

# Flow



No. 1 - March 2010

## Nomecodagen

A day of facts,  
opinions, debate  
and networking

Single channel  
distribution in  
hospitals

**New Nomeco services**  
- looking for first movers





## Fair and effective - but not perfect

→ By Henrik Kaastrup, Director Nomeco HealthCare Logistics

Editorial	2
Nomecodagen 2010	3
What did you bring home from Nomecodagen?	4
9 questions about the Danish private pharmacies' economy	6
Dead robot led to suspension of payments	7
Single channel distribution	9
Upcoming services	10
<b>Update:</b>	
The last delivery van has left Nomeco Kolding	11
Reception, Jan Bonde	11
PharmaGOLF 2010	11
Being in the flow	12

On January 28, Nomeco HealthCare Logistics hosted the second Nomeco industry event "Nomecodagen". The overall theme was "The Danish Distribution Model – does it meet the future?" and elsewhere in this newsletter you can read feedback from a handful of the 100 participants from all corners of the pharmaceutical industry. Besides these qualitative statements we also handed out a quantitative questionnaire among the participants. The output showed that nearly all participants rated Nomecodagen as both relevant and of personal value. However, the evaluation also revealed the more critical opinion that there were only few new hot topics and that the overall message from most of the speakers was predictable.



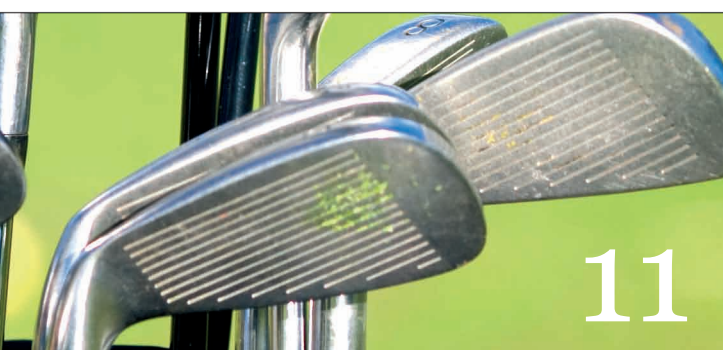
One could of course construe the lack of new hot potatoes as a result of lack of creative thinking or simply resistance to changes. Nevertheless, at Nomeco we tend to conclude that the predictability among the players of the Danish pharmaceutical supply chain should merely be seen as a consequence of a distribution model which is recognized by most players as fair and effective, but not perfect.

Although Nomecodagen did not reveal any political or strategic "smoking gun" it did, however, underline the distinct differences between the three industry segments – R&D based companies, generic companies and parallel traders. And for Nomeco the most important lesson of the day was that we will face a major challenge in serving a highly fragmented industry and keeping the balance between the industry and the pharmacies and hospitals.

I am sure that the differences in the industry was obvious to everybody at Nomecodagen along with the acknowledgement that all members of the supply chain need to work together if we are to modernize the system. Although it may take time and demand hard work, the overall good news came from political observer Michael Kristiansen – there is currently no political will to change the Danish distribution model – a statement, which I feel confident, is in the best interest of all members of the supply chain, including the patients.

And finally, something totally different – hopefully you have noticed that the newsletter you are reading has undergone some changes. During the winter we spent time evaluating our old newsletter and tried to come up with something new. The result is this first issue of Flow and on the back of this issue you can read more about our thoughts behind the changes.

I hope you will enjoy reading Flow.



# Nomecodagen

# 2010

360° view of the Danish pharmaceutical market

→ By Merete Wagner Hoffmann

On 28 January, Nomeco invited decision makers from all parts of the pharmaceutical industry to discuss if and how the Danish distribution model meets the future. About 100 people participated in the conference which, of course, took place in Nomeco's own conference room. The participants were introduced to ten different perspectives on how the Danish pharmaceutical market will develop and how our present distribution setup will be able to manage the situation with half of all original products' patents in the primary sector expiring. This will be the situation in about five years from now.

At Nomecodagen, decision makers from all parts of the supply chain from the pharmaceutical industry to pharmacies and hospitals presented their view on the future and what kind of challenges they are facing. They did not share the same views, and it became quite clear that the situation is quite different in regard to where in the chain they viewed the situation.

The last part of the day was dedicated to discussing alternatives to the Danish distribution model – specifically the Swedish situation where the pharmacy sector is now deregulated. And the day ended with Political Analyst, Michael Kristiansen, who gave his view on the future of the Danish pharmacy monopoly. He made it very clear that there is no political willingness to change a system that works. And that is exactly what the pharmacy sector does when seen from a governmental point of view.

Most of the participants at Nomecodagen were very satisfied with the conference. This was indicated with an average score of 4.6 (on a scale from 1 to 5 where 5 is highest). There is still room for improvement and Nomeco has noticed that several participants especially wanted more time to network and more time for discussion. This will be taken into consideration for optimisation of the next Nomecodagen.

## Nomecodagen

- Thank you
- Welcome
- Speakers
- Program
- Information
- Presentations
- Participants
- Registration

### Thank you

Thank you for the great attendance in Nomecodagen 2010.

Overall Nomecodagen was a very successful conference with interesting presentations and debates.

For more information about the presentations please [click here](#).

View the photos below and relive the atmosphere.



[Click here to view the rest of the pictures](#)



For more information about Nomecodagen 2010 visit [www.nomecodagen.dk](http://www.nomecodagen.dk). Here you will find some of the presentations and you will be able to watch the video interviews with representatives from generics producers, parallel importers and original producers. They were each asked these three questions: What will be the consequences of the massive patent expiries? Which challenges is the supply chain facing from manufacturer to patient? What are the future demands and expectations for the wholesaler?

# What did you bring home from Nomecodagen



We have asked seven participants in Nomecodagen what they got out of the conference - and what was the most interesting part.

→ By Karin Humle

Foto: Geir Haukursson



**Inge-Merete Larsen**  
Managing Director  
PharmaCoDane ApS



“ It was an interesting meeting. The topics were many, which made it a good update on knowledge. My thoughts on Sandoz's focus areas were confirmed, among other things, that our focus on the hospital sector is the right one. If I had to point out a presentation, it will have to be the one by Michael Kristiansen. His clear evaluation of a liberalisation of the pharmacy sector as not being imminent is of importance to Sandoz's business.



**Hans Koch**  
Country Manager  
Merck Serono



“ Nomecodagen offered several very relevant presentations. It was exiting to hear representatives from the three sections of the pharmaceutical industry and their very different opinions on and interpretations of what will happen in the future. I was inspired by Tom Rönnlund's presentation from IMS Health Danmark, who showed facts and figures from an objective perspective. Furthermore, I was inspired to look at new business areas due to Flemming Sonne's presentation that showed data on both growth and price level on hospital products. All in all, a successful day!



**Michael Lindorff**  
Commercial Manager  
Sandoz A/S



“ No news is good news. No unpleasant surprises regarding distribution of pharmaceuticals in Denmark were revealed. It was a very nice day and it was great to meet new as well as old colleagues. And it is a great opportunity for networking.

” To begin with I would like to commend the organisers of the very successful conference that showed everything had been well thought out. However, with this said I do not think the conference unveiled any major news. It simply confirmed the great challenges the pharmaceutical industry in general is facing in the future; many patent expiries, increased demands on rebates/price reductions etc.

It was clear that the willingness for change in the distribution chain was relatively modest and every player has their individual needs. Original producers, parallel importers and generic producers argued in favour of their needs for the distribution, the pharmacies argued in favour of keeping the current set-up and finally Nomeco argued in favour of the Danish Distribution Model. I believe it is necessary for the players to get closer and to a greater extent 'accept' the new concepts, which among other things were mentioned at the conference, these being a discount distribution model and professional e-business. Concepts that deserve far greater immersion in order to see which elements can be used in the pharmaceutical industry.

” Something I found useful from the conference was the information from Michael Kristiansen regarding liberalisation of the pharmacy sector in Denmark. The confirmation that a liberalisation is not imminent is useful information to have when preparing scenarios. It was also interesting that Nomeco unveiled new initiatives. I look forward to these with excitement. In general it was a successful day and a day Nomeco definitely ought to host again. The most beneficial aspect about the conference was being able to meet and discuss with others from the pharmaceutical industry, and therefore my advice is: keep the breaks longer.



**Kim Fonager**  
Finance Manager  
Ferring Lægemedler A/S



**Jan Iversen**  
Managing Director  
Lundbeck Pharma A/S

” Nomecodagen is always a good opportunity to informally catch up on what is happening in the pharmaceutical market. Most of the players are usually represented and during one afternoon you are able to get a quick 360° status. After Nomecodagen it is clear that you have to be adaptable if you want to succeed on the Danish pharmaceutical market. The dynamics and the challenges are numerous, forcing all parties to constantly evaluate how we secure high quality at a fair price.



**Andrej Salat**  
Head of Strategic Marketing  
Ratiopharm A/S

” My wish from the Nomecodagen is some movement for change and improvement in areas that are not functioning optimally. Ratiopharm would very much like to participate in shaping the market e.g. in relation to returns and crediting.



**Pia Villadsen**  
Head of Market Access  
Novartis Healthcare A/S

# 9 questions about the Danish private pharmacies' economy

How is the economy of the Danish pharmacies constructed? What kind of discounts can they receive – and why? Many people working in the pharmaceutical industry don't know the exact answer to these questions and therefore we have asked 9 relevant questions – and found the answers with assistance from the Association of Danish Pharmacies. Learn more about the Danish pharmacy sector in an economic perspective.

→ By Merete Wagner Hoffmann

## 1 How often is the gross profit negotiated?

The authorities determine how much the pharmacies (or more precisely the proprietor pharmacists) all together may earn. Every second year, the Association of Danish Pharmacists and the Ministry of the Interior and Health negotiate the gross profit, which corresponds to the contribution margin of the entire sector for all products and services. In 2009 and 2010, the agreed profit constitutes around DKK 2,4-2,5 billion per year. The gross profit must cover the costs of operating the pharmacies and the proprietor pharmacists' own salaries.

If the pharmacies, as a sector, earn more or less than agreed, the profit is adjusted by regulating the fixed fee (and thereby the pharmaceutical prices) up or down. The profits from the sale of branded goods and liberalized OTC medicines are included in the gross profit agreement.

## 2 From which sources does the pharmacy turnover come?

Around 80% of the turnover comes from sale of drugs prescribed by GP's (prescription medicines and certain OTC drugs that are dispensed only on prescription). 10% comes from the sale of OTC drugs, and 10% from the sale of free trade goods and services.

## 3 How much does a pharmacy earn?

On average, the turnover for a Danish pharmacy including all units owned by the same pharmacists was a little above DKK 50 million in 2009 and the profit is expected to be close to DKK 1 million.

But taking a view over the Danish pharmacy landscape you will find quite a significant difference when it comes to the individual pharmacy proprietor's salary. In 2008 more than 100 pharmacies had less profit left for the proprietor pharmacists than he or she could have earned as a salary had he or she been employed in a pharmacy.

## 4 Is there any equalisation among the pharmacies?

Pharmacies with a relatively large turnover pay a sales tax to the pharmacies that do not have same high earnings. Around DKK 50 million is redistributed annually as a consequence of this scheme, and about 35% of all pharmacies are expected to receive equalisation subsidies in 2010. The equalisation system is made to guarantee a reasonable income for pharmacies in rural districts where the population base is smaller and there is less possibility of operating a profitable pharmacy.

## 5 Are there any other sector taxes?

All pharmacies have to pay a special sector tax. There are many different purposes with this sector tax. One is to finance the Danish Medicines Agency, another to finance the education of pharmaconomists, and a third is to help pharmacies with branch pharmacies and pharmacy outlets, as it is considered to be more expensive having the sale spread out to several units.

## 6 What kind of discounts can a pharmacy achieve on pharmaceuticals?

The pharmacy is allowed to receive cost-related discounts on pharmaceuticals from the wholesalers, but no sales and marketing discounts. Half of the cost-related discounts are used for lowering the PRP prices on pharmaceuticals as it is given to the state. The other half is kept by the pharmacies.

The basis for discounts from wholesalers to private pharmacies must be publicly available e.g. on the Internet (Nomeco publishes own discounts on [www.nomeco.dk](http://www.nomeco.dk)). This has resulted in a de facto synchronisation of the discount programmes between the two largest Danish wholesalers to the private pharmacies. Since the discount programs are very similar, discounts are no longer considered an area of competition. Before the legislative tightening and clarification in April 2007, which resulted in the practise we know today, the wholesalers competed on services to the pharmacies – services which are now regulated tightly in the discounts. The result was a high level of service, which has now found a much more rational and reasonable level.

# Dead robot led to suspension of payments

## 7 What about discounts on branded goods?

Only 4 out of approx. 250 pharmacies are not part of a voluntary pharmacy chain. If the pharmacy is part of a chain it obtains a chain bonus on the sale of liberalized OTC and branded goods that are part of the specific chain's core product range. The size of the bonus cheque depends on the individual purchase of goods and the pharmacy can keep the bonus without having to share it with the public sector. But the discount is part of the sector's gross profit and contributes therefore to keeping the prices on pharmaceuticals down.

## 8 What is the profit margin on pharmaceuticals?

Pharmacies are paid a fixed fee of DKK 16.71 per pack of pharmaceutical sold. In addition they get 8.3% which is fully allocated to meet various taxes and fees, and is thus not kept by the pharmacy itself. This means that the pharmacy's income is completely independent of the price of the drug.

## 9 How big is the gross profit?

The gross profit on pharmaceuticals is about 17%. Every time the pharmacy sells medicines for DKK 100, DKK 17 is left over to cover all expenses and to give the proprietor pharmacist a profit. And when the salaries, rent, insurance and other costs are paid, 1% or 2% is left for the proprietor pharmacist.

It is a privilege to own and run a Danish pharmacy – but it is also a risk. The equalisation scheme does not guarantee the pharmacies a certain profit and it is possible to lose your money as a proprietor pharmacist. This is what pharmacist, Pernille Rasmussen, from Rådhusapoteket in Kgs. Lyngby had to find out at her expense.

→ By Merete Wagner Hoffmann

In February 2006 when Pernille Rasmussen obtained the authorisation for Rådhusapoteket in Kgs. Lyngby, did she envisage - not even in her wildest imagination - that two years later she would have to sell her recently purchased house in order to ensure liquidity for the pharmacy. That was actually the consequence of the suspension of payments she had ended up in. Pernille has previously worked in the pharmaceutical industry and the dream of becoming her own master was the reason for applying for a license.

One of the reasons why it went so wrong was that she had to move her new pharmacy from an attractive location by the station and customers had difficulty finding the pharmacy's new location. But a robot, which is an automatic dispensing system that never managed to function and external influences like the recession and downturn in the retail trade contributed as well to creating the financial problems.

“It was difficult finding new, suitable premises. Kgs. Lyngby is, after all, one of the most expensive areas in Denmark and at the time, there was a boom so the prices were extremely high. For one of the offered premises, I would have had to pay DKK 4 million in “key money” to be allowed to get the lease at all! And I had to really fight to get the current premises,” remembers Pernille.

Continues →



Two years after Pernille Rasmussen, who previously worked in the pharmaceutical industry took over Rådhusapoteket, she had to face the fact that there was no way around suspension of payments. Today, she is out of suspension of payments and the finances cohere – but there is not much in the way of wages for the pharmacist.



### → Optimism blossomed

But there was easy access to become established, there were good loan options and everywhere optimism blossomed. Pernille had no concerns either in investing in a renovation of the pharmacy and a robot in the basement was a must in order for the pharmacy to function in such small facilities. Moreover, the pharmacy was located in a building in which a number of medical clinics are established on the upper floors, so that was a perfect fit. There were also good parking facilities and an ISO right next door – a supermarket which attracted many residents in the area.

### The robot became a nightmare

Today, she has to acknowledge that she took on too much with the high rent, a renovation based on an expected turnover – and a robot that proved to be a true nightmare. It never managed to function and now in the third year, Pernille has a dead robot in the basement.

“All our working procedures at the pharmacy are built up around the robot and with the system not functioning; it is a disaster for us. It has drawn focus away from customer service and for a period it meant far too long waiting times as we had to walk around in the robot and look for the products,” she explains.

But then things really went seriously wrong with earnings when ISO was acquired by SuperBest. Whereas ISO was a magnet for the residents in the area, SuperBest did not have the same attraction. The reduced flow of customers to the supermarket next door can be clearly felt in the turnover at the pharmacy.

### Suspension of payments necessary

In the end, the pharmacy’s finances were so bad that Pernille chose to enter suspension of payments. Since she owns the pharmacy and the entire debt, she had to sell as much as possible of her private possessions and,

among other things, her home where she lived with her three children had to be sold.

“That was a terrible period where everything fell apart. But by focusing completely on the finances, I managed to make a turn around and save the pharmacy. Overall, the turnover has increased by 12%. I have constant focus on wage percentages and the contribution margin and I follow the cash position closely. Therefore, I am now out of suspension of payments and can once again maintain all my financial obligations.”

Pernille uses almost all profits to pay off the debt and that is how it will be for the many years to come.

“It’s hard, but it will be alright and I am still happy to come to work every day and feel that we make a difference for the customers. That is really what I live and breathe for as a pharmacist,” concludes the pharmacist from Kgs. Lyngby. ■

# Single channel distribution: Gaining ground in Danish hospital distribution

Today products distributed via an Amgros agreement are increasingly distributed via single channel. The disadvantages of this have become fewer in line with the growth of hospital pharmacies.

→ By Merete Wagner Hoffmann

“The need for deliveries via multi channel are apparently on the decline since the volume of products in single channel have been increasing in recent years,” says Kristine Sakstrup Haag, Business Unit Director HCL Sales and Customer Service.

Previously, the market was characterised by deliveries in multi channel which meant that on the majority of pharmaceuticals covered by the Amgros tender, the hospital pharmacies could choose among several distributors. To a degree we now see a market that has slowly transformed from multi channel distribution to single channel distribution where one distributor has exclusivity to delivery of pharmaceuticals to the Amgros tender price.

“Even though distribution via multi channel is Nomeco’s recommended distribution model as it encourages free competition on the distribution of pharmaceuticals, we offer what the industry demands. Today, the producer or importer decides whether a single- or multi channel setup is

required. Both models are possible and we have both models in operation for several manufactures,” explains Kristine Sakstrup Haag.

## The keyword is optimisation

The fact that the manufactures are pleased with single channel distribution is perhaps not that strange, because optimisation gains can be obtained, logistically as well as in regard to data monitoring and price. The potential advantages for the manufacturer is a consequence of the increased volumes and more centralised product flow that can, in some cases, be achieved by placing the sale at one distributor.

## Fewer disadvantages with single channel

According to Kristine Sakstrup Haag, the hospital pharmacies have a fundamental desire to freely choose where they purchase the pharmaceuticals and have therefore supported multi channel distribution for several years. However, it appears that the

disadvantages related to single channel distribution might have become fewer, probably in line with the hospital pharmacies having grown in size. Therefore they currently have a far more robust logistics setup, e.g. regarding goods reception.

“My impression is that hospital pharmacies have tried to hold on to multi channel as the preferred distribution model for many years, but several have come to the conclusion that it is not as important as it once was. Based on the trends in the industry, my best guess is that the number of contracts on single channel will continue to rise,” is the assessment from Kristine Sakstrup Haag. She now invites the industry to have a chat about the hospital sector and about the various distribution concepts Nomeco can offer. ■

Kristine Sakstrup Haag  
Business Unit Director  
HCL Sales and  
Customer Service →



What is the difference between multi- and single channel distribution in Denmark in the secondary sector?

**Multi channel distribution** means that the manufacturer or importer of a given pharmaceutical included in an Amgros tender has chosen that several distributors can sell the pharmaceutical at the agreed discount price. For the hospital pharmacy, this means that one can freely choose which distributor the pharmaceutical can be purchased from.

**Single channel distribution** means that the manufacturer or importer of a given pharmaceutical included in an Amgros tender has chosen that only one distributor can sell the pharmaceutical to the hospital pharmacy at the agreed discount price. The distributor can be either the manufacturer, importer or a third party distribution partner, such as Nomeco. For the hospital pharmacy, this means that the pharmaceutical can be purchased at the agreed discount price from one distributor, which corresponds to the existing distribution model in e.g. Sweden and Finland.

# Upcoming services

→ By Karin Humle

Development, adaptation and customization are essential aspects in order to meet the changing market conditions.

Analysing and identification of needs – customers' as well as Nomeco's – will result in new products and services to fulfil both existing and new demands. We are constantly strengthening our partnerships and are now pleased to introduce two new ideas currently under evaluation;

## **Interim stock Supplier financed stock**

Further development and discussions will be initiated and we hope that you will join in.



## Interim stock

Suppliers who face the challenges of temporary deregistration in Denmark will soon find help from Nomeco wholesaler.

There can be several reasons for a temporary deregistration of a product. But often the temporary deregistration implies that the supplier has to take back the products from the pharmacies and the wholesalers to own warehouse. The return to own warehouse implies that rules of supplier owned stock apply to the returned products. This can be costly if there has been a change to e.g. the insert. Today, suppliers have to either scrap the products or carry out repackaging to meet the updates on the new insert.

Nomeco presents a solution that solves this problem. The solution consists of an interim stock at a Nomeco wholesaler facility where temporary deregistered products can be stored until they are in the price list from the Danish Medicines Agency ("Taksten") again. When the products are stored at Nomeco the products are considered to be on the market and they only need to be handled according to the GDP regulation.

The interim stock service saves the supplier the handling of returned products and the work and money spent on quality work in regards to repackaging – furthermore, the products return quickly to saleable stock again when they appear in the price list as Nomeco only has to move the products from interim stock back to saleable stock.

## Supplier financed stock

Almost every week Nomeco is faced with the request to lower the wholesale margin and is therefore constantly seeking new ways to meet this request.

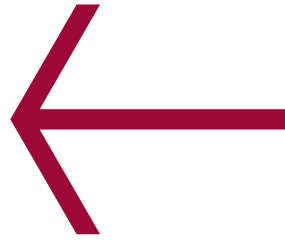
One possible solution is to move the financing of the stock from Nomeco to the supplier and use the differences in the internal interest rates. The value of financing the stock can then be transformed into a reduction of the wholesale margin.

The solution can be of interest for suppliers with capital on hand and with internal interests lower than Nomeco's.

Supplier financed stock can be used to reduce the total stock value in the supply chain as the supplier can calculate with other stock values than Nomeco's. The insurance of the stock at Nomeco will typically be covered by the supplier's own insurance.

Nomeco is looking for pioneers for these new services.

# Update



## The last delivery van has left Nomeco Kolding

As of March 1, 2010 Nomeco closed down the branch in Kolding. During the last months everybody involved has been working hard in order to implement the closure in the best way possible. The logistics of deliveries to the pharmacies and hospital pharmacies in the area are now taken care of by the Nomeco branches in Aarhus and Odense.

Closing down the branch and transferring customers to the other branches in the area has been successful and without problems for the customers.

## Reception Jan Bonde

CEO at Nomeco, Jan Bonde, will be turning 60 and customers as well as partners are invited to celebrate. A reception has been arranged and everybody is very welcome.



### Reception

Friday April 9, 2010  
from 3 p.m. to 5 p.m.

The reception will take place at  
Nomeco A/S  
Borgmester Christiansens Gade 40  
2450 Copenhagen SV.

## PharmaGOLF 2010

Friday August 27

**Venue:** Copenhagen Golf Centre  
Golfsvinget 16-20  
2625 Vallensbæk

**CGC**  
Copenhagen Golf Center

Stableford  
Valid DGU card  
Max. hcp 36

Register for the tournament  
before Monday August 16.

For further information and  
registration please visit:

[www.pharmagolf.dk](http://www.pharmagolf.dk)

Sponsors:

**ims** | INTELLIGENCE.  
APPLIED.

 **Nomeco**



# Contact US

<b>Henrik Kaastrup</b> , Director • Nomeco HealthCare Logistics	Phone: +45 36 14 22 56
<b>Henriette Emborg</b> , Business Unit Director • Business Affairs	Phone: +45 36 14 20 70
<b>Karin Humle</b> , Business Unit Director • Commercial Affairs	Phone: +45 36 14 21 60
<b>Kristine Sakstrup Haag</b> , Business Unit Director • HCL Sales and Customer Service	Phone: +45 36 14 20 86
<b>Lars Pretsch</b> , Business Unit Director • HCL Sales	Phone: +45 36 14 21 09
<b>Marianne Søndergaard</b> , Business Unit Director • Clinical Trial Service	Phone: +45 36 14 20 76
<b>Vibeke Gilving</b> , Quality Manager • Quality	Phone: +45 36 14 21 14

You can order extra copies of Flow by sending an e-mail to [nir@nomeco.dk](mailto:nir@nomeco.dk). - You can also find an electronic version on [www.nomeco.dk](http://www.nomeco.dk).

## Being in the flow

Have you noticed  
the new name of  
the magazine?  
Wondered why?

.....

Flow is the word used to describe how elements float in a smooth and planned way through the organisation. This can be processes as well as goods. We talk about things 'being in the flow'. You can also use the term on a more personal level. According to Wikipedia flow is "the mental state of operation in which the person is fully immersed in what he or she is doing by a feeling of energized focus, full involvement, and success in the process of the activity."

This is how we, in Nomeco HealthCare Logistics, like to see ourselves – both on the organisational level and on a personal level. To achieve this state of mind or organisational success we work with things that interest us and where we are the experts.

The name Flow is also inspired by Nomeco's core business, logistics. Not only by the hardware like trucks, pallets and shelves but also the logistics sweet-spot where all processes run smoothly without friction or errors and with maximum throughput ... the spot we aim for in everything we do.

And why change the name of the magazine? Because we have spent some time rethinking the content and editorial line and redesigning it. It is not a giant leap but merely a small step – but enough to call for a new name.

That is why we named it Flow. We hope you see the point and agree.