

THE PHARMACEUTICAL SUPPLY CHAIN: GROSS DRUG EXPENDITURES REALIZED BY STAKEHOLDERS



Prepared By:

Aaron Vandervelde
avandervelde@thinkbrg.com
202.480.2661

Eleanor Blalock
eblalock@thinkbrg.com
202.480.2772

Copyright ©2017 by Berkeley Research Group, LLC. Except as may be expressly provided elsewhere in this publication, permission is hereby granted to produce and distribute copies of individual works from this publication for non-profit educational purposes, provided that the author, source, and copyright notice are included on each copy. This permission is in addition to rights of reproduction granted under Sections 107, 108, and other provisions of the U.S. Copyright Act and its amendments.

Disclaimer: The opinions expressed in this publication are those of the individual authors and do not represent the opinions of BRG or its other employees and affiliates. This study was funded by the Pharmaceutical Research and Manufacturers of America. The information provided in the publication is not intended to and does not render legal, accounting, tax, or other professional advice or services, and no client relationship is established with BRG by making any information available in this publication, or from you transmitting an email or other message to us. None of the information contained herein should be used as a substitute for consultation with competent advisors.

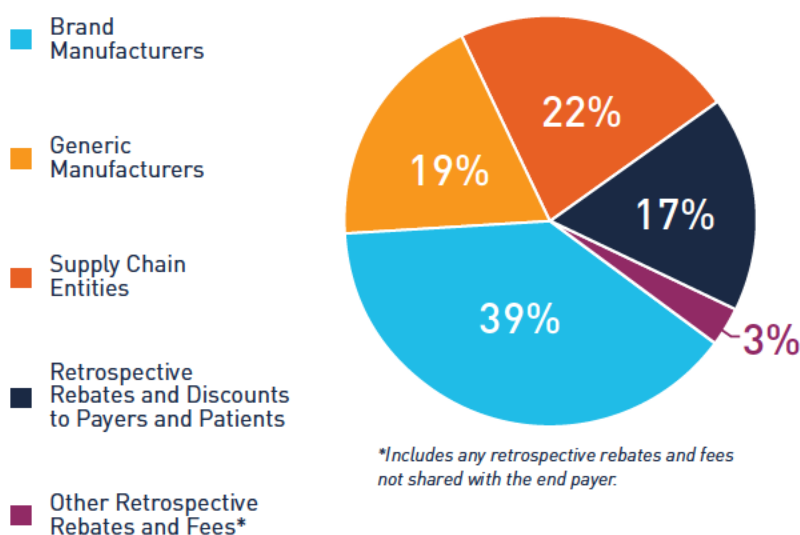
Executive Summary

Within the U.S. healthcare system, the flow of dollars in the pharmaceutical marketplace is a complex process involving a variety of stakeholders and myriad rebates, discounts, and fees—some of which are paid after a prescription drug is dispensed to the patient. Commonly reported figures for pharmaceutical spending fail to capture these retrospective rebates and discounts, which lower final net spending for payers and the healthcare system. Pharmaceutical spending estimates that omit rebates and discounts do not fully reflect the underlying competitive dynamics of the pharmaceutical sector and provide a misleading impression of drug spending.

In recent years, news of rising list prices and increased patient cost sharing has triggered calls for greater visibility into the pharmaceutical distribution and payment process. Against this backdrop, the market has experienced enhanced competition, especially in certain therapeutic areas, resulting in higher rebates from manufacturers to payers in exchange for patient access to medications. The goal of this paper is to bring clarity to the drug distribution and payment process and to estimate the share of spending realized by manufacturers and other entities along the supply chain.

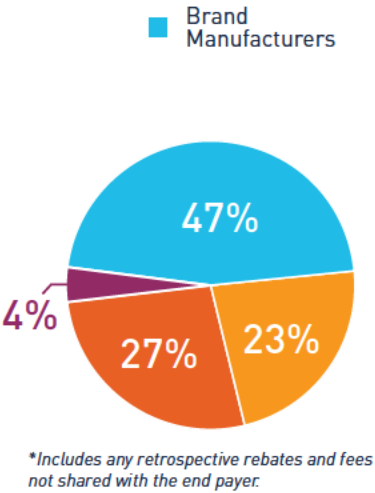
For purposes of this paper, we begin the analysis with “initial gross drug expenditures,” which we define as the sum of payments for prescription drugs made by patients and their health plans at the point of sale (*e.g.*, pharmacy, outpatient hospital) prior to any rebate, discount, or fee provided by manufacturers. By using this starting point, the analysis makes it possible to measure prescription drug spending by consumers, health plans, government payers, and employers, and the portion thereof realized by manufacturer and non-manufacturer stakeholders. **Our analysis indicates that brand manufacturers realize 39 percent of initial gross drug expenditures. Of the remainder, 42 percent is realized by non-manufacturer entities, including amounts realized by participants in the supply chain (22 percent) and transferred by manufacturers to other stakeholders through retrospective rebates, discounts, and fees (20 percent).**

SHARE OF 2015 INITIAL GROSS DRUG EXPENDITURES REALIZED BY MANUFACTURER AND NON-MANUFACTURER STAKEHOLDERS



After deducting price concessions that lower the cost of medicines to payers and patients, the actual, final cost of medicines is significantly less than initial gross drug expenditures. We define these final costs to payers as “net drug expenditures,” which we estimate totaled \$469 billion in 2015. **Brand manufacturers realized \$219 billion of this amount in 2015, or less than half of net spending on prescription drugs (47 percent).**

SHARE OF 2015 NET DRUG EXPENDITURES REALIZED BY
MANUFACTURER AND NON-MANUFACTURER STAKEHOLDERS



	Net Expenditures	
	\$ (Billions)	%
MANUFACTURERS		
Brand Manufacturers	\$218.6	47%
Generic Manufacturers	\$107.6	23%
NON-MANUFACTURER STAKEHOLDERS		
Supply Chain Entities	\$125.3	27%
Other Retrospective Rebates and Fees	\$17.5	4%
Total†	\$469.0	100%

†Components may not sum to total due to rounding

We also observe that rebates and discounts have grown as a share of gross drug expenditures over time. **As a result, the share of gross drug expenditures realized by brand manufacturers has declined (from 41 percent in 2013 to 39 percent in 2015), while the share realized by non-manufacturer entities has increased.** This trend in increased retrospective rebates and discounts paid by brand manufacturers has largely offset increases to drug list prices, and reflects the increasingly competitive marketplace for brand drugs.