

MEASURES TO REDUCE THE EFFECTS OF THE ECONOMIC AND FINANCIAL CRISIS IN PHARMACEUTICAL COMPANIES

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Abstract

The economical and financial crisis, which busted out in 2008 in the USA, has touched the Romanian economy as well. The healthcare system, and particularly the pharmaceutical one, has been seriously affected. The main negative effects to be felt in the pharmaceutical field are: delayed invoice payment to services and products providers by the National Health Insurance House, reduced turnover for all pharmaceutical units, the closing down of some units and the unavailability of certain medicines. In order to counteract some of these negative effects, the authors of the present study suggest several measures to reduce costs and optimize the activity of the pharmaceutical units.

Rezumat

Criza economico-financiară, apărută în 2008 în SUA, a atins şi economia românească. Sistemul sanitar şi, în particular, cel farmaceutic au fost grav afectate. Principalele efecte negative asupra domeniului farmaceutic s-au manifestat prin întârzierea plăţilor facturilor furnizorilor de servicii şi produse farmaceutice de către Casa Naţională a Asigurărilor de Sănătate, închiderea unor unităţi farmaceutice, reducerea cifrei de afaceri a tuturor unităţilor farmaceutice şi absenţa unor medicamente de pe piaţă. Pentru contracararea efectelor negative ale crizei, autorii propun unele măsuri de reducere a cheltuielilor şi de eficientizare a activităţii unităţilor farmaceutice.

Keywords: management, economic and financial crisis, pharmaceutical companies

Introduction

The financial crisis which started in the USA in 2008 [4], and which has affected different segments of global economy, including the pharmaceutical business [6], has damaged the Romanian economy. Its

dramatic effects became strongly visible in the country beginning with the second trimester of 2009. The Romanian pharmaceutical companies, familiarized with various crises during the past years have considerably felt the effects of this new wave. This project sets itself to identify the disruptors as well as to analyze the solutions at hand to overcome this critical period.

Materials and methods

The materials used in the present study have been legislative acts issued by the Ministry of Health and newspaper articles on pharmaceutical assistance during crisis. The logical analysis has been used as method.

Results and discussion

The causes of the crisis

The fundamental causes of the Romanian crisis, as identified by Professor A. Marga, are as follows: the lack of amendments, corruption, incompetence, the need for education [4] and last but not least the insufficient financing of vital fields such as: health, research, education etc. As far as the pharmaceutical market is concerned, it is strictly controlled by the state. During the past years, certain decisions taken by several governmental factors (The Ministry of Health, The National Medicines Agency, The National Health Insurance House etc) or sometimes the lack of favorable measures determined various crises in the Romanian healthcare system. They mainly manifested as: incoherent healthcare policy over the past 20 years; insecure healthcare system as an inheritance from the communist regime; insufficient financing of the healthcare system and redirecting the funds resulted from insurants contribution towards other sectors (e.g. the vice tax) [9]; delayed payment of the invoices for the services and products of the providers (distributors, pharmacies, hospitals, consulting rooms, laboratories etc) by the National Health Insurance House and claims recovering even after 2-3 years; national currency depreciation and keeping the exchange rate for the calculation of ethical medicines under the level of the Romanian National Bank (>10%); frequent changes in the method of dispensing of reimbursed medicines and the reimbursement lists; the decrease in the prices of medicines, decided by the Ministry of Health and applied to stocks owned by distributors and pharmacies etc.

All these aspects caused serious loss for the providers of health products or medical and pharmaceutical services, stock shortages, payment incapacity etc. Starting with 2008, the American financial markets and then the international ones entered a severe crisis which has been accompanied by a crisis on both macro- and microeconomic as well on the political level [4].

Although Romania seemed to escape the world wide crisis, at the end of 2008 its pharmaceutical market registered negative results which envisaged the onset of a crisis. Consequently, part of the most important medicines distributors suffered serious losses and some unprofitable pharmacies closed down [8].

The insufficient budget assigned to the National Health Insurance House in 2009 (as in previous years) and the Government's inertia in adopting measures which would help business operators deepened the negative effects. The number of bankrupt pharmacies is likely to increase in the future, a problem that is expected to arise among distributors too. Moreover, there is also the absence of imports, caused by prices and conditions which are disadvantageous to producers, especially to external ones; this absence, added to all these consequences will distort the medical and pharmaceutical act in Romania and will reduce its quality, negatively influencing the general health state of the population.

Unfortunately, there are situations when the decision of the Ministry of Health to reduce the prices to the minimum level agreed upon by 12 European Union (EU) members (in a basket of 12 EU member states) starting with 2009 [13] determined several producers and importers to stop commercializing in Romania certain medicines, the import of these products being no longer profitable for the two types of private companies. There are similar situations for the Romanian producers as well, situations in which they *gave up manufacturing* certain medicinal products because of the low prices approved by the Ministry of Health. These situations, correlated with the *stock shortages* of certain medicines (e.g.: amikacin, gentamicin, injectable hydrocortisone etc) or even active substances (heparine with high molecular weight, streptomycin etc) as well as the closing down or translocation of certain production units (Cerezyme[®], Fabrazyme[®] etc.), all of which have been more frequent during the past years negatively influence the quality of the pharmaceutical act, sometimes even on a global level.

Measures to reduce negative effects

In order to get over such critical periods there are governmental measures which need to be taken, such as: *an increase in the health budget, respected deadlines for the payment of the providers' invoices, redirecting all sums collected at the health insurance budget to the healthcare system, lower taxes so as not to burden economic agents and particularly pharmacies, canceling taxes on reinvested budget, VAT payment on invoice cashing only etc.* Beside these, the management of each pharmaceutical unit will have to apply various measures on: logistics, the marketing or the

administration of the company, the financial and accounting situation or human resources. It is worth mentioning that some of the solutions presented above have been already put into practice by some pharmaceutical units. Adopting one or several measures is needed as well as, in some cases, their personalization.

1. Measures to reduce costs

An immediate measure would be *blocking extra hiring and redistributing the duties assigned to these positions to the already existing personnel*. The costs for paying the existing staff are less than the ones involved in employing new one. This solution will increase the financial gain of the personnel even in the crisis conditions, which will, therefore, intensify their involvement. This measure would be welcomed by the entire staff as everybody is aware of the present global economical and financial situation and of the incapacity of the company to increase, given the circumstances, their salaries. Employing a new person implies costs connected to their training and getting used to the new workplace.

Reducing the costs for staff wages represents another objective. Establishing contracts of collaboration and blocking or reducing the existing work contracts could be solutions to be applied to certain categories, such as pharmacists, qualified persons, responsible persons, selling force etc to reduce costs. Authorizing these employees for Self Employed Person (SEP) and establishing a contract of collaboration between the company and the SEP can significantly reduce the wage costs (~20% from the base salary) a reduction that corresponds to the custom and taxes to be paid by the employer. Cashing the value corresponding to the base salary, the SEP will individually pay the monthly taxes for income, supply, health etc. The SEP legally abides the provisions of the Commercial Code and the Civil Code and not the ones of the Work Code. These provisions offer professional independence which will assure the high quality of the pharmaceutical act, respectively abiding the professional ethics and deontology [2].

Externalizing services can be done for other positions too (accountant, legal counselor, maintenance personnel, IT specialists etc) by signing contracts of collaboration between various private companies and SEPs.

In extreme situations, private companies can resort to *temporarily reducing work time or permanently blocking the work contracts* with employees from various unprofitable departments of the company. These are among the last measures to be taken because restructuring of the company can be beneficial on a short term but on an average or long term, after escaping the crisis and bringing back the activity to the previous level,

this will require hiring new people. The disadvantages of employing in such situations are the extra costs for the personnel training, the insufficient work experience of the labor force and even the staff that is not familiar with the objectives, mission and strategy of the company.

Another solution would be to resort to *reduction of management and protocol costs* by renegotiating rents, reducing costs with consumables, stock objects or assets through decreasing or eliminating these investments, increasing their work duration, negotiating lower prices with their providers, or *reducing or even eliminating investments*.

An extreme solution would be *giving up production or import of a certain medicinal product*, a measure which can be considered as situated at the limit of professional ethics.

2. Measures for optimizing the activity

Both distributors and pharmacies will have to train their personnel, especially their selling force, *into providing the clients with new services or improving their old ones*. The distributors can offer counseling services on professional, legal, economical and financial aspects. Pharmacists will have to focus on their professional development and can reorient themselves towards a better communication with the patient [5] or offering different services: vaccine administration, free checking of certain physiological parameters (blood pressure, glycemia, cholesterol etc) [9, 10], dermatological and cosmetically assistance, extra services for customers such as home pharmaceutical assistance, offering first-aid kits to the ones going on trips or holidays, counseling programs for sportsmen, pregnant women, small children or smokers trying to give up etc. Moreover, pharmacies can attract customers through various methods (e.g.: loyalty cards).

Optimizing routes by establishing the minimum profit threshold for each route is also to be taken into consideration. The minimum limit of the value of each invoice issued to the beneficiary will be settled to reduce or even eliminate unprofitable routes.

Another logistic measure at hand is the building of *strategic partnerships*, whose final goal is the reduction of fixed and variable expenses. In this way, more distributors will be able to create alliances which would be strictly connected to products distribution. Companies will either use common shipping (the creation of an external company which will only take care of the products transport) or will share the fleet they own (common distribution routes will be established, each route being covered by only one vehicle). This solution will reduce direct expenses on gas and

indirect ones on car check and service or even expenses on staff (by reducing the number of drivers). A strategic partnership can also be considered the establishing of *custody contracts* with warehouses with their own storage places. This measure would reduce administrative expenses (lower rent) and even staff expenses by restructuring positions for the beneficiary. The custodian would be able to fully use the work force involved in the storage process, not having to resort to extreme measures (e.g. staff reduction).

Both pharmaceutical wholesalers and pharmacies have the possibility to establish *common partnerships for products acquisition*. The increase in the volume of acquired products will lead to better work conditions from providers: increase on discounts, abatements or more advantageous deadlines.

Vertically upwards integration of the activity (distributors focus on production, pharmacies towards distribution) or *downwards* (producers set up import companies, wholesalers or even pharmacies and the wholesalers open their own networks of pharmacies) [1] is another solution which the pharmaceutical units have been employing for several years.

Although *horizontal integration of the activity* (e.g. the setting up of networks of pharmacies, drugstores, wholesalers or even manufacturing units) and *the taking over of companies specialized on production or distribution, of pharmacies or drugstores* [1] represent solutions for strengthening the position on the market, these measures can be applied in order to get over present critical conditions.

Parallel trade represents a legal form of the products exchange (import or export) among the EU members, including medicines for human use [8]. Once import medicines were reduced, starting with 2008 and respectively 2009 [11, 12], parallel import represents an activity with reduced applicability. Parallel exports, on the other hand, are becoming more and more attractive for Romanian companies. EU states distributors prefer to acquire certain medicines from Romanian companies at prices far lower than the ones approved by national authorities (e.g. by producers Eli Lilly, Boehringer Ingelheim, Novo Nordisk, Schering Plough, Roche, Astellas, Astra Zeneca, Sanofi, GSK etc.), reason for which, in our country, there are frequent stock shortages. Even though these parallel exports can be viewed as a 'gust of fresh air' for Romanian distributors, stock shortages make it often impossible for the Romanian patient to have access to many of the favored export medicines.

A *minimum threshold of profitability* for each expenses position – cost centers – (employee, route) will be established and measures to

optimize these positions will be taken. For this, offers and products packages can be introduced to increase the turnover and profit, even if to a small extent.

Attractive commercial conditions are desirable for products acquisition (relaxed payment deadlines, financial discounts, or higher natural abatements etc), contracts which are on roll can be, thus, renegotiated and new distributors can be identified to satisfy these demands.

New lines or ranges of products will be identified (e.g. parapharmaceutical, medical devices, cosmetics, supplements, special food products etc) and will have acquisition conditions as favorable as possible. The claim recovery for these invoices will also be done on deadlines which are far shorter than for medicines (e.g. the healthcare units pay the distributor for these products in 30-90 days, whereas medicines are paid in 180 days). The selling of these pharmaceutical products increases the turnover, the profit and most importantly, the cash-flow, as they are paid directly by the consumer.

The distributors have to identify *their clients that pay on time*, who should be preferred.

Another direction which can be followed by producers or pharmaceutical storage units is the *identifying of new categories of public or private clients* (Departments for Public Health, Sanitary and Veterinary Departments, Ambulance Services, education or research institutes, laboratories, medical centers or consulting rooms etc).

The measure adopted by the Romanian Government at the end of September 2009 that the payment on medicines invoices issued by pharmacies to the County Health Insurance Houses should be extended 60 to 180 days more, will cause a financial crisis in pharmacies, which will affect distributors and medicines producers. The solution for refinancing would be establishing a *factoring* between pharmacies, the County Health Insurance Houses, banks, distributors and even manufacturers [3], which means that the distributors, producers and even investment corporations would take over the hospitals and pharmacies' rights of cashing abatements from the County Health Insurance Houses.

Last but not least, a *careful supervision on claims and their recovery from clients* even before the deadlines are also needed. In the case of „bad payers”, who have overdue invoices, the latter's recovery should be tried in a reasonable way. Some solutions would be *compensations (barter)* with other products or even resorting to extreme measures starting with warnings, suing and ending with forced execution. In such situations, penalties are permitted (if the signed contracts or issued invoices stipulate this).

Situations like these are to be avoided, for at least three reasons: irrecoverable loss of the client which can decrease turnover; the delayed deadline for claims recovery, the recovery being finalized after the verdict is brought in; extra expenses due to suing costs or the commissions to be paid to the executors.

Conclusions

The economical and financial crisis is becoming more and more serious in 2009 in the Romanian healthcare system, especially in the pharmaceutical area. Adopting certain governmental measures is necessary. Beside them, the management of pharmaceutical units can make use of various measures to reduce costs and optimize activity, measures which have to be adapted to the situation of each company.

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