drug shortage is a difficult and complex challenge for the entire healthcare community, in large part because a shortage typically appears with little or no warning and often requires significant resources to manage.

HDMA and our member companies are working hard to improve communications within the supply chain and, where possible, to mitigate the impact of drug shortages.

Although distributors do not manufacture product, they do play an important role by helping to coordinate and share information about drug shortages when they arise. Distributors are typically notified of a shortage by a manufacturer or provider partner. Once information is received, distributors communicate with their manufacturer partners about product availability to understand the scope and expected duration of any shortage. They then work as quickly as possible with their customers to fill orders, to the extent they are able, based on purchasing history or, if necessary, to identify alternative products. As you can appreciate, there is a delicate balance between the need to share an appropriate level of information while, at the same time, preventing an environment for “panic buying.”

HDMA works collaboratively with the American Society of Health-System Pharmacists, federal agencies, the Congress and other supply chain partners to share expertise about the drug distribution system. In addition, HDMA is working with its distributor members, along with manufacturers and providers, to update voluntary industry guidelines on

improving communication between supply chain partners. We hope this effort will contribute to the better management of product issues in the future.

HDMA strongly believes that the healthcare industry *as a whole*, the government and stakeholders must continue to work together toward collaborative solutions that mitigate the impact drug shortages have on the most important stakeholder: the patient. To that end, I thank you again for the invitation to participate in this hearing and hope this overview was valuable to the Subcommittee as it explores this important and timely topic.