



November 2014

## PSNC Guide to shortages and pharmacy funding

### Medicines shortages

Community pharmacies experience shortages of medicines from time to time. Over recent years, the numbers of items which community pharmacies have found difficulty in sourcing has been increasing. Initially the problems were predominantly with brands, caused by manufacturers' changes in supply terms but for the last three years the incidence and volumes of generic shortages and associated price rises have become a major problem. PSNC is seeking to secure fair price concessions for contractors as well as assessing the overall impact on community pharmacy margin delivery. In order to explain the relationship between individual shortage lines and overall margin delivery, PSNC has created this resource for pharmacy contractors.

### What happens when there is a generic medicine shortage?

When PSNC receives reports from contractors about shortages/ price rises, we make inquiries to verify the reports, then apply to the Department of Health for a price concession. The Department makes its own investigations and may then refuse the request, or propose a concession price. Price concessions are in place for the month in which they are granted and they override the Drug Tariff price without the need for the pharmacy to endorse individual prescriptions.

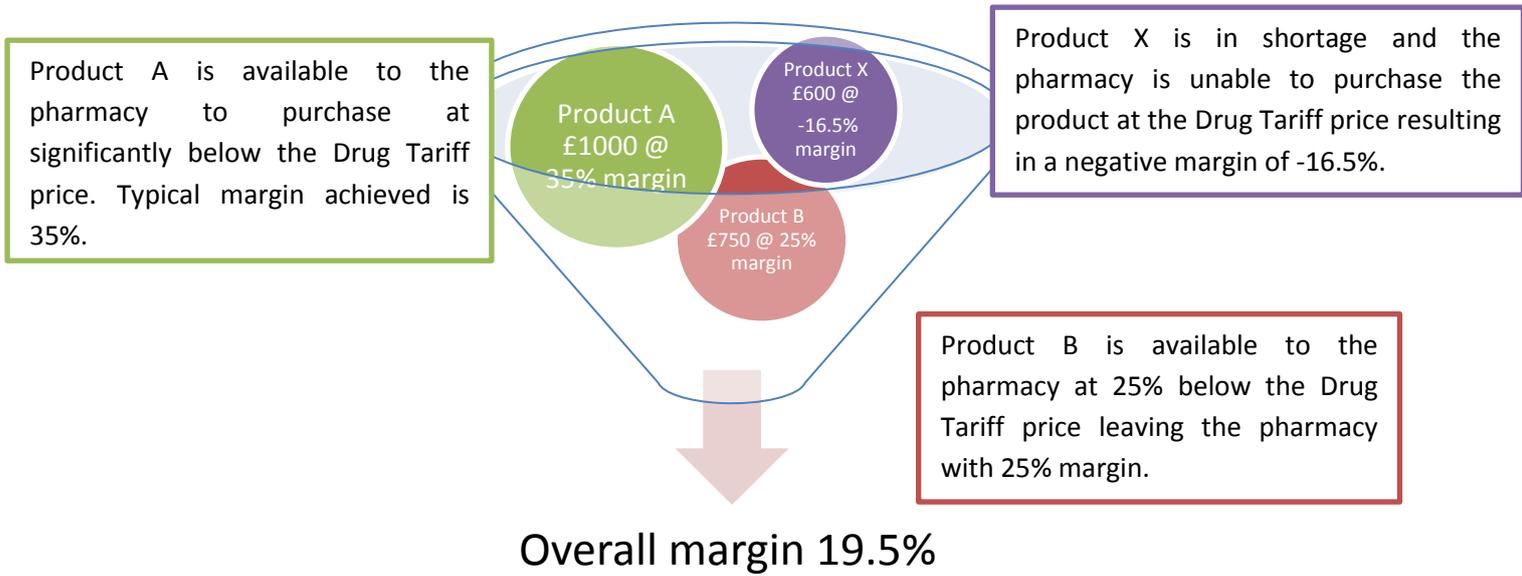
### Why are the concession prices lower than prices I can buy at?

Our experience is that prices and availability can vary widely, and when supplies are scarce, suppliers frequently quote widely varying prices for different customers, favouring customers who routinely use them as a major supplier. The concessionary price may well not reflect the cost to any individual pharmacy but it does reduce the adverse financial impact.

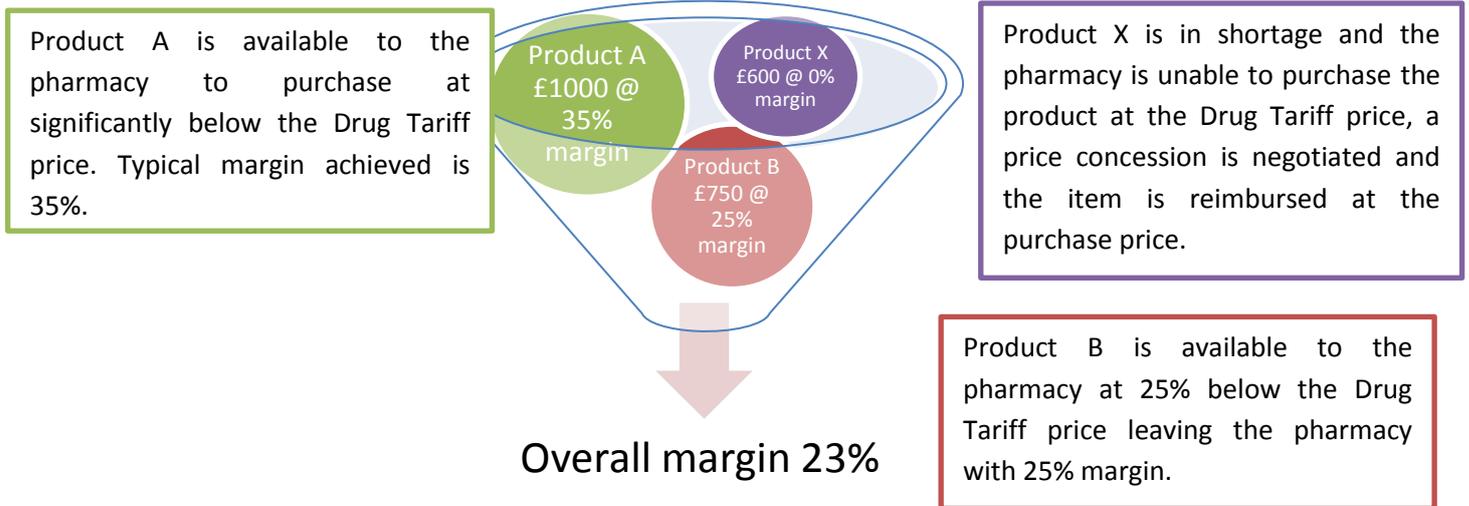
### How can I assess the impact of a shortage on my individual pharmacy's margin?

The figures below show a **hypothetical** example of the relationship between medicine shortages and overall margin which a pharmacy may achieve across two months. Product X has recently become short in the market and is available at considerably higher than the set reimbursement price to pharmacies. In the first month when the product goes into short supply contractors are able to purchase the product above the Drug Tariff price. Products A and B represent some of the other products a pharmacy dispenses during the same time period.

**Figure 1 - Month 1 when product X first starts going short**



**Figure 2: Month 2 when Product X has a price concession**



Analysing Figures 1 and 2, the average margin attained by the pharmacy across the example products is 21.25% during the two months when Product X was in short supply. Additionally whilst the margin for Product X has changed significantly from Month 1 to Month 2 from -16.5% to 0%, the overall impact on the pharmacy is a difference of 3.5% in overall margin between the two months.

The illustration demonstrates that where products are in short supply, and contractors are unable to purchase them at or below the Drug Tariff price, that margin achieved against other lines in the pharmacy should also be considered. Also, whilst margin may vary significantly for individual lines from month to month, the overall margin attained from month to month should be analysed when assessing the impact on your pharmacy business. Since margin fluctuates between items there will inevitably be some items with higher margins and some with lower margins however it is the average across the entire portfolio which should be assessed.

**Note: This example is for illustrative purposes only.**

## How is the impact of shortages accounted for at national level?

PSNC seeks to ensure that pharmacies achieve the nationally agreed levels of margin by its work on the margins survey. Margin is measured by analysing the purchase invoices of a sample of independent contractors against a representative sample of products.

Through this exercise changes in purchase price are reflected in the calculation of margins for the products surveyed, including all the major generics, and the revised margins will therefore be accounted for in the calculation of total margin earned. PSNC also conducts a separate exercise to evaluate the full impact of shortage-led price rises and uses this in its negotiations with the DH.

More information about the margin survey can be found by visiting the Margin Survey webpage on our website. <http://psnc.org.uk/funding-and-statistics/margins-survey/>

For more information on the latest price concessions and to sign up to our email updates visit the price concessions page of our website. [psnc.org.uk/ncso](http://psnc.org.uk/ncso)

Should you have queries on this PSNC Briefing or require more information please contact [Komal George, Head of Dispensing and Supply](#).