

## Release of Grant Thornton Report:

### True Costs of the Pharmaceutical Supply Chain

On behalf of the Canterbury DHB and Nelson-Marlborough DHB, the Community Pharmacy Services Programme releases the report, '*True costs of the pharmaceutical supply chain*', prepared by Grant Thornton NZ.

This report fulfils a commitment made by these two DHBs in December 2015 during the mediation of a dispute with two pharmacies arising from them surcharging people for dispensing low cost medicines.

Grant Thornton NZ's report states at a system level there appears to be sufficient funds for the supply chain, however caveats that this is a large topic and there is limited information about pharmaceutical supply chain costs in the public domain. Subject to this caveat, it estimates total CPSA-related procurement and stockholding costs for pharmacies and their wholesalers in 2014/15 were \$49 million<sup>1</sup>. This estimated cost exceeds by \$14 million the funding contribution from the CPSA Margin that year.

The report notes however that its cost estimate relies on boundary decisions as to what costs are related to procurement and stockholding activity, and what costs relate to other service activity. Taking all CPSA-related funding and costs into account, so avoiding these boundary decisions, the report estimates that pharmacies earned a positive net margin of \$25 million in 2014/15 from providing CPSA services.

Grant Thornton NZ concludes from its analysis and interviews that:

- overall pharmacy profitability is low, and is possibly negative for some pharmacies;
- pharmacy costs are higher than they should be due to additional handling required by the limited range of pack sizes for some pharmaceuticals, and managing the impact on service users of medicine shortages;
- the pharmaceutical supply chain makes limited use of automation and information sharing, instead relying substantially on labour; and
- pharmacist and technician time spent managing stock, ordering and handling activities is time not available for higher value activities including dispensing, counselling patients and engaging with their prescribers.

The report identifies several opportunities to improve the operation of the pharmaceutical supply chain. These include:

- improving the availability for PHARMAC of information about the total cost of ownership/supply for different pack sizes, to take into account in considering alternative tender bids from pharmaceutical suppliers;
- reducing time spent by pharmacists managing stock, by moving to a vendor-managed inventory approach for predictable high volume items, where wholesalers

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<sup>1</sup> The report separately estimated wholesaler costs related to CPSA services rather than taking wholesaler charges to pharmacy as given.

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have direct access to pharmacy dispensing systems, and manage inventory levels in pharmacy; and

- moving supply chain payment structures from a focus on product value to one based on volume and other key cost drivers.

Canterbury and Nelson-Marlborough DHBs consider Grant Thornton's report is an important contribution to the conversation about optimising the pharmaceutical supply chain, building on two earlier reports by Deloitte NZ and Sapere Research Group.

The report suggests DHBs and PHARMAC engage with pharmacies and other providers in the pharmaceutical supply chain towards collaborating on a shared vision and roadmap for the development of the supply chain. Canterbury and Nelson-Marlborough DHBs see merit in this suggestion, and invite other stakeholders to consider the report and indicate their interest in working together in this way.