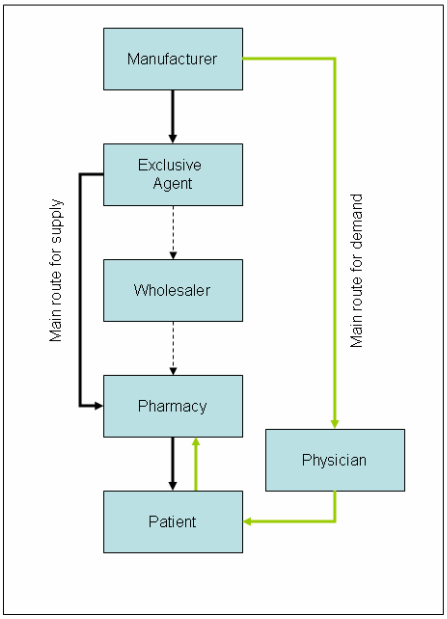
Are UAE patients getting a good deal on drugs? – The challenges in managing an efficient drug supply chain

Patients and hospitals pay relatively high prices for drugs that are often hard to obtain in the UAE. If a well functioning supply chain is measured by the three criteria of patient affordability, quality and accessibility, the UAE likely scores below many developed and developing nations. Top selling drugs are over 20% more expensive in the UAE than in the US for example, where prices are considered to be amongst the highest in the world. Many generics, some manufactured locally, are sold in the UAE at only 20% below their branded equivalent. Counterfeit products are an issue, and many new drugs take months to reach the local market. The pharmacies and hospitals struggle to secure a reliable supply of drugs, a recent spot check study found only 75% of a common basket of drugs available in larger pharmacies.

UAE Drug Supply Chain



As rapid population growth continues to drive local demand for drugs, and high dependency on imports continues, the supply chain is at risk of developing significant 'kinks' that could start to impact the strategic goals of the UAE health authorities to improve the quality of local care. This article explores the role played by the manufacturers, agents, pharmacies, physicians, regulators, patients and emerging insurance companies and discusses the forces that are currently encouraging or preventing them from straightening out these kinks.

The local drug market in the UAE is according to BMI, worth an estimated $1.1bn and growing at a good 21% CAGR. This is driven principally by three factors: the health and ageing of the nation, population growth and the introduction of mandatory health insurance. Although approximately two thirds of the population is currently under 40 years old, the aging population in the UAE is growing faster than anywhere else in the world, with over 65 year olds increasing by 10.3% per annum. UAE residents also have comparatively high rates of chronic illness, with over half the population officially at risk of developing diabetes for instance. Patient demand due to healthcare insurance is also fueling growth, sources state that pharmacy retail volumes have increased by over 35% in the first 6 months of mandatory health insurance in the Emirate of Abu Dhabi.

The nation also has ambitious healthcare expansion goals and will soon start conducting more specialist care and research activities in ventures such as Dubiotech and at a number of teaching hospitals scheduled to open in the next 3-5 years across the Emirates. Private hospitals already report significant challenges in importing products they need for specialized treatments as the local distributor (commonly referred to as an agent) currently does not carry them, and they are restricted from buying directly from the foreign manufacturers. As the pharmaceutical industry continues to move away from traditional blockbuster products to a more diverse range of small batch, fragile medicines, frustration is bound to increase further and the region will struggle to reduce the flow of patients seeking care overseas, and other indicators of a sub optimal local healthcare system.

Some of the causes of the UAE's supply chain 'kinks' are difficult to manage away fully, not least of which is the fact that the market size for drugs is still relatively small. Diabetes for example may well afflict a high percentage of the population, but they still only make up around 800,000 patients, compared to over 170 million sufferers world-wide. Consequently,

those involved in delivering products to the market often have to wait for order volumes to reach minimum levels, and when supplies are scarce, the UAE will always struggle to get their orders prioritized. The UAE imports around 90% of the drugs sold and average lead times are currently between 8-12 weeks. Aggregating volumes is an important strategy but outside of the public health groups, the networks and mechanisms to do this are only just emerging. In addition to the exclusive agency laws, the climate also creates costly storage and quality assurance challenges that are a major barrier to entry for supply chain competitors.

Other supply chain issues such as product counterfeiting are more manageable, and significant effort is being made to prevent counterfeit products entering the supply chain. Dubai is a global trade hub for such products and customs seizures make headlines on a regular basis. Some counterfeit packs of popular lifestyle drugs are indiscernible even to the trained manufacturer's sales reps, with holograms no longer proving to be any deterrent to a determined counterfeiter. Recently a counterfeit batch of Plavix worth $5 million was seized proving that the issue had taken a sinister turn and was now extending beyond lifestyle drugs into chronic disease drugs.

As someone relatively new to the region, and with over 12 years of life sciences supply chain experience in the US and EU, I am curious why not more is being done to address the supply challenges that are usually managed through well established materials planning techniques. If we focus on the pharmaceutical products for instance, which kinks in the supply of these products can be straightened out and who is the best placed to make an impact? After exploring this question with a number of key players along the supply chain, the following paragraphs take each player in turn and outline the current motivations or disincentives at play that discourage them from improving quality, affordability and accessibility.

Let's start with the manufacturers. As mentioned, over 90% of drugs sold are imported and there are still significant barriers to the expansion of local manufacturing, such as FDI regulations, skills shortages and the investment needed to manage the climate challenges. What role could they play in improving supply chain planning? They typically have sophisticated materials planning tools and expertise at the corporate level that they could apply to managing the supply chain more effectively here in the UAE, but still the stock-outs continue. No doubt they have poor visibility to demand data, but if they together with their agents were to be held more accountable for continuous supply, this situation would likely improve.

Manufacturers are clearly motivated and heavily regulated to produce good quality products, but as for affordability? Naturally they need to make a profit for their shareholders who have gotten used to generous returns, plus their margins are increasingly being squeezed by the regulator through price controls, and the rest of the supply chain players. The agents and pharmacies are looking for larger and larger bonuses as regulation, rising rental costs and exchange rates eat into their own margins. In addition, the manufacturers are reputedly under pressure to support the relatively poorly paid physicians in the region, with the codes of practice for sales and marketing activity still in their infancy.

Next in line are the agents (and for now let's bundle other intermediaries such as wholesalers into this group). These are the intermediaries who are importing the product and distributing it to either the hospital or retail pharmacy. They typically leave the promotion to the manufacturer's representatives, the majority still have very basic logistics and planning capabilities, do limited forecasting and work with mostly manual processes. In the UAE they enjoy an exclusivity that prevents anyone else, except for the Government, from bringing in a product directly from the manufacturer. This situation limits competition

and impacts accessibility to new drugs and the steady supply of products. Most contracts are difficult to get out of if a manufacturer is unhappy with the service their agent is providing. This situation does help improve quality, as it narrows the field for the detection of counterfeits entering the supply chain, but it also restricts access to those products the agent considers worth their while to supply (volume issues again). In addition, these intermediaries receive generous profit margins, typically 25% for the agents, for providing basic services that have barely changed in years. Their profit margins are also being squeezed by exchange rate variations.

The number one complaint from private providers we spoke to is the agents' inability to provide products on time or accurate information on availability. Hospital procurement managers count their skills at negotiating with these intermediaries and persuading them to move their order to the top of the pile, as one of the most important factors in their ability to do their job well. Some of these agents are reacting and improving their operations, but most unfortunately are still way behind international best practice. The problem is well known amongst policy makers and the debate to address this situation is gathering support and spurring the private sector into lobbying collectively for change.

Next we have the pharmacies, leaving aside the hospital pharmacies, why are there so many new retail pharmacies popping up in every new mall or residential area and are they having a positive impact on affordability, quality or accessibility? Recent data indicates that the number of pharmacies in the UAE is around 1200 and growing in number at 15-17% per year. Rapid real estate expansion and the profitability of the business are the principle drivers, although few are yet to be run as profitably or efficiently as their European and American counterparts. Against a relatively immature regulatory framework, the quality of dispensing services is also attracting concern. They are certainly not motivated to drop retail prices for the patient, and seem to take the poor supply challenges as a fact of life. The best that can be said at this stage, is that the proliferation of pharmacies is improving accessibility.

Now we come to the physician, who operates between the pharmacy and the patient, not directly in the supply chain path, but the person deciding what flows along it. As already mentioned, as long as they remain poorly paid in comparison to the soaring cost of living, and understanding of the codes of practice on incentives to prescribe is in its infancy, we cannot entirely count on them to share the patient's need for affordability. Most of the leading private hospitals recognize procurement as a competitive advantage, and are highly motivated to take more control over the situation. For now though, as they struggle to attract and retain top physicians, they still exert few controls over the physician's product preferences. As physicians working in the UAE come from many different countries, the range of medicines they are used to prescribing is vast. This leads to a high number of products in regular demand and exacerbates the problem of low volumes. The Ministry of Health is focused on introducing more generics for the private sector, but currently there are few incentives for the physician, pharmacist or agent to support this strategy.

Now let's look at UAE residents as patients; are we honestly in any position to secure their best interests? Are we responsible consumers? Unfortunately, UAE residents appear to be struggling to manage their health and score below international averages for a number of chronic diseases and in particular obesity, diabetes and cardiovascular disease. The young and relatively wealthy population has easy access to drugs without prescription and some take medication with as scant regard for the side effects or off-label risks, as they have for road safety. Lack of awareness about treatment options means many do not seek treatment. It is hoped that this will change and soon, as both the Governments of Abu Dhabi and Dubai have public health awareness as a top priority.

So what about the role of the regulator in the supply chain? Undoubtedly they share the same interests of quality, affordability and accessibility as the patient and many ambitious and well directed activities are under way, the only problem is that they face no immediate risk of not getting this balance right. Consequently, they will not be motivated to influence the situation as quickly as any stakeholder whose profitability depends on it. Simply forcing a reduction in prices when the supply chain is structured as it is, could result in more counter-productive behavior and therefore higher cost. Facilitating the expansion of local manufacturing and foreign direct investment, is an important initiative that will make a significant difference, but one that will take time to have a major impact. Continued efforts to make drug registration and direct importation easier in the UAE should help improve accessibility.

So, finally we have the institutional payers and emerging health insurance companies. Currently all expatriate Abu Dhabi residents are enjoying health insurance coverage for the first time, and the impact on demand for treatment is predictably high. Mandatory insurance is also likely to be rolled out across the other Emirates. Whist this should eventually lead to a reduction in the publicly funded budget for healthcare, controls on abuse against an immature regulatory framework will be a constant battle. Hospitals and physicians are struggling against growing waiting lists and stories of patients receiving a different treatment to their claim form are considered inevitable by some we spoke with.

Strange as it may seem, the emerging insurers quite possibly share more in common with the interests of our patient than anyone else in the supply chain – at least in the short term. They are both buyers and sellers and therefore unlike the regulators, their existence depends on their ability to meet consumer demand while remaining profitable. Unlike others in the supply chain, they have an immediate risk of not addressing the issues. Once a premium has been agreed, their interests lie principally in managing costs. As long as they are motivated to grow their industry and market share, they may well have more of an impact on quality and affordability than any of the other players. Today, Daman for instance – the insurance arm of the Health Authority of Abu Dhabi - is beginning to exert more control over drug formularies, emphasizing generics and influencing the prices charged by the pharmacies in their network. It is also beginning to monitor quality in the hospitals within their network, and seriously looking at purchasing directly from the manufacturers. With more than 650,000 members in the UAE, Daman wields enough purchasing power to have a significant impact on the supply chain.

In summary therefore, what initiatives are the most likely to straighten out the kinks in the supply chain? As I hope this article has shown, the chain is very complex, but in particular the following would be steps in the right direction:

1. Improving the quality of demand planning, facilitating a more efficient flow of forecasting information, and replacing the manual order management processes,
2. Setting minimum supply chain standards on stock availability, and encouraging accountability for supply chain performance particularly from the manufacturers and agents,
3. Opening up the market to allow manufacturers more freedom to use other channels to market, particularly when the agents are underperforming,
4. Encouraging the adoption of marketing and sales codes of practice,
5. Clarifying the role of the regulator and thereby strengthening the regulatory framework; between the MoH, HAAD and DOHMS there is a lot of confusion as to who is responsible for what,
6. Providing real incentives to support the introduction of generics and make healthcare more affordable for the less well paid.

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