

Wholesaler Contractual Compliance Services

Are you monitoring your wholesaler agreements?

- Your strategically critical wholesaler relationships carry their own set of specific risks. Chargebacks paid to wholesalers are one of the single largest expenditures in your financial statement ... are you sure they are being processed in accordance with your contract?
- The integrity of the supply chain for your product begins at the wholesaler. If your wholesalers are purchasing your product from other entities, it could result in a counterfeit product entering the distribution channel and non-compliance with your inventory management agreements.

How can pharmaceutical and life sciences companies monitor their wholesalers to minimise financial losses and distribution risks?

Chargebacks represent the single largest deduction from gross sales for most pharmaceutical and healthcare products companies. As companies continue to discount Wholesale Acquisition Costs, the volume of transactions resulting in chargebacks and related dollar value will increase. Additionally, manufacturers are entering into Inventory Management Agreements (IMAs) with wholesalers, with the objective of the wholesaler providing inventory level data (daily, weekly or monthly) to the manufacturer to further analyse the supply chain pipeline.

Most manufacturers have developed data analysis capabilities to audit information received from wholesalers. However, certain key issues often cannot be uncovered in the data normally supplied by the wholesalers (eg alternate sourcing of product, certain chargeback processing errors, accuracy of data submitted under an IMA by the wholesaler). PwC has developed sophisticated data analysis and testing approaches to help manufacturers close some of the gaps. Our methodology focuses on key areas of industry concern, including the following:

Negative chargebacks — Wholesalers invoice and ship products to contracted customers and subsequently issue a credit memo for any returned good, billing errors or other problems. Although manufacturers submit a chargeback claim at the time of initial invoicing, the wholesaler may fail to issue a negative chargeback. There is also a risk that the wholesaler may resell the returned product and improperly request an additional chargeback, known as 'double dipping'.

Potential chargeback processing errors — Wholesalers could potentially claim a chargeback for a product that was never shipped or that was shipped to a non-contracted customer and therefore ineligible for a chargeback.

Diverted or non-sourced product — The wholesaler could purchase a product from alternate sources or end-market customers and subsequently sell it to your customers. There are three potential risks from this activity. First, the wholesaler may inappropriately claim and receive chargebacks for products not acquired directly from the manufacturer. Second, such activities may violate a manufacturer's chargeback or IMA agreement. Third, the wholesaler may not have sufficient product quality controls in place, which could lead to the potential introduction of a counterfeit or spoiled product into the distribution chain.

Inventory Management Agreement (IMA) — the data submitted by the wholesaler under an IMA may not be accurate or complete.

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How can PwC help your organisation?

Using PwC's extensive knowledge of the pharmaceutical industry supply chain along with our sophisticated data analysis programmes developed to identify anomalies in wholesaler information, our state-of-the-art methodology is designed to:

Assess potential wholesaler mis-statements

Test wholesaler chargeback claims and analyse transaction details using data unavailable to a manufacturer's in-house audit team

Target specific high-risk areas such as negative chargebacks, diversion and invalid chargebacks, through a combination of manual and automated data analysis techniques applied to wholesaler information

Provide remediation recommendations to the wholesalers and the manufacturer for resolution of issues that resulted in mischarges to the manufacturer

Provide manufacturers with contract improvement and oversight process recommendations.

Benefits you can realise

Identification of potential overpayments

Greater confidence in chargeback reserves and payments

Greater confidence in your product distribution chain's integrity

Improved contracting and contract administration procedures

Improvements to wholesaler monitoring with the implementation of additional analytical procedures

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Global Pharmaceutical and Life Sciences Industry Group

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