Net pharmacies think global in battle to keep supply flowing
Makers are trying to crush Net business before two U.S. votes this year, LEONARD ZEHR writes

By LEONARD ZEHR

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WINNIPEG – Andrew Strempfer wants Americans to know that he still has cholesterol-lowering Lipitor for sale.

"We've been running with a one- to two-week stock of Pfizer products and six weeks of non-Pfizer," said the president of Minnedosa, Man.-based Mediplan Health Consulting Inc., one of Canada's largest Internet pharmacies.

Even though drug giant Pfizer Inc., which makes Lipitor and a basket of other blockbuster drugs, is spearheading a campaign to strangle the sale of low-cost Canadian drugs to Americans, Mr. Strempfer claims his two plants are still dispensing 2,000 to 2,500 prescriptions a day at an average value of $225 (U.S.) to $250 each.

"We're okay because I'm working with a medium-sized wholesaler outside of Manitoba," he said, referring to his flagship RxNorth.com website.

"Independent drug stores are still offering to sell us excess supply to turn a quick profit."

Despite Mr. Strempfer's bravado, multinational drug giants have the Internet pharmacies on the run, raising Canadian drug prices to narrow the American advantage and cutting back sales to wholesalers.

Their objective: crush on-line sales ahead of a vote in the U.S. Senate on several bills to legalize drug imports from Canada and the presidential election in November, where the issue is likely to make headlines.

Meanwhile, in order to survive with dwindling supplies, several Canadian websites are setting up relationships with pharmacists in Britain and New Zealand to supply Americans directly, often at prices lower than in Canada.

"If other drug companies have the success Pfizer is having, then this industry could be wiped out by the end of the year," warns David MacKay, executive director of the Canadian International Pharmacy Association (CIPA).

One mail-order house, Sun Valley Pharmacy in Altona, Man., was forced to close last month and its client base was picked up by another firm in the international prescription services (IPS) sector, as the industry likes to call itself. And layoffs are spreading throughout the 65 or so IPS sites in Manitoba, where the industry is based and employs around 1,500 people.

Mr. MacKay sees a wave of consolidation swamping the sector this year, forcing as many as half of the smaller mixed-practice pharmacies — those that have a traditional retail drugstore and backroom IPS — to give up the Internet portion of their business.
"There comes a point where the hassle of sourcing product outweighs the commitment to conduct the practice of pharmacy both professionally and financially."

Americans spent $995-million on drugs from Canada last year, a 68-per-cent increase from $414-million in 2002, as price controls, the lower value of the Canadian dollar and the buying power of public sector drug plans combined to keep prices 44 to 78 per cent cheaper than in the United States.

A class-action lawsuit filed against nine drug companies last week by seniors in Minnesota and an employee benefit plan in Chicago alleges that by curtailing supplies to Canada, prices remain excessively high in the United States. The suit claims two-thirds of the 2003 sales were generated by on-line transactions, with the remaining sales made to Americans crossing the border.

Mark Maciwi, director of supplier relations for IMS Health Canada, a data tracking firm, said that after a slowdown in sales by wholesalers to IPS pharmacies in the fourth quarter last year, sales in the first quarter this year jumped to $147-million (Canadian) from $126-million in the same quarter last year.

But the outlook for the rest of the year is far from certain.

In the toughest move yet in a two-year battle between drug makers and internet pharmacies, Pfizer earlier this year drew up an "unapproved" list of pharmacies that could not sell its medicines.

As part of its crackdown, it prohibited wholesalers and retail pharmacists from selling drugs to pharmacies on the list or any one else suspected of exporting Pfizer products.

It also forced distributors to seek Pfizer's approval before filling orders over a certain size and to supply the company with detailed sales information about who is buying Pfizer products and how much they're buying.

"Our drugs are approved for sale in Canada and we're only trying to assure an adequate supply of products for Canadians," said Don Sancion, a spokesman for Pfizer Canada Inc.

"It's illegal for Americans to import drugs and Health Canada has not authorized the export, so a breach has developed in the integrity of the pharmaceutical supply system."

To drive home its point, Pfizer stopped supplying its products, which hold a commanding market share, to two independent wholesalers in Winnipeg and Calgary in March until they complied with its prohibition on IPS sales.

"I don't ever want to go through three weeks like that again," said Wayne Rivers, president and chief executive officer of wholesaler Procurity Pharmacy Services Inc., who recalls how the Pfizer suspension put his 25-year-old business on the brink before the two companies patched up their differences.

"Unfortunately, we now find ourselves in the position of being the pill police."

Pfizer supplies are becoming so tight that Mr. Strempfer's websites for the time being are not accepting new customers ordering Pfizer products alone. "We're still taking care of our existing clientele."

Other companies, such as Eli Lilly & Co. and AstraZeneca PLC, have begun vetting orders prior to shipping to wholesalers. And another 10 or so multinationals are allocating only enough drugs to wholesalers so they can satisfy Canadian needs and freeze out the IPS trade.

So how are the Internet drugstores still in business?

For one thing, not every drug maker is playing hardball with wholesaler shipments.

A study by researchers at Boston University last month concluded that re-importation of lower-priced drugs from Canada may not hurt drug companies' profits but may, in fact, spur new prescriptions.
"If a reasonable share of the drugs that Americans import from Canada are new prescriptions, then drug makers' profits remain stable or could even increase," the study said. Those findings run counter to the industry's argument that discounts from Canada undermine profits that fuel research to discover new medicines.

IPS sources also credit the industry's survival on a lucrative secondary distribution network between traditional drugstores -- of which there are about 7,000 in Canada -- and Internet pharmacies.

Last year, for example, Mediplan e-mailed Dueck Drug Store in Vita, Man., asking the pharmacy to boost its order on a list of Glaxo drugs by 30 to 40 per cent in return for a 5-per-cent commission.

It also was willing to pay a 2-per-cent commission if Dueck ordered additional non-Glaxo products "in order not to raise any flags on your sudden increase in sales."

Owner Lothar Dueck said he rejected the request even though he has sold drugs to regular busloads of Americans stopping off at his border town store before the Internet craze caught on.

One industry insider, who asked not to be identified, said the Big Three -- RxNorth.com, Canadameds.com and CanadaDrugs.com -- "haven't lost a single prescription to any customer for any product that wholesalers have stopped shipping. The drug channel out there is moving product between drugstores, wholesalers and marketers."

Daren Jorgenson, founder of Canadameds.com, said his group of companies are now paying "wholesale plus 12 points" to get Pfizer's drugs from small, independent drugstore chains. "They're coming to us. We don't have to go knocking."

But the back-door business is hurting the bottom line.

"If you're working with 22-per-cent margins, and then get devastated by the rise of the Canadian dollar and the cost of acquiring product, we're actually losing money on some prescriptions to the U.S."

To counter what he calls a "bottom line that won't even come close to 2003," Mr. Jorgenson has launched a plan that is transforming Canadameds.com into a virtual business. American clients on his two websites can now link to licensed pharmacies in Britain and New Zealand, where prices in many cases are even lower than in Canada, in order to purchase drugs that are in tight supply in Canada.

"So the genie is really out of the bottle," he said. "We've been working on this for two years and now Pfizer is going to lose $40 on Lipitor from Britain."

The overseas price advantage stems from a practice in Europe known as parallel trade, which allows importers to search member countries of the European Union for the lowest possible priced drugs and distribute them in their own country.

"This is the one thing Big Pharma fears will come to North America," said John Myers, a lawyer with Taylor McCaffrey who represents CIPA.

Mr. MacKay said many CIPA members are in the process of setting up networks similar to Canadameds.com and his group is actively supporting "relationships and partnerships" with select EU players. One potential investor is Mediplan's Mr. Strempler, who said he is in discussions to invest in a drug distributor and network of drugstores.

"I'd want to own a business in the U.K. ... or at least have control over it because I have to be responsible for my customer's safety."