

Improving Practices for Rx & CPG Returns



Supply Chain & Logistics ²⁰¹⁰ Conference

February 28 – March 2, 2010

JW Marriott ,San Antonio Texas

Dan Raftery

Raftery Resource Network

CPG Industry Dissed About Unsaleables

Discontented
Dissatisfied
Disaffected
Displeased
Disgusted
Disturbed
Dispirited

Distrustful
Disengaged
Disparaged
Distressed
Distraught

**And in disagreement
about financials**

Pharma Industry Engaged In Process Improvement

HDMA Returns Task Force
NACDS Support
Retailer Involvement
Institutional Included
**Voluntary Guidelines
& Recommendations**

**Financials more complex
than front end**

Word of Caution

Pharma today is where CPG was 10 years ago

Pharma in 10 years where CPG is today?

What to do:

- 1. Stay tuned-in to work of association committees**
- 2. Participate if possible**
- 3. Adopt recommendations where appropriate**

Why Reverse Supply Chain Exists

- 723 food and drug recalls (incl voluntary) occurred in 2009¹
- Only 3% of new items exceeded \$50 million first year in last decade²
- Category analysis and SKU rationalization are established business practices (SUPERVALU to cut up to 25% in 2010)³
 - 1 Food & Drug Administration on 1-15-10 (excludes medical devices & instruments)
 - 2 IRI, Times & Trends, January 2010
 - 3 Wall Street Journal, January 13, 2010

Three Components of Reverse Supply Chain

➤ *Business practices*

- Recall, withdrawal, discontinued, expired removal
- Excess, distressed, aged inventory reduction
- Planogram changes, SKU rationalization
- New item introduction, Rx to OTC, generic conversion

➤ *Financial practices*

- Swell allowance, Adjustable Rate Program, WAC, WAC+
- Reclamation claim, invoice deduction, credit memo
- Off-invoice, accrual payment, extended reimbursement

➤ *Distribution practices*

- From stores, pharmacies, DCs (retailer, wholesaler, manufacturer)
- To food banks, landfills, incinerators, salvage market, manufacturers

Conclusions from Decades of Consulting

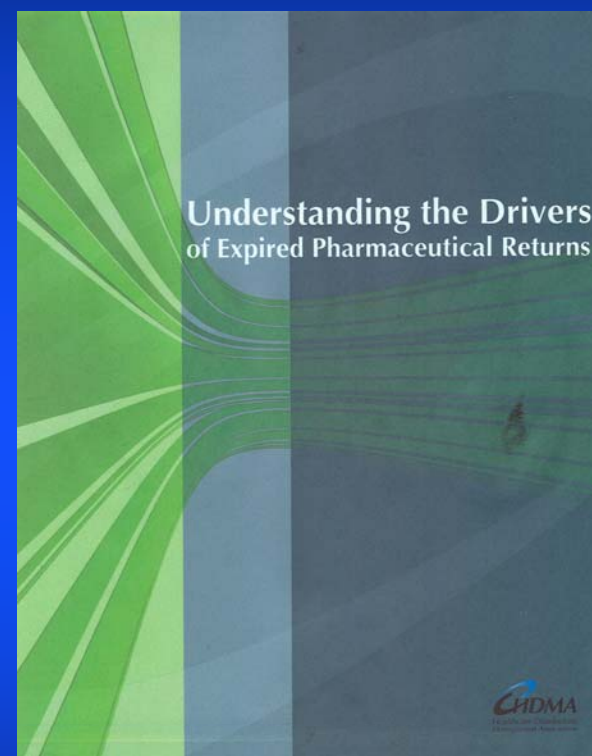
- Returns not sexy
- No silver bullet – many smoking guns
- Control possible with oversight & persistence
- Progress impossible without data
- Pharma world very different than front end

What's Happening in the Pharma World of Returns

“Drivers” Project Intent

Provide recommendations for reducing quantity of expired pharmaceuticals in healthcare supply chain

Started: April 2008 Finished: April 2009



Report Overview

- Major causes of unsaleable pharmaceutical returns
- Individual company actions to decrease returns
- Ways to evaluate progress in decreasing returns

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- Covers unsaleable pharmaceutical returns which are expired, about to expire or will expire before sold
- Explores pharmacy and distributor warehouse to determine where and why pharmaceutical returns typically occur

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- Ways to evaluate progress in decreasing returns
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- Explores pharmacy and distributor warehouse to determine where and why pharmaceutical returns typically occur
- Developed by the HDMA Returns Task Force (RTF) - Healthcare providers included for this report

Report Contents

- Recommendations that may help a company address and reduce the causes of expired pharmaceutical returns
- An evaluation tool that a distributor or manufacturer could use to determine opportunities to improve and the progress made

Each company must develop its own, individual returns management practices, and must individually choose how to deal and contract with its industry partners, suppliers and customers

Project Team

Joanne Cooper, Manager, Corporate Relations, AmeriCares

Michael Kody, Vice President, Supply Chain Strategy, AmerisourceBergen Drug Company

Margaret Kinder, Senior Returns Analyst, Baxter Healthcare

Frank Harkins, Associate Director, Credit & Collections, Boehringer Ingelheim Pharmaceuticals, Inc.

Neil Warren, Vice President, Industry & Supplier Relations, Cardinal Health, Inc.

Samantha Trudeau, Logistics Analyst, Cephalon Inc.

Tiffany Rowley, Trade Relations Manager, Covidien - Mallinckrodt

Martha Greene, Senior Operations Manager, Genentech USA

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Robert J. Schaltenbrand, Director, Strategic Development, Guaranteed Returns

Thomas J. Twitty, Vice President, Operations, H. D. Smith

Steven Marcus, R.Ph., MBA, Executive Vice President, Health One Management Company

Cray Lester, Pharmacy Supply Chain, HEB

Jennifer Mauldin, Executive Vice President, Inmar, Inc.

*Scott Bradford, Vice President, Reverse Logistics, McKesson Corporation

Diane Staub, Director of Sales, Support, and Operations, Novartis Pharmaceuticals Corporation

Robert Weston, Customer Service/Logistics Manager, Procter & Gamble Pharmaceuticals

Ed Crimmins, Senior Director, Pharmacy Returns, Rite Aid Corporation

Frank Lee, Director, Performance Development, Smith Drug Company

Bob Breetz, The Kroger Company

Tim Harris, Senior Director, Pharmacy Logistics, Wal-Mart Stores, Inc.

Thomas Hervey, Logistics Operations Coordinator-Pharmacy, Wal-Mart Stores, Inc.

*Project Team Leads

Advisor to the Returns Task Force:

Daniel J. Raftery, President, Raftery Resource Network, Inc



NACDS

Unintended Consequences

- **Manufacturers create returned goods policies that offer credit for unsold products meeting specific criteria**
- **Policies aid the sales efforts to distributors and retailers, particularly with the launch of new products**
- **Industry has developed and improved methods for removing expired products from pharmacies and other dispensers**
- **Some may rely on the returns process rather than on more proactive inventory management efforts**

Unavoidable Circumstances

Influencers of demand can result in pharmaceuticals expiring, or nearing expiration, while still in the supply chain. Examples:

- Patients decide to obtain drug therapy elsewhere or otherwise move on
- Patients shorten or end their prescribed regimen (“patient non-compliance”)
- Patients are moved to a generic equivalent or a different course of treatment
- Retailers compete aggressively for patients’ business
- Negative information about a drug product arises (e.g., adverse events, manufacturing problems)

Useful Purposes of Returns

- **Most important: Guard patient safety and well-being through a controlled and regulated reverse logistics process**
- **Trading partners have many opportunities to improve inventory management processes and the timing of events and communications**
- **Trading partners can work together to reduce overall quantity of expired Rx products**

The Opportunity

- **\$2.5 to 4.0 billion** - Estimated value of all Rx product returned in U.S. for which manufacturer credit is requested*
- **\$15,918,825 per DC** - Average value of Rx products returned to distributors by their retail and institutional customers
- **Handling, transportation and storage** costs are also associated with these returned goods

Source: HDMA 2008-2009 Factbook (2007 data exclude recalls and overstock returns).

* Appendix C contains details for estimate calculation

The Opportunity

- **1%** - Median % of all Rx selling units returned to distributor
- **2%** - Median % of all Rx selling units returned to manufacturer
- **72%** - Average % of all returns “out dated or short dated”

Source: HDMA 2008-2009 Factbook (2007 data exclude recalls and overstock returns).

* Appendix C contains details for estimate calculation

Inventory Visibility

- After products leave the distribution warehouse, the distributor's awareness of inventory in the pipeline is limited or non-existent
- Lack of total supply chain visibility reduces the accuracy of a manufacturer's or distributor's inventory problem-solving and forecasting efforts
- Distributor becomes aware of expired products when the products begin the journey back to the manufacturer through the reverse distribution pipeline
- *A first step for a company that wants to reduce quantity of expired products under its control is to identify how much inventory exists at various points in its supply chain.*

Call to Action

Returns Task Force foundational recommendation:

- Analyze “morgue” inventory in pharmacies, institutions & DCs
- Collect “reason code” data, lot number and expiration date
- Communicate these data with appropriate supply chain partners, and where possible, use advanced EDI technologies

Demand- and Inventory-Related Drivers

- 1. Pharmacy stock rotation**
- 2. Alignment of manufacturer and distributor ship life policies with manufacturer production and inventory practices**
- 3. Retail pharmacy practices for short-dated products**
- 4. Drop in demand for seasonal Rx product**
- 5. Warehouse stock rotation**
- 6. Investment buying/forward buying at retail and by institutions**

Product-Related Drivers

7. New product failures
8. Unit of dispensing is not standardized
9. Generic product introductions
10. National Drug Code conversions
11. Government actions, such as FDA enforcement actions

Impact & Difficulty of Drivers

Product-Related

Demand- and Inventory-Related

More Impact

“Highest ROI”

More Difficult

- 7. New product failures
- 8. Unit of dispensing is not standardized
- 9. Generic product introduction

- 1. Pharmacy stock rotation
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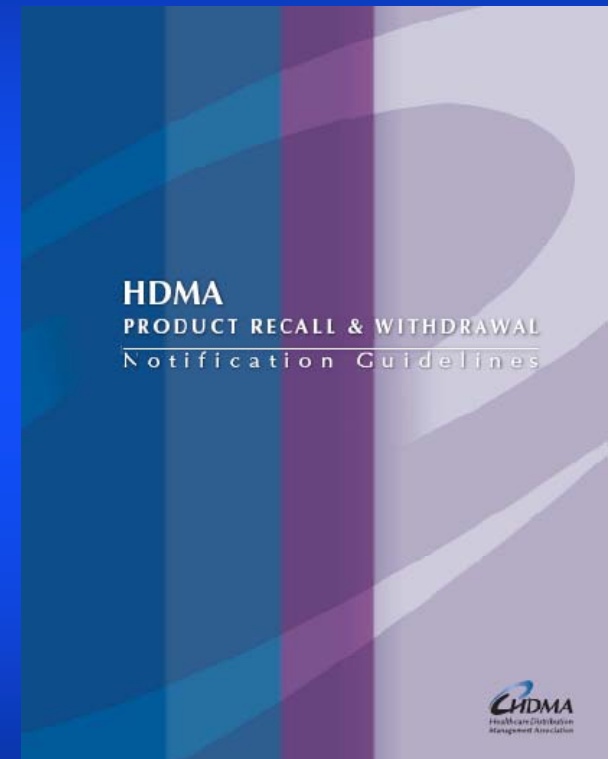
Less Difficult

“Lowest ROI”

Less Impact

HDMA Product Recall & Withdrawal Notification Guidelines

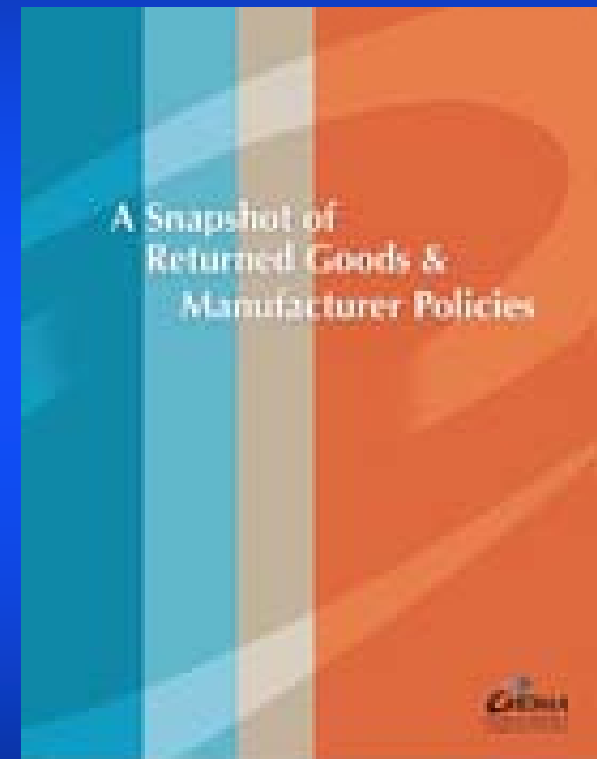
- General Recall Regulations & Responsibilities
- General Guidelines
- Instructions for Drug Recall Notice Form
- Drug Recall Notice (3 Sample Forms)
 - Wholesale
 - Retail
 - Consumer



May 2007

HDMA Snapshot of Returned Goods & Manufacturer Policies

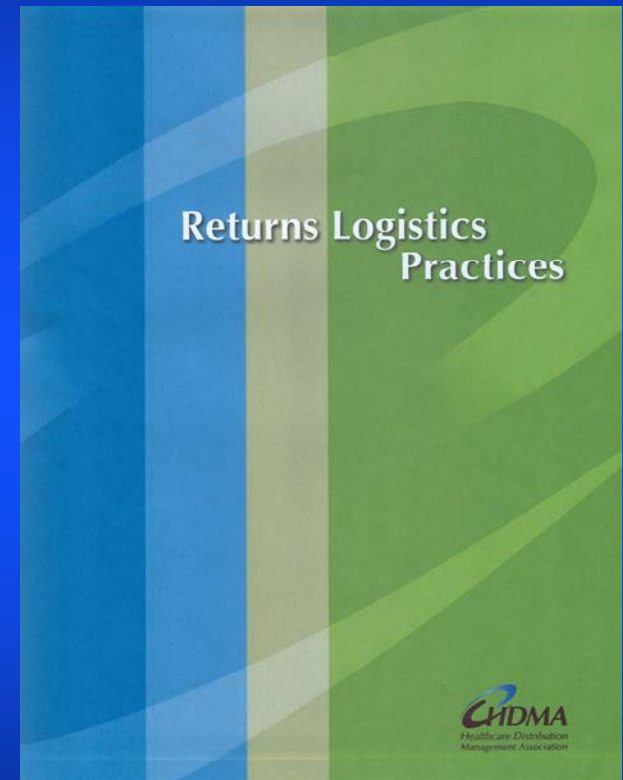
- What's processed by reverse distributors
- High-level picture of policy attributes for the Top 20 branded and generic manufacturers
 - Dating
 - Reimbursement
 - Partial



September 2007

HDMA Returns Logistics Practices

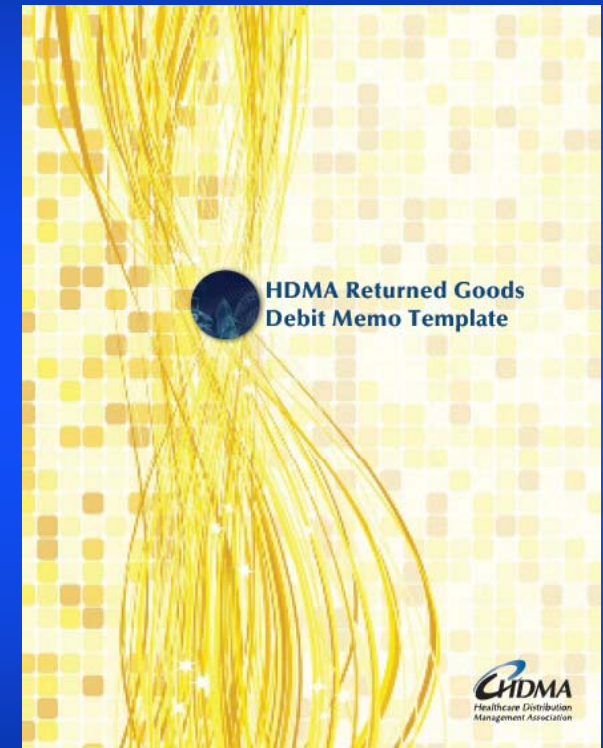
- Comprehensive survey of manufacturers, distributors and reverse distributors/service providers
- Provides insight into current practices around product and information flow in the reverse logistics process.



May 2008

HDMA Returned Goods Debit Memo Template

- Further definition behind recommendation in *Returns Logistics Practices* report
- Contains tool for including 12 data elements for:
 - Return Authorization
 - Debit Memo
 - Packing Slip
 - Credit memo
- Applies to paper and electronic transactions



January 2010

HDMA 180 Return Merchandise Authorization and Notification & 812 Credit/Debit Adjustment Guidelines for Electronic Data Interchange (EDI)

EDI 180

- Multi-directional
- Request or notification of return
- Corresponding response
- Additional details:
 - Reasons for return
 - Product characteristics
 - Serialization
 - etc

Can be used together

EDI 812

- Bidirectional
- Debits and credits between manufacturer and distributor
- Rebates, bill-back credits, overcharges, undercharges, handling fees, damage goods
- Selected details:
 - Reason codes
 - Usage notes
 - Location & product ID codes
 - Serialization

January 2010

What's Happening in the Front End (CPG) World of Returns

Reverse Supply Chain Improvement

Sponsored by
Food Marketing Institute

Project Update and Early Read of First Survey

FMI Reverse Supply Chain Improvement *Project Goal*

- **Develop new guidelines for retailers, wholesalers, manufacturers and service providers that address the current issues for each stakeholder in the reverse supply chain for food and OTC drug products.**
- **Recommendations for improvement are expected to include distribution, business and financial practices.**

FMI Reverse Supply Chain Improvement *Project Overview*

➤ Phase 1 – Defining the current state

- Project advisory team
- Perspectives and practices survey (all)
- Policy research and survey (manufacturers)
- Data collection (retailers/wholesalers)

➤ Phase 2 – Defining the future state

- Roundtable summit (all)
- Incentives and efficiencies survey (all)
- Recommendations and communications

Accomplishments to Date

- Project advisory team formed with wholesalers, retailers
- Primary service providers committed to participation
- Manufacturers, GMA and NACDS engaged in opening dialogue
- Perspectives & practices survey launched

Perspectives & Practices Survey Participants

21 Retailers and Wholesalers

AWG

C&S Wholesaler Grocers

Harris Teeter Inc.

Kroger

Publix Supermarkets

SUPERVALU

Winn Dixie

Associated Wholesalers Inc.

CVS

HEB

Laurel Grocery Company

Rite Aid Corp.

Wakefern Food Corp.

Kings Super Markets

Bozzuto's Inc.

Food Lion

Hy-vee Inc.

Nash Finch

Safeway Inc.

White Rose Inc.

Weis Markets

14 Manufacturers

Abbott Nutrition

Conagra

Mars Chocolate US

Ocean Spray Cranberries

Procter & Gamble

Alberto Culver

Heinz North America

Mead Johnson Nutrition

Pfizer

Chicken of the Sea

J. M. Smucker Co.

Nestle Purina Petcare

Pharmavite LLC

Wrigley Sales Co

7 Service Providers

Damage Recovery Systems

Inmar

Wesley Associates

Feeding America

Return Mgmt Services

GENCO

Strategic Solutions Intl

Perspectives & Practices Survey Selected Topics & Responses

- **General industry-level *Advantages* of current state**
 - Efficient, centralized process for removing products for stores
 - Frequent mention of recalls, withdraws
 - Improve store conditions
 - Data source for improvement actions

General consensus between retailers/wholesaler and manufacturer responses

Perspectives & Practices Survey Selected Topics & Responses

- General industry-level *Disadvantages* of current state
 - Costs to operate system
 - Incomplete cost recovery by retailers/wholesaler
 - Lack of improvement incentive for 3rd parties
 - No disadvantages (retailers/wholesalers)
 - Incomplete, inaccurate, not useful data (manufacturers)

**Initial indication that concept of “shared responsibility”
is a core issue**

Perspectives & Practices Survey Selected Topics & Responses

Is current system at risk?

15/21 – Retailers/wholesalers said Yes

11/14 – Manufacturers said Yes

Why?

Incomplete cost recovery now; more ARPs?

Store-level disposition option; others?

Lack of cost ownership/sharing (manufacturers)

Why not?

No other option; unsaleables happen

Recalls are efficient (retailers/wholesalers)

Perspectives & Practices Survey Selected Topics & Responses

➤ What can be done?

- Design a new system of controls, accountability and cost sharing
- Collaborate on root cause mitigation
- Gain broad acceptance and adherence

**General consensus by retailers/wholesalers
and manufacturers**

Future of Returns & Unsaleables



- Increasing share of store brands will increase pressure on manufacturers to use business practices that drive returns and unsaleables.
- Secondary, closeout and salvage markets will thrive.
- Internet markets for “banana box merchandise” will grow.
- Consolidation of reclamation centers has peaked in CPG but relocations will continue. Rx consolidation will continue.
- Industry attention will focus on new collaborative process improvement approaches that involve senior management.

All the usual disclaimers apply

Important Industry Events

Joint Industry Unsaleables Management Conference

- Grocery Manufacturers Association, Food Marketing Institute, National Association of Chain Drug Stores
- July 21, 22, 2010 Las Vegas, NV
- www.gmaonline.org/events

Looking Forward in Reverse Logistics

- Healthcare Distribution Management Association
- September 21, 22, 2010 Milwaukee WI
- <http://www.healthcaredistribution.org/education/seminar-index.asp>

For More Information

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