

Survey of the Effects of Genentech's Decision to
Change Distribution Channels

February 2015

Executive Summary

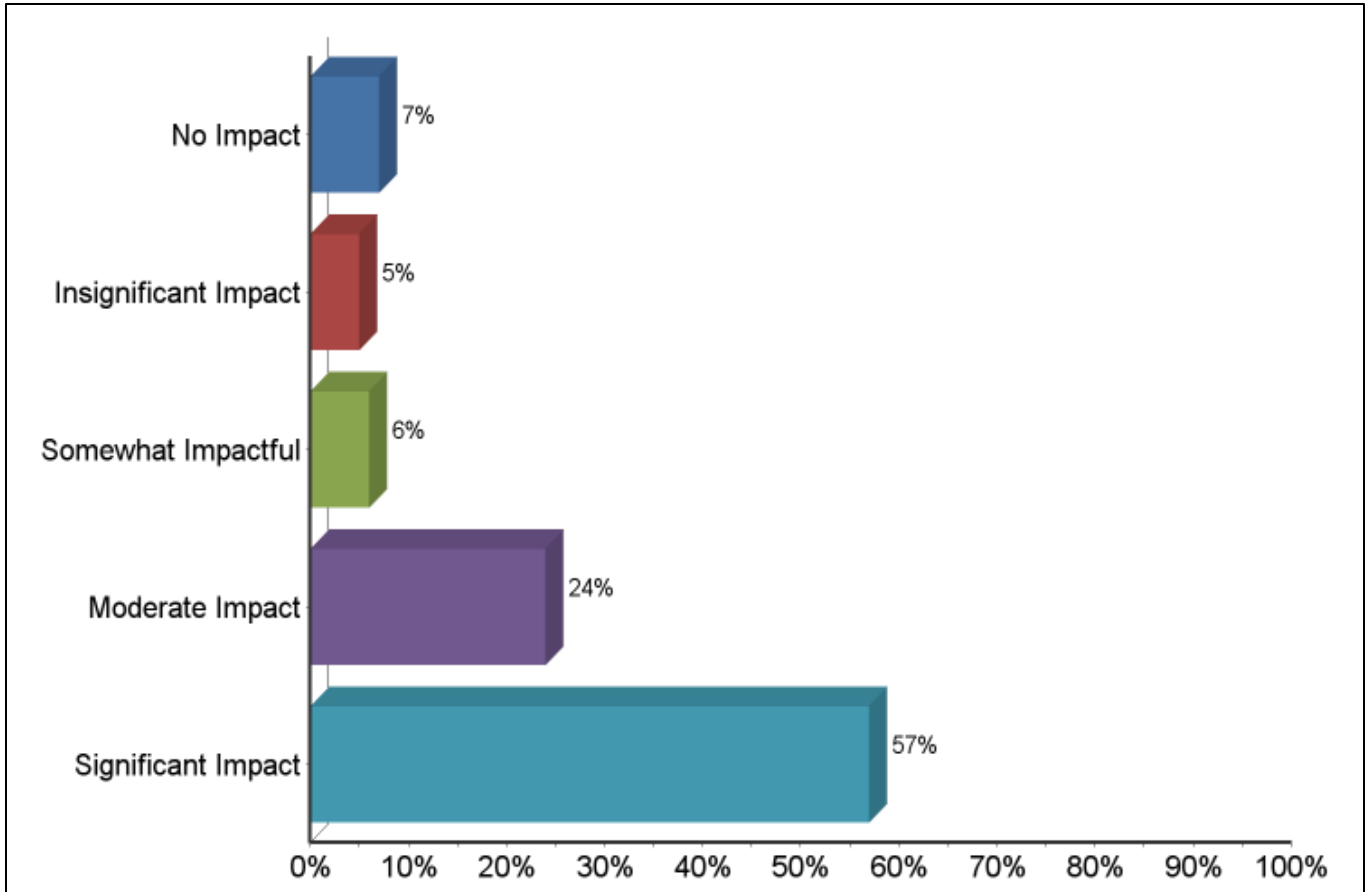
- Eighty-one percent of respondents indicate that the change in Genentech's distribution model will have a moderate to significant impact to their organization's expenses.
- Eighty-seven percent indicate that the distribution change impacted the finances in their organizations, primarily around the loss of cost minus discounts resulting in higher drug purchasing costs (93%) and increased inventory expense (80%).
- Twenty-eight percent of respondents indicate the distribution change had an impact on patient care, with 88% of those indicating that a delay in patient treatment has occurred due to drug unavailability.
- Due to Genentech's distribution model change, organizations are ordering more frequently (77%) and encountering variable and unreliable delivery times (63%).
- Twenty-nine percent of organizations indicate that Genentech's change impacts the resources to serve their respective communities.
- Nearly all of the respondents (99%) indicate that Genentech's decision to change its distribution model did not result in a positive impact for their organization.
- An overwhelming majority of respondents (99%) indicate that Genentech's decision to change its distribution model did not improve supply channel safety/integrity.
- Ninety-three percent of organizations did not experience a drug shortage with Avastin[®], Herceptin[®], and Rituxan[®] prior to the distribution change.

Survey Methodology

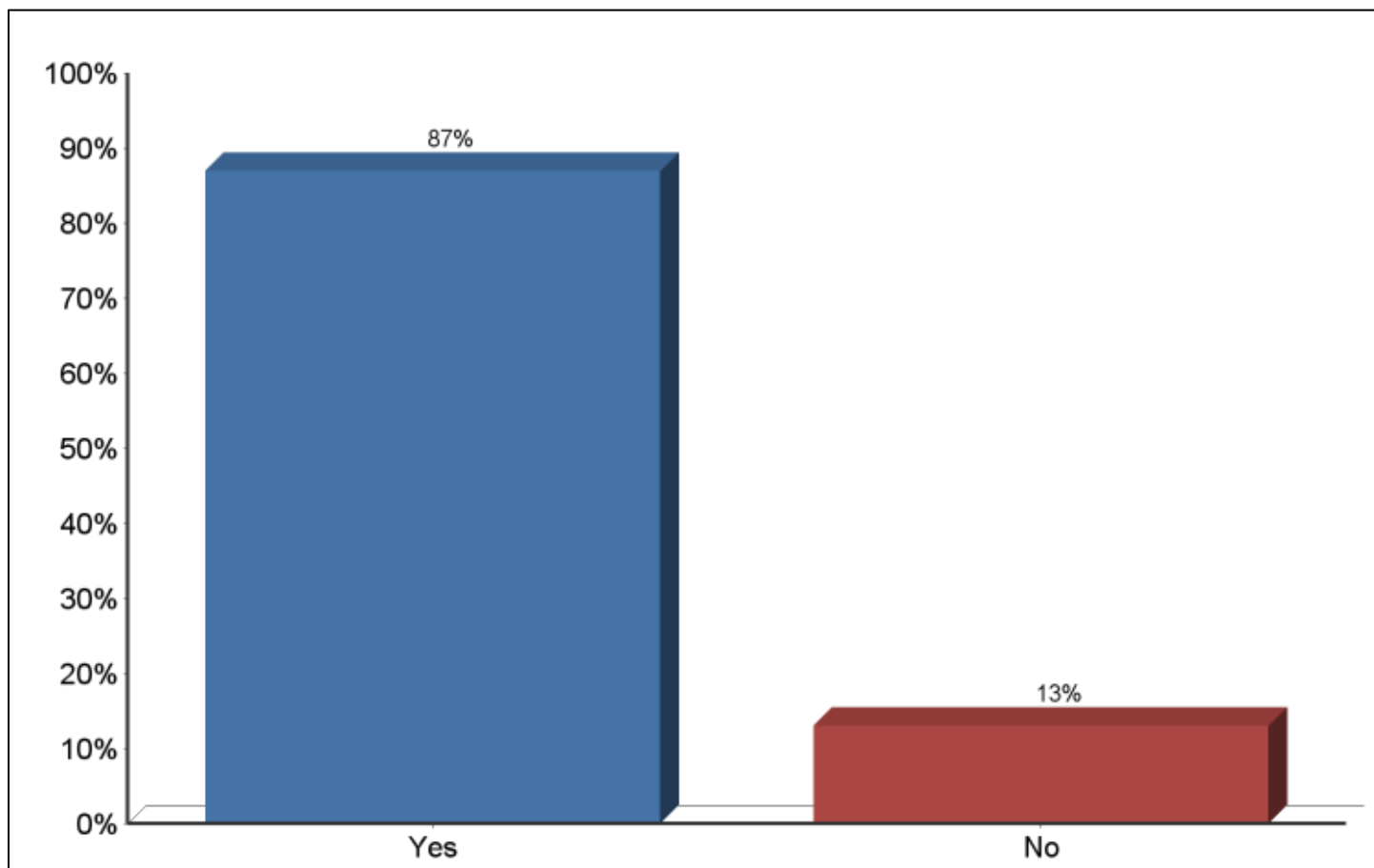
- Multiple surveys distributed to Directors of Pharmacy, Pharmacy Professionals, and Pharmacy Drug Info/Clinical Coordinators
- Survey fielding occurred from January 15th to January 30th 2015
- More than 200 responses

Overall Findings

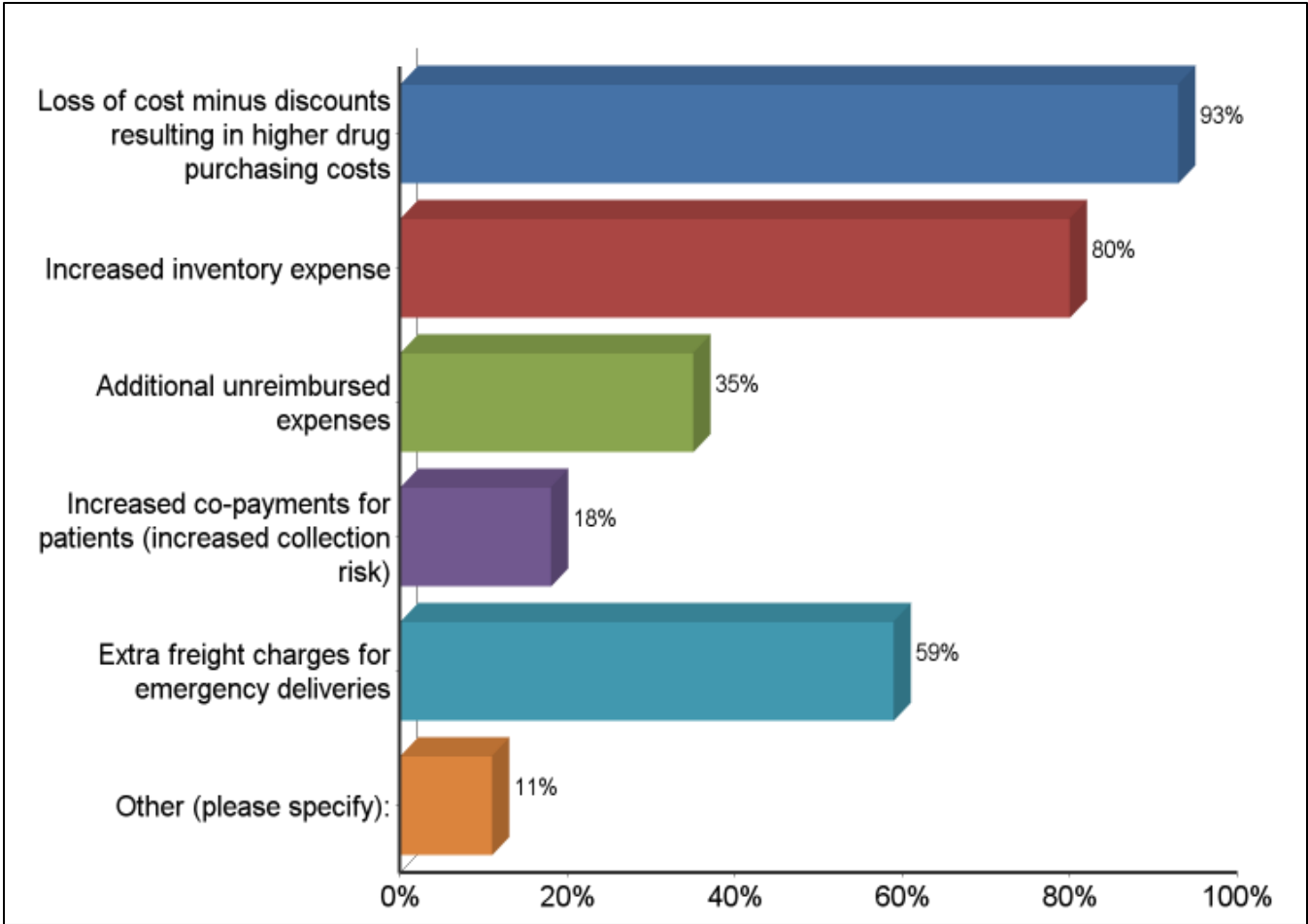
1. On a scale of 1 to 5, where 1= no impact and 5= significant impact, please rate the impact Genentech change in distribution has had on your pharmacy department expenses.



2. Does this recent decision of Genentech to shift distribution to the specialty channel directly impact the finances of your organization?



3. If Finances were affected, please select the areas affected. Please select all that apply.

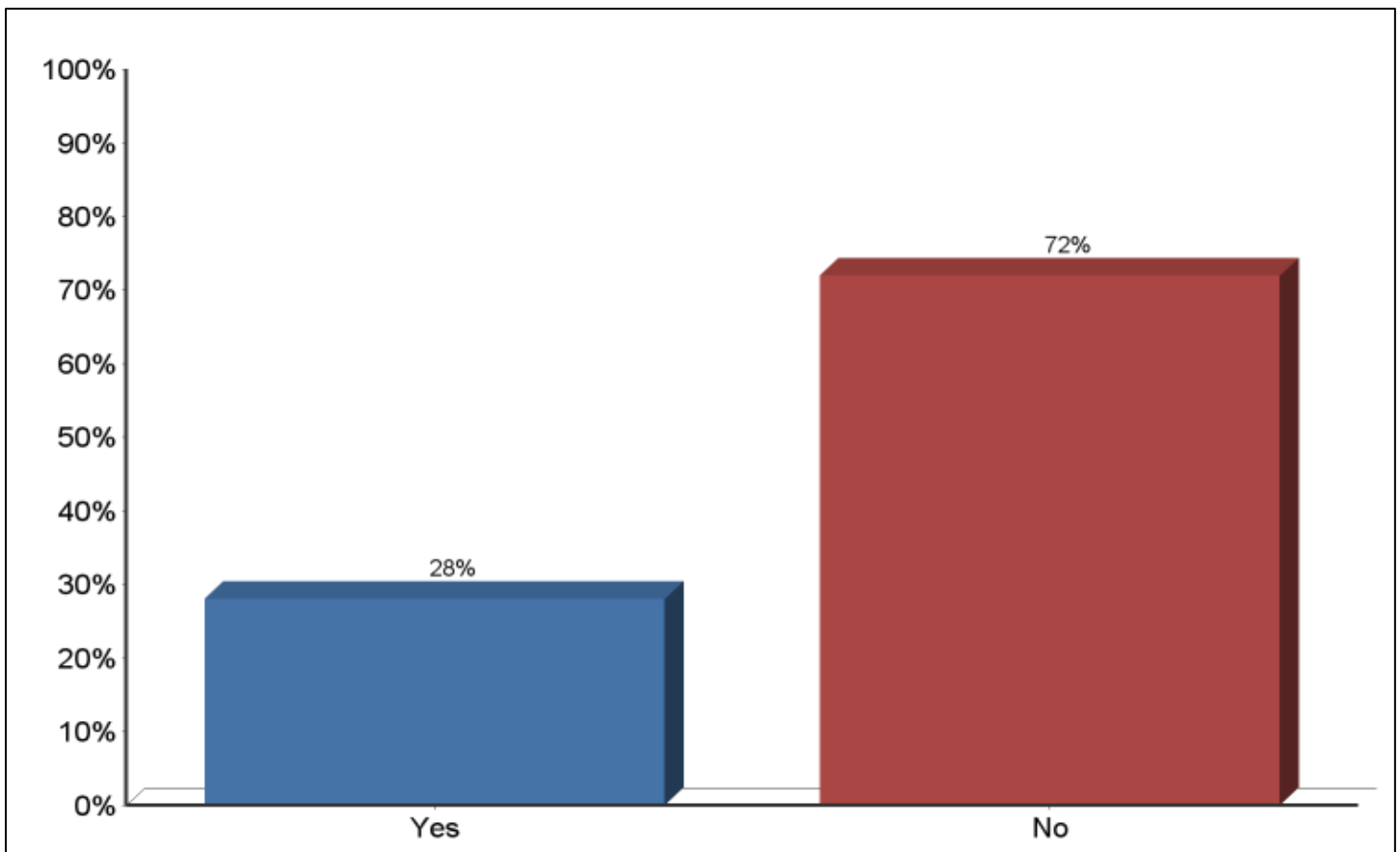


If Finances were affected, please select the areas affected. Please select all that apply.

Sample comments:

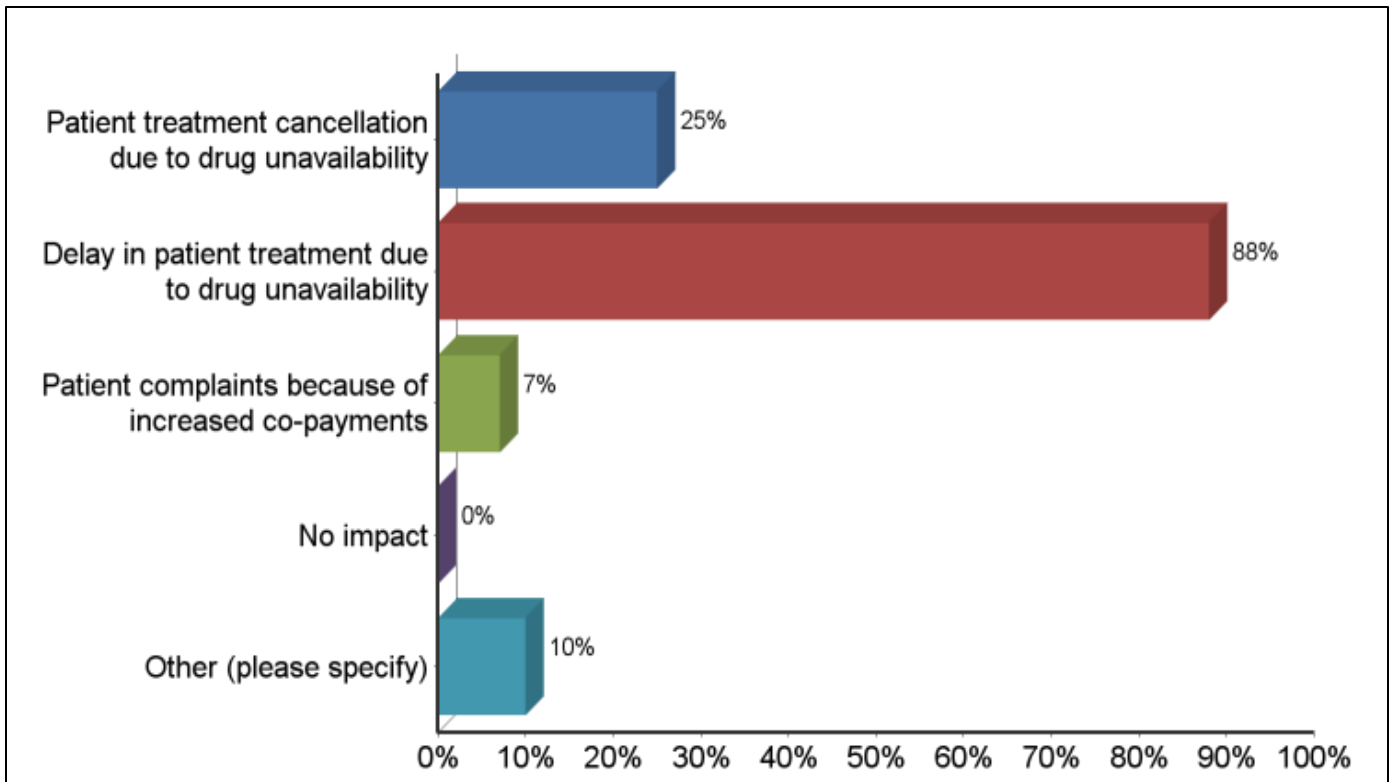
- Delay in patient receiving drug
- Longer delta between ordering product and receiving it
- Shipping material waste
- Higher cost for product
- Weather permitting delays
- Not returnable if order duplicated due to delay in shipping.
- Patient care for items left on dock and additional waste for missing products
- Deliveries made late in the day.
- Purchasing productivity
- Ordering process more complicated
- Ordering process has become more difficult
- Time wasted to order on phone
- Increased A/P costs
- No internal delivery by common carrier vs. wholesaler = potential losses 2) increased time for direct ordering and receiving
- ORDER CONFUSION
- Need more time to order and audit
- Wholesalers have it available for same day delivery in case of dose increase or starting new patients on it. Having it setup as a dropship delays treatment

4. Has this decision had any direct impact on/or disruption of patient care?



5. If patient care was impacted, please tell us the reasons.

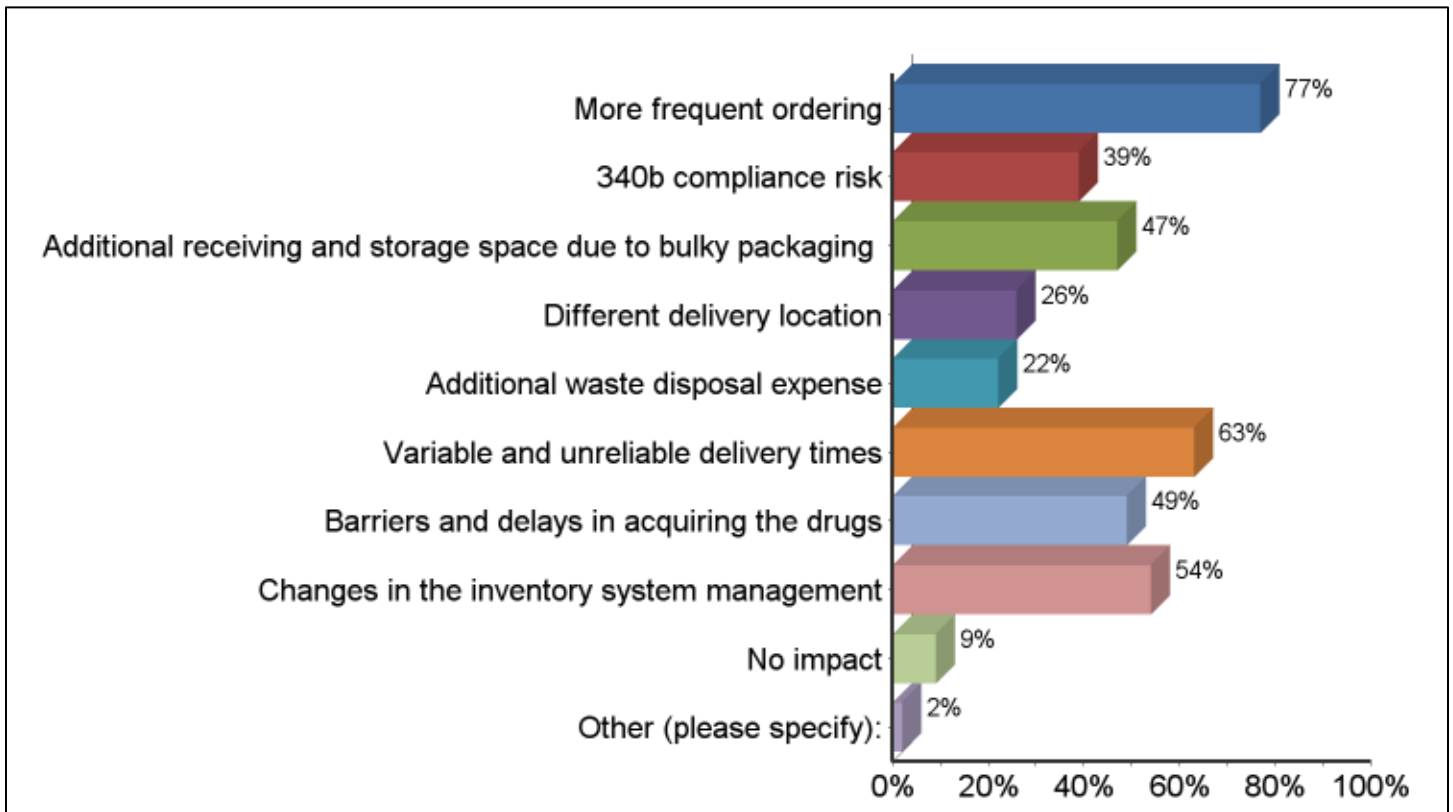
Please select all that apply:



Other (please specify):

- Disruption in procurement process
- Varying delivery times have impacted pharmacy's ability to turn compounded items around to site of patient care; wait times for some patients increased.
- Fed ex freight delayed because of the holidays and product left out of refrigeration
- Cannot afford to treat as many patients with these drugs as we have in the past
- Increased expense reduces opportunities to invest in other resources
- Disruption in procurement process

6. Please tell us the other areas of your organization that have been affected by this change. Please select all that apply:



Other (please specify):

- Receiving process is impacted with refrigerated medications arriving in the late morning/early afternoon, rather than in the morning when we have staff available
- Separate order screen

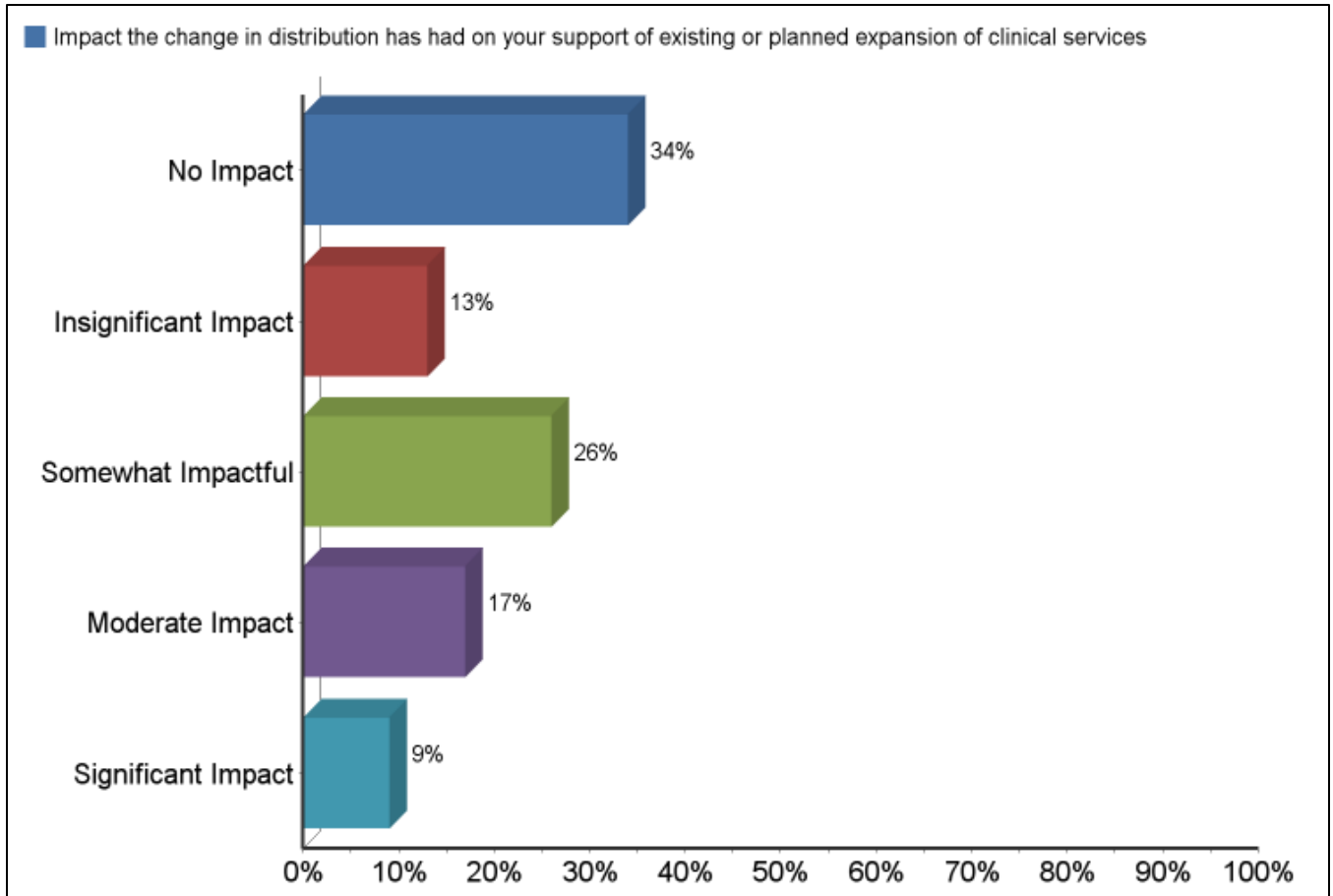
7. What impacts on efficiency and other indirect financial impacts has this decision had on your organization other than those listed in the previous question?

- Scheduling for our patients in Outpatient Infusion Center. We now handle things differently (more checks on inventory from Infusion center) due to the distribution change.
 - Increase in inventory stocked, increased lead time for ordering, more frequent inventory checks, more time required for buyer to review inventory levels, additional purchase orders to process, additional invoices to process
 - Ordering from another supplier rather than our wholesaler involves more time spent ordering this product.
 - It takes more time to order and process the order. There are delays between receiving drug and receiving invoice. . If there were any alternative medications we would not be ordering Genentech drugs. They are a poor partner with pharmacy.
 - Very inefficient inventory management, always needing specialty resources to procure product. Ongoing risk of drug being out of stock. Increased invoice management expenses. Fracturing of reports for purchasing management
 - We had to increase our inventory in order to maintain enough medication to service our patients due to unreliable and variable delivery times of product.
 - Much more cumbersome and inefficient.
 - Increased resources to accommodate the change.
 - The uncertainty of drop ship deliveries causes us to borrow from sister hospitals in order to treat scheduled patients without interrupting the patients treatment regimen
 - Significant time wasted by Pharmacy staff having to work outside normal stock ordering process. Additional training and resources required to ensure all ordering personnel can assist when primary agent is not available.
 - Having to plan far in advance for delivery to make sure we have enough of the products for treatment of patients since it takes longer for it to come in. Much more back-up inventory on our shelves tying up budget dollars versus just in time ordering.
 - Higher inventory levels impact the accuracy of perpetual inventory systems, increasing the potential for errors.
 - None with Clinical care, more work for our Buyer
 - Delivery times are later than regular warehouse delivery, therefore some of our patients had delayed treatment
 - Higher physical inventory at year end to accommodate irregular ordering patterns. Additional communication to staff on how to order if needed in emergency. More borrowing among our hospitals to have doses for our patients. Have been asked for additional cost initiatives to offset the increase in cost of these products
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- Direct increase in total annual costs of \$100,000 for (3) Genentech products Avastin, Herceptin, Rituxan
 - None except as noted above
 - Has redirected the placing of orders by a special team of buyers to that special team, instead of the regular buyers in the area requiring the drug placing their own orders as needed.

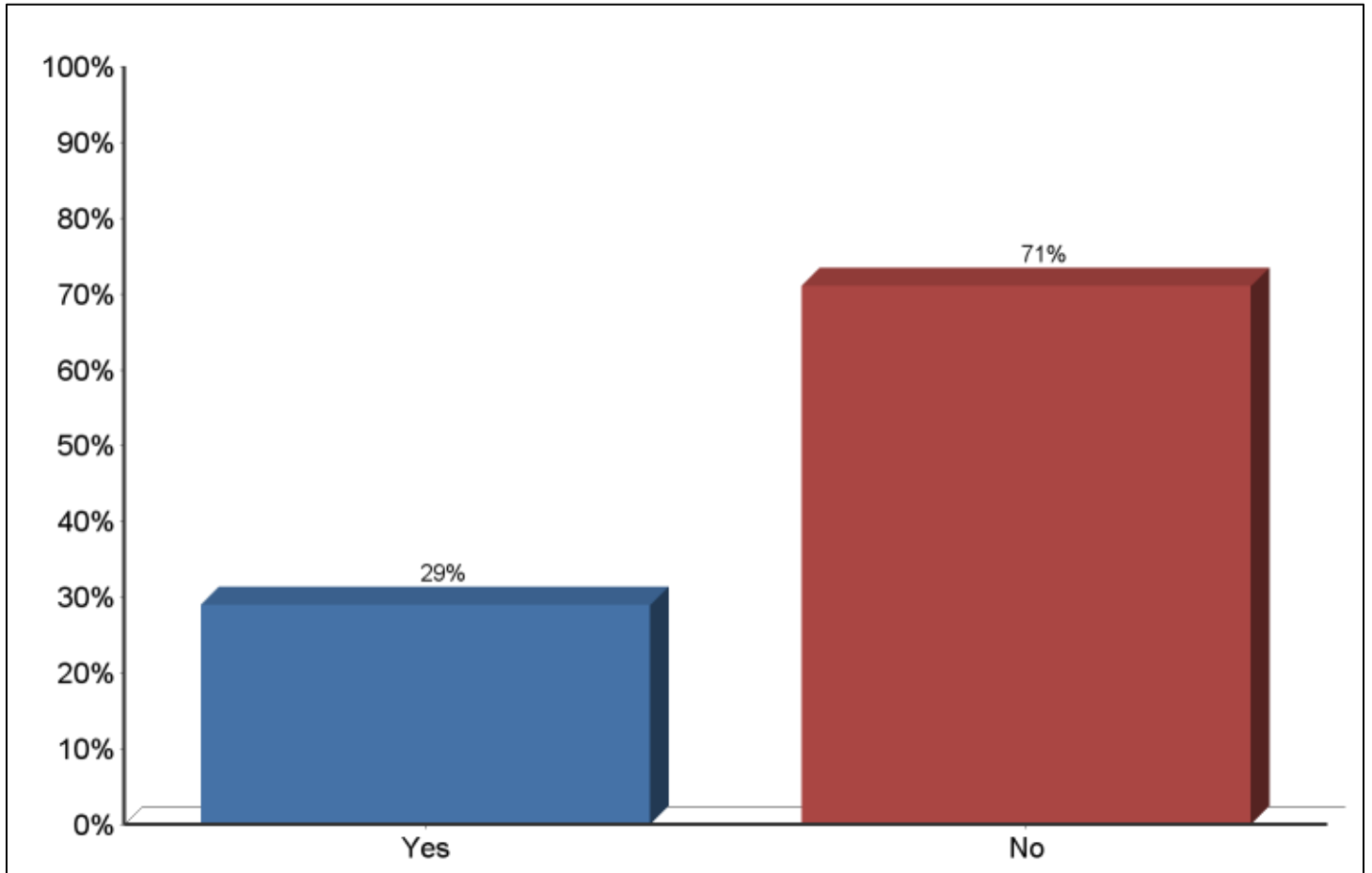
- Added resources required to manage separate ordering, storage, billing process.
 - The way I view this change is higher prices, more paperwork, and more risk for non-compliance with regulations. There are no perceived benefits from the hospital side or the patient. This only benefits Genentech.
 - Just in time inventory available with wholesaler is lost since specialty. Purchase reporting tools and analytics are not available from wholesaler any longer resulting in additional work to analyze purchases.
 - Labor for ordering, receiving, inventory management, all increased. Potential for delays in therapy, re-scheduling, etc. also exist. Increased expense for split managing ordering system maintenance, and challenges for accurate inventory reporting.
 - We are a low volume user of the medications impacted, however I fear that this is setting up a path for the future that other manufacturers may follow.
 - Delay in getting drug and additional handling
 - We must keep more inventories on hand which is more costly. Also, our buyer must spend more time looking ahead at future needs so that we have enough stock on hand.
 - Pharmacist spends a lot more time determining needs for ordering. Purchasing tech spends much more time with ordering process because it is not electronic and requires long wait times for phone access
 - Frustration with manufacturer. Fear that others will follow suit
 - The purchasing process has been fragmented resulting in inefficiencies.
 - I would say all of the extra work involved in the whole process as stated above
 - Our FYE 2014 inventory taken in December was increased by 10% over 2013 due to the increased quantity of Genentech products on hand forced by this change.
 - At our institution it has added an additional 3 to 4 hours per week to our buying/inventory staff.
 - Having to track all patients on these drugs to ensure we have adequate lead time to order for scheduled patients.
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- Within our health system some facilities have had to increase their inventory to accommodate the delay in delivery especially to account for weekends. Orders requested on Friday usually don't delivery until Tuesday mid-morning to afternoon, which could delay patient care.
 - Delay in delivery has caused additional ordering (over ordering), therefore increased inventory. Also it takes longer to order than before
 - You need more inventory on hand because delivery times vary. Error in ordering from Specialty
 - None
 - More personnel time to navigate the ordering process.
 - Increase cost in labor to manage product inventory, ordering, and handling.
 - Extra time for purchasing medications (need to look days in advance instead of the next day)
 - None
 - Product is received later in the day. Clinic receives product a day after it arrives.
 - Extra time involved for staff to order from separate vendor, get separate deliveries, and interruption in workflow to stock orders when received from 2 vendors
 - Increased workload on external Pharmacy hospital staff to ensure drop shipments are delivered to pharmacy.

- Requires earlier coordination from staff to notify purchaser when Genentech drugs are needed to ensure drug is available on appointment day. It forces us to create a different notification process for a subset of drugs to minimize additional inventory of these high cost drugs.
- From an ordering standpoint, the addition of steps and tasks to order.
- Inventory has been moved between locations to accommodate immediate patient needs

8. On a scale of 1- 5, where 1= no impact, and 5=significant impact, please tell us the extent to which this change in distribution has impacted your support of existing or planned expansion of clinical services (i.e. have you had to limit or curtail existing pharmacist services?).



9. Has this decision had any impact on the resources you have to serve your community?

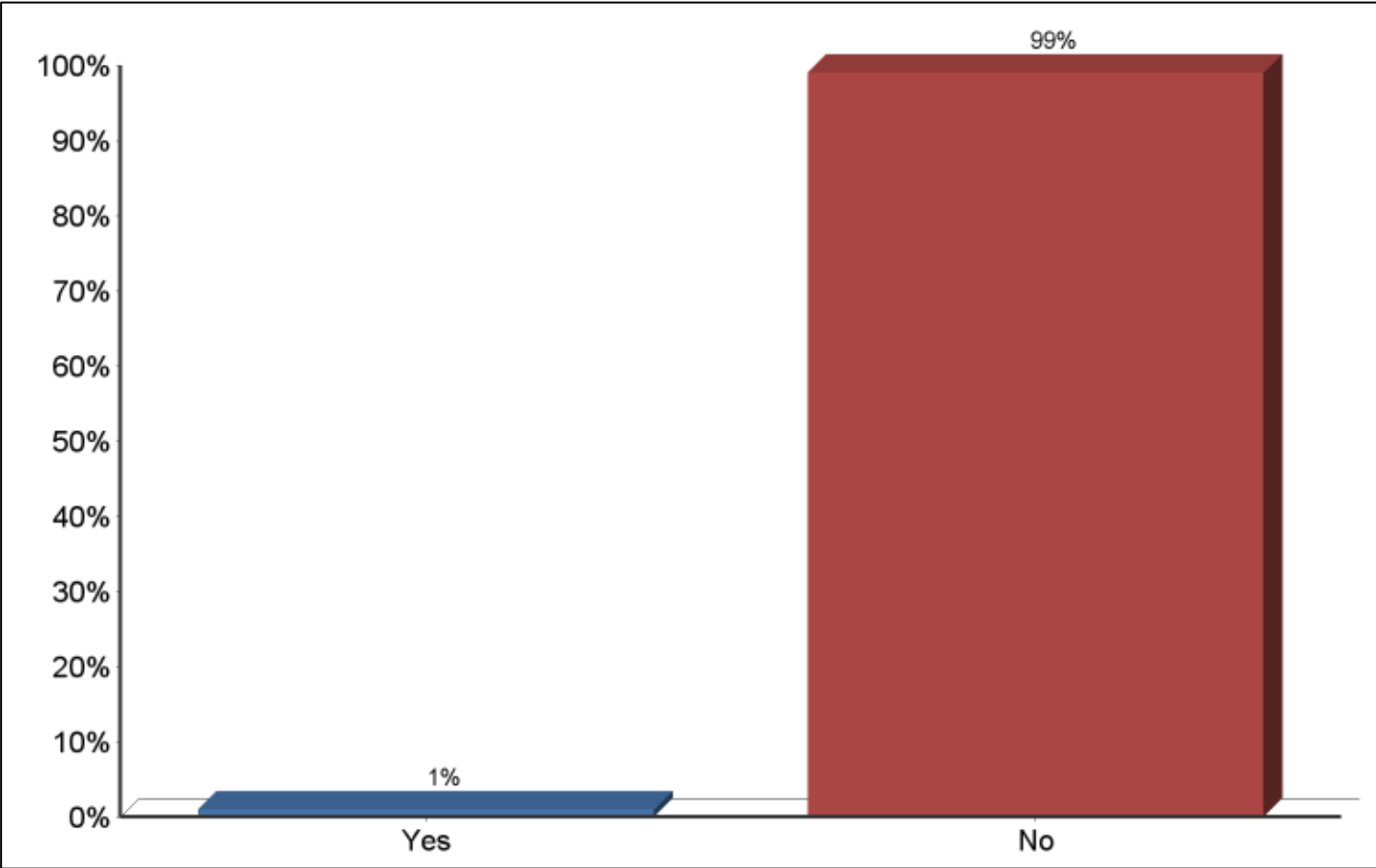


10. What resource impacts are directly related to this Genentech decision?

- This means that we do not have the resources to add needed staff and we are being asked to cut staff due to overall increases in costs and decreases in reimbursement.
- We only have 1 pharmacist, so any time it takes longer to order a product is less time that pharmacist is available for other clinical programs
- Under a hiring freeze. Pharmacy needs to find a way to cut an additional \$450,000 from budget. We are no longer able to go with second team care model and second pharmacy resident. Travel and education will no longer be reimbursed. Ambulatory care projects significantly impacted
- Decreased financial margin results in decreased entity resources for patient care and operations
- Ultimately, the \$700K annually that was lost due to the channel shift was a significant barrier for year-end budgeting. Already under financial pressures, departments already considering staff cuts had to find a way to off-set this loss as well.
- Increased overall drug cost as we try everywhere we can to reduce expenses.
- Stocking less routine medications on our shelves because we have to keep these expensive items on hand because they take so long to deliver now.
- This was a "direct" increase in our pharmaceutical expense and was not budgeted for this fiscal year.
- Financially, we are spending more on these products and, with a high Medicare volume and no increase in reimbursement, that has a negative impact on the hospital's bottom line.
- Rescheduling of patients, impression of patients that we are unable to treat them efficiently
- We are looking at an increased pharmaceutical expense of \$175,000 at our facility related to this change.
- Availability of pharmacy staff to perform non acquisition duties including consultations, counseling, prior authorizations.
- Expense for the drug has increased. Our revenue has not increased. So if we spend more for the drug then we have less money to use in other areas.
- Higher costs, delays in treatment
- Additional waste, additional delivery, increasing traffic flow.
- Not in a major city; delivery not immediate
- If you increase the cost of 3 high cost, high volume medications without any offset, there are less resources to invest in our own services. We experienced a significant increase in expense for a less predictable supply chain. We're spending more for the same product, and the quality of product and/or service has declined. That financial loss needs to be made up somewhere, we'll be looking for ways to cut within the pharmacy department.
- We have to have more drug on site to take care of patients - decreases turns and moved staff to managing inventory more than taking care of patients - ie scheduling/procurement.
- Extra supply expense without a change in billing price. Our margin shrunk with no ability to increase the reimbursement.
- Higher costs directly reduce funds available for services, particularly our programs for uncompensated care.
- Decreased operational dollars has a direct impact on staff that we can hire.
- Our state's reimbursement is set for the year. The additional expense of Genentech drugs means that even with the same patient volume, we will lose money.
- Pharmacist is not as "available" for direct patient consults as he/she is spending more time managing inventory
- Increased price-financial impact which impacts some community services such as our free flu vaccine for the community.

- The longer lead time to order creates issues for our patients. Keeping extra stock of drug on hand (we have NOT chosen to do this) takes away capital for other expenditures and takes up valuable space in our refrigerators that we need for other drugs. The time we now have to spend to track each patient and their therapy is much longer.
- As a system we are tying up more inventory in Genentech products to accommodate the delay in delivery due to weekends. Meaning we have less money in the budget to spend on other products.
- Our biggest concern is any patient delay in getting them their chemo ASAP
- Being a nonprofit hospital, anything that drives up our expense has the potential to adversely affect ability to maintain or expand clinical services. The change also requires more time for stock personnel and buyers who could be doing other more meaningful things such as helping out with staffing issues or working on other projects.
- Higher cost without more reimbursement mean budget dollars have to be moved from elsewhere
- Increased inventory requirements to anticipate infusion appointments due to delays incurred in receipt of drugs. Delays in treatment occur due to variable shipments. Thursday orders may not be received until Tues of following week
- Increased time and cost required of pharmacy personnel cuts down on time spent with patients
- Financial resources lost
- Loss of financial resources has led to scaled back planned expansion of clinical services.
- Reimbursement
- With the significantly higher cost associated with the channel shifting there is less money available to hire staff to support patient's needs.
- This increase in expense will impact our ability to improve care by decreasing revenue.
- Less resources are available to create community initiatives and facilitate support for patients

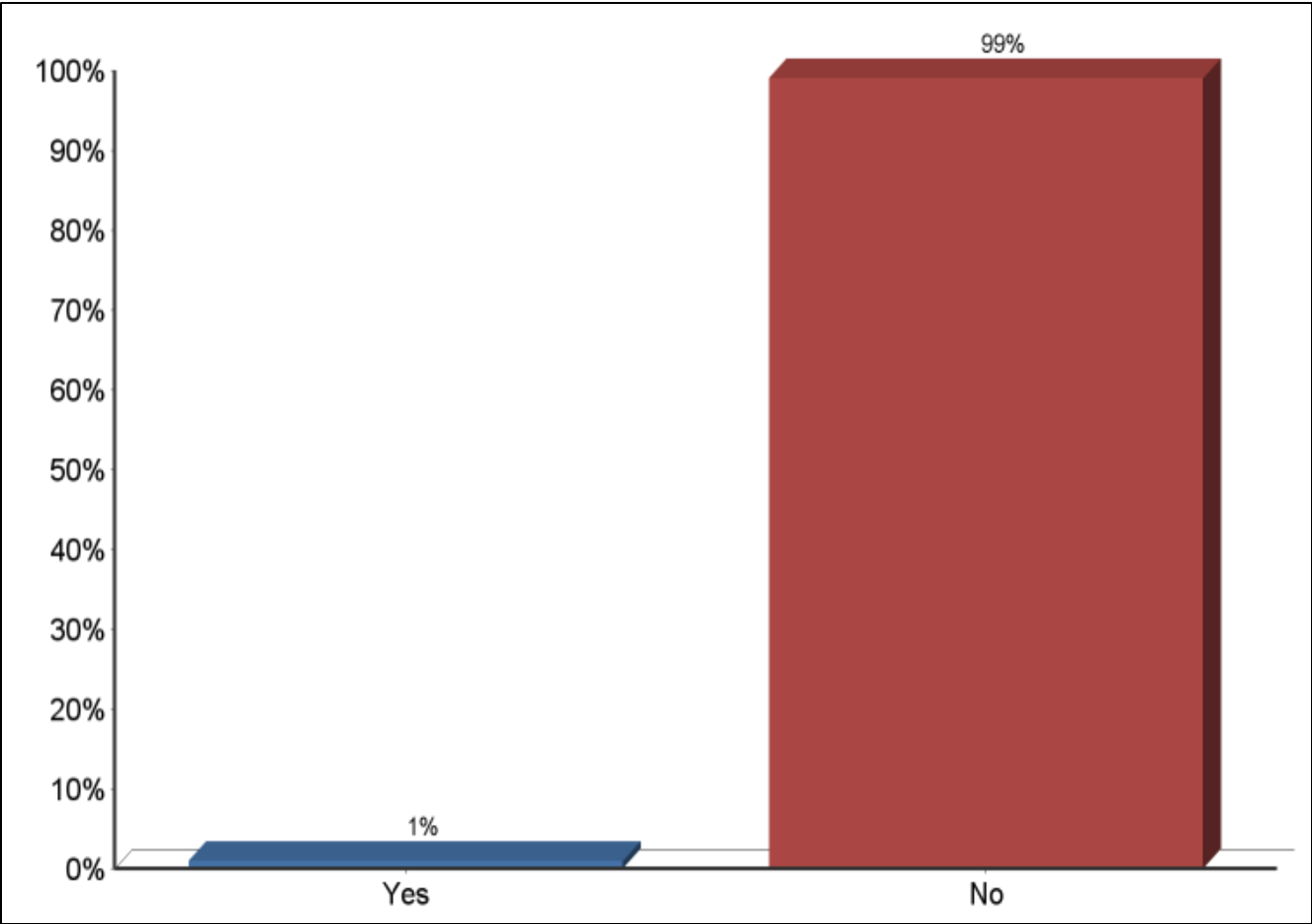
11. Has this decision by Genentech to change distribution channels had any positive impact on your organization?



12. Please tell us about the positive impacts.

- It makes it easier to move Biosimilars for Rituxan, Herception and Avastin when they come available. I do not have to win over the pharmacy directors and oncologists when the biosimilars appear. Genentech has shown their true stripes and they do not deserve any loyalty.

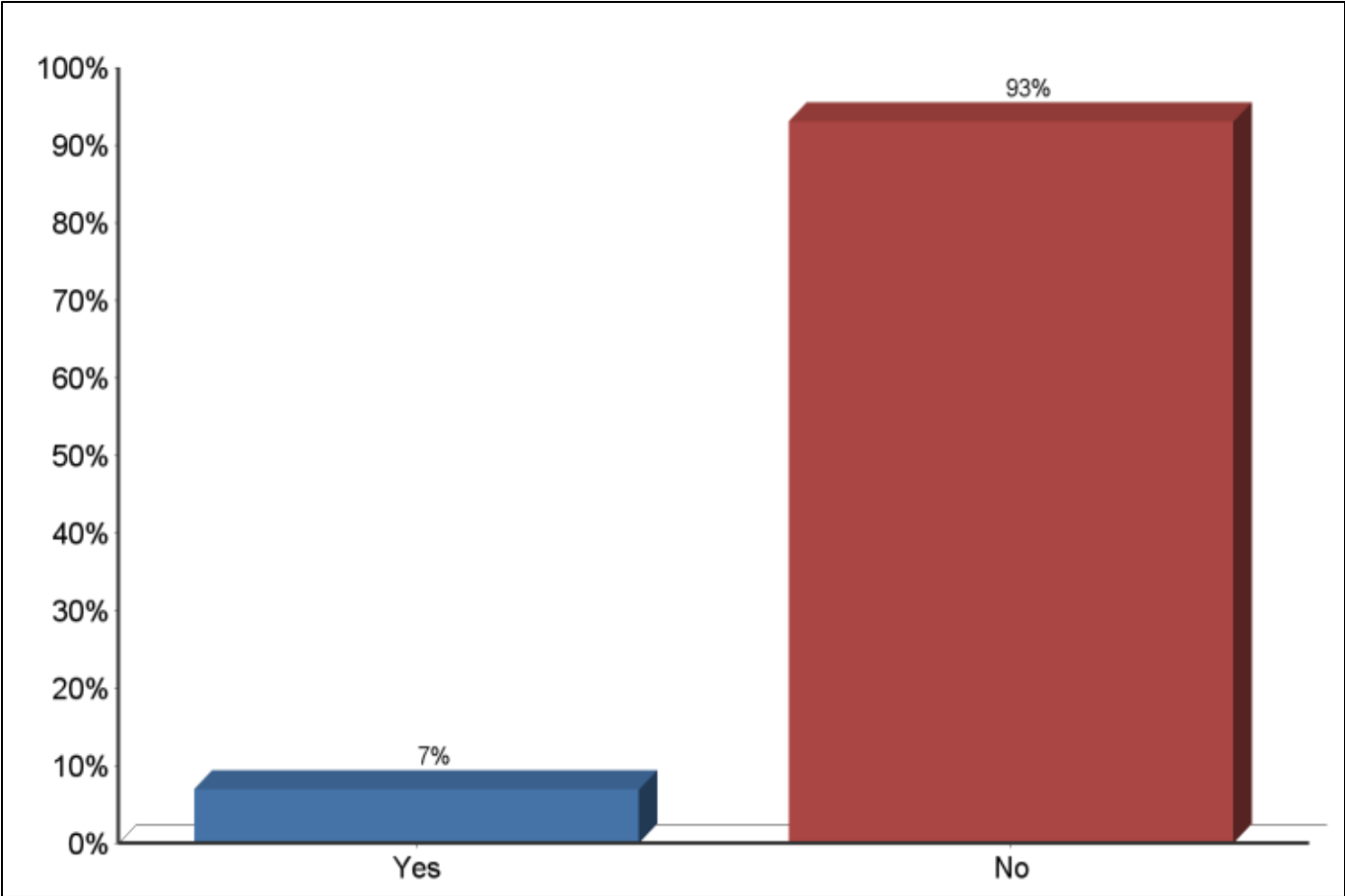
13. In your opinion has this decision to change distribution channels improved supply channel safety/integrity?



14. Please tell us in what way.

- Had to increase stock to insure no disruption of availability.

15. Prior to the shift to the specialty distribution channel had your organization ever experienced a drug shortage situation with any of these 3 (Avastin®, Herceptin®, and Rituxan®) products?



16. Thank you for your valuable input. You have reached the end of the survey. Please provide us with additional comments/suggestions you would like to share with us.

- The shortages were intermittent.
- Changing the distribution channel negatively impacts my job as buyer. I now have to change my ordering patterns and leave extra time for delivery.
- I think there should be some governmental interference in this. Genentech is now putting even more financial responsibility on hospitals while the company's profits soar.
- We would like to see it back at the wholesaler level to help with the ordering process.
- The decision to make this change is short-sighted and has increased our costs, made the system more complex, and increased the risk of running out of product.
- The only clear winners of this change in distribution are Genentech and the wholesalers. The negative impact on medical centers and the patients they serve is tremendous. We have yet to receive or experience any "value added" service by having specialty divisions of the wholesalers. Their ordering processes are less efficient; shipments are delayed by a minimum of one day during the week and up to a week during holiday weeks; their invoicing is delayed and frequently inaccurate; the individuals in their warehouses are not adequately trained/supervised increasing errors in filling orders; etc. Since the Genentech change went through, it has become very apparent that they were not prepared for the increase in workload that would come along with the change. It is the responsibility of all of us to work together to reduce healthcare costs in America and that includes Genentech and the wholesalers.
- This was purely a financial decision by Genentech!
- If we had shortages, I either don't remember or was not aware of the shortage.
- We are concerned that Genentech's actions could set a precedent for other manufactures to follow.
- This model certainly provides savings to Genentech. Pass these savings on to the purchaser.
- Our institution has elected to revoke access to all Genentech marketing and sales representatives, and a conscious effort to reduce utilization of all Genentech products when there is an alternative is in place for our IDN.
- Remember that Genentech is a subset of Roche USA which has Roche Diagnostics and other operating companies. You can reduce the use of their product and services making it clear that you are restoring lost margin caused by Genentech.
- Impacts to patient care, access, provision of services to the community, etc. have not been seen yet, but will surely come in the future with this change in distribution by Genentech. We absolutely do not support this move by Genentech, and have banned any Genentech representatives from contact with providers within our facilities. I know they have claimed rationale for this move, but we are 100% certain that this is completely self-serving for Genentech, and any claims that it has any benefit to patients or providers, is completely false.
- I feel that by switching it makes more working for the staff.
- Because the product is now "flown in" as opposed to delivery via truck, there was a delay in delivery of 3 days due to weather and we had to reschedule patients for treatment
- The folks in my organization believe this is just another way for the drug company to gain higher profits. That this has nothing to do with protecting distribution practices.
- This self-serving change is evidence of corporate greed, pure and simple. Our operating costs are increased with no gain. This is just the latest example of products being taken out of the prime vendor supply chain that force the use of individual purchase orders, small quantity receiving, and accounts payable having to cut checks that were not required before.

- You hit all the big points. We gained no safety advantages to this change and it has caused inventory control issues since the timing of delivery is unknown, thus requiring us to increase our inventory levels. The COG [cost of goods] issue is huge for us! > > >\$600K /year
- Now that we have to have these items shipped from UPS and late deliveries and extra waste of many cartons of styrofoam boxes.
- This decision on Genentech's part is greedy and unnecessary. The quick change (less than 2 weeks) was barely enough time to even be able to order the medications on time.
- With the new distribution changes, we now need to schedule patients at least 2 - 3 days out to ensure that I am able to get the drugs in before their scheduled date. Depending on the time of day I place the order, I may not be able to receive product in the next day.
- It appears that the benefits have all gone to Genentech.
- Our current cost to purchase these medications are less than the cost that Medicare is reimbursing us if you figure in the added state care tax on each of these medications. So we are currently losing money each time we dispense these medications to our patients.
- Due to the increased drug cost because of this change combined with our 2% state tax we have a negative return on nearly every dose of Avastin, Herceptin and Rituxan dispensed. The financial impact is enormous on small independent organizations like ours. The increased cost has had an extremely negative impact on the image of Genentech and its decision makers from by healthcare professionals and patients in our community.
- We do very little chemo so these three items have little impact. Our specialty source is just a different division of our usual wholesaler. No change in operation - just paying more money.
- Our organization will be paying significantly more for these items as a result of the channel shift.
- From an ordering standpoint, the addition of the steps means it takes more time to order. Anytime a phone is involved there is additional wasted time having the conversation. Also if Genentech is busy some phones tag happens that means more phone calls to just to get a drug that we could order online and be done. We are not a physician office where the pedigree of a product could be suspect due to purchased from a 3rd party supply. Counterfeit medications are more likely to find a spot in a physician office than a hospital where the supply chain is set by contract.
- This modification by Genentech is clearly a strategic move to increase profit margin. Not a "safety" decision as the organization indicates.
- The bulky packaging for transportation, the shift to the warehouse for receipt of the packaging vs direct delivery with other wholesale drug purchases, waiting for the warehouse delivery, bulk to them, and then housekeeping handling of bulky waste packaging, all adds to the discomfort vs the old way of distribution via drug wholesalers.