



LEARN MORE >

People who know, know BDO.SM

The BDO Center for Healthcare Excellence & Innovation

[Home](#) > [Technology](#) > [Pharmaceuticals](#)

Surviving drug shortages by eliminating the middlemen

By [Adam Rubenfire](#) | March 9, 2016



Quan Pho, vice president of pharmacy for Englewood, Colo.-based Centura Health, says he has contracted directly with manufacturers for as many as 100 items that are frequently hard to get.

Hospital systems now routinely deal with an uncomfortable number of active drug shortages, so they're forging direct relationships with manufacturers and buying directly from the source when the usual channels dry up.

There were 185 drugs in shortage as of the fourth quarter of 2015, and the figure has averaged about 257 since the start of 2011, according to the University of Utah Drug Information Service. Some of the products in short supply are vital, such as the epinephrine administered with CPR to reverse cardiac arrest and the antibiotic meropenem.

Group purchasing organizations **[work to build reliable contracts to avoid shortages](http://www.modernhealthcare.com/article/20151024/MAGAZINE/310249987)** (<http://www.modernhealthcare.com/article/20151024/MAGAZINE/310249987>), and distributors strive to have sustainable supply lines. But sometimes there's little either can do, often because only a few manufacturers produce a product.

But in some cases, health systems are able to procure them from manufacturers, if they have the right relationships in place and the logistical sophistication to handle the orders.

Quan Pho, vice president of pharmacy for Englewood, Colo.-based Centura Health, says he has contracted directly with manufacturers for as many as 100 items that are frequently hard to get.

“Creating this (relationship) is a way for us to mitigate those issues that come along pretty much every month,” Pho said. “Fifteen years ago ... I had maybe 30 to 40 drug shortages a year, and now I'm getting 30 to 40 a month.”

The drugs Centura buys directly represent a very small fraction of the hundreds of thousands of items that are available on contract with his GPO, HealthTrust, and Pho says he communicates openly with the GPO and his pharmaceutical distributor, AmerisourceBergen, when he veers from those contracts.

Pho said the vendors now understand that he needs to do everything he can to provide for patients amid a shortage epidemic.

But direct ordering could undermine the value proposition of the distributors and threaten the administrative fees that GPOs collect from manufacturers and distributors, said Jamie Kowalski, a Milwaukee-based healthcare supply-chain consultant.

“This disrupts this historic relationship between GPO, distributor and manufacturer,” Kowalski said. “It's not only a relationship issue, it can be and generally is a financial impact.”

Engaging in what is sometimes called “limited distribution” of pharmaceuticals can be an arduous task and may not be suitable for smaller systems. Larger, complex integrated delivery networks such as 17-hospital Centura have the scale and resources that enable them to manage the logistics.

Pho receives all of the products at a single storeroom at Centura's Porter Adventist Hospital in Denver and distributes it to other hospitals throughout the state as needed via courier. These one-off orders often come at a higher price because the drug is in such high demand, but the orders aren't frequent enough to make a dent in the system's bottom line and “the need of the product outweighs the cost of the product,” Pho said.

John Feucht, system director for pharmacy services at Akron, Ohio-based Summa Health System, said the system maintains direct accounts with a number of manufacturers and orders from them directly when there are production issues. For pre-filled emergency syringes, which are often prone to shortage, Summa has about six items on backorder that Feucht expects will be allocated to Summa ahead of being released to wholesalers. Manufacturers often prioritize providers based on brand loyalty and purchasing history.

Manufacturers have increased their use of direct accounts amid persistent shortages, veering from a distribution model long dominated by companies such as AmerisourceBergen, **Cardinal Health** and **McKesson Corp.** Some drugmakers will intermittently pull their products from distributors when **manufacturing issues strain their supply** (<http://www.modernhealthcare.com/article/20151006/NEWS/151009960>).

“(Distributors) make their money by moving product,” Feucht said. “If they don't have a robust allocation system or if their allocation system is not in alignment with the manufacturer's allocation system, it becomes problematic for the end-user.”

Most GPOs and some distributors declined to comment for this article, and a number of drugmakers did not return requests for comment. A spokeswoman for **Deerfield, Ill.-based Baxter International** said that in the event of a shortage, the company prioritizes contracted customers, including distributors. Although the company won't allow customers to supplement distributor orders by ordering direct from Baxter, it has arranged for partial, expedited shipments to serve critical needs.

Emily Lightfoot, senior vice president of health systems for AmerisourceBergen Drug Corp., a division that includes the Chesterbrook, Pa.-based company's drug distribution and pharmacy management solutions, wrote in an e-mail that the distributor closely monitors drug supply levels and works with manufacturers to help meet anticipated demand of shortage-prone products.

“We work to predict upcoming shortages, track existing shortages, offer timelines for the arrival of shortage resolutions and recommend the best procurement options and possible drug alternatives,” Lightfoot wrote.

When a product is in shortage, AmerisourceBergen focuses on “fair and equitable” distribution, taking order history and utilization into consideration, Lightfoot wrote. If a product isn't available from a distributor, Lightfoot expressed doubt that most

manufacturers of products in shortage would have enough inventory to distribute it directly to providers.

A Cardinal Health spokeswoman similarly said that in the event of a shortage, Cardinal works to fairly allocate product to customers based on past usage. The company works with manufacturers to proactively identify and manage potential shortages before they arise, and secures supplies of alternative products whenever possible, she said.

It's important to have options when it comes to pharmaceutical purchasing because some drugs have few alternatives and the drugmaker supply chain can be unpredictable, said Jason Abbot, associate director of pharmacy consulting at Chicago-based Navigant.

GPOs will continue to hold value in their ability to offer consulting and data services because of their knowledge of providers' purchasing habits, and at the end of the day, distributors will stay in business because extensive direct-ordering would put a serious strain on most pharmacies' resources, Abbot said. He also pointed out that adding drug vendors complicates a providers' drug purchasing data and could make it more difficult to analyze pharmaceutical spending.

"There is somewhat of a shift, but I think there's still a strong case to be made for the GPOs and that being a member of a wholesaler makes sense," Abbot said.

"Otherwise, the other option is going at it on your own and developing relationships with all the manufacturers, and that could be quite an undertaking."

RELATED CONTENT

[Surmounting shortages: GPOs work creatively with manufacturers to avert drug shortfalls](http://www.modernhealthcare.com/article/20151024/MAGAZINE/310249987)

[\(<http://www.modernhealthcare.com/article/20151024/MAGAZINE/310249987>\)](http://www.modernhealthcare.com/article/20151024/MAGAZINE/310249987)

[Growing hospital systems stretch supply chains](http://www.modernhealthcare.com/article/20160130/MAGAZINE/301309981)

[\(<http://www.modernhealthcare.com/article/20160130/MAGAZINE/301309981>\)](http://www.modernhealthcare.com/article/20160130/MAGAZINE/301309981)

[FDA says it's fighting drug shortages](http://www.modernhealthcare.com/article/20151006/NEWS/151009960)

[\(<http://www.modernhealthcare.com/article/20151006/NEWS/151009960>\)](http://www.modernhealthcare.com/article/20151006/NEWS/151009960)

Adam Rubenfire

Adam Rubenfire covers supply chain for Modern Healthcare. His beat responsibilities include pharmaceuticals, medical devices, capital equipment, group purchasing organizations and medical supplies. His work has appeared in the Wall Street Journal,

Automotive News and Crain's Detroit Business. He has a bachelor's degree in organizational studies from the University of Michigan. He joined Modern Healthcare in 2014.

Tags: [Finance](#), [Group Purchasing Organizations](#), [Hospitals](#), [Pharmaceuticals](#), [Providers](#), [Supply Chain](#), [Technology](#)

Advertisement



RIGHT CONTENT. RIGHT CUSTOMERS.
MAKE SURE YOUR CONTENT MARKETING WORKS [LEARN MORE >](#)

CRAIN
CUSTOM
CONTENT

Copyright © 1996-2016 **[Crain Communications, Inc.](http://www.crain.com/)** (<http://www.crain.com/>)