

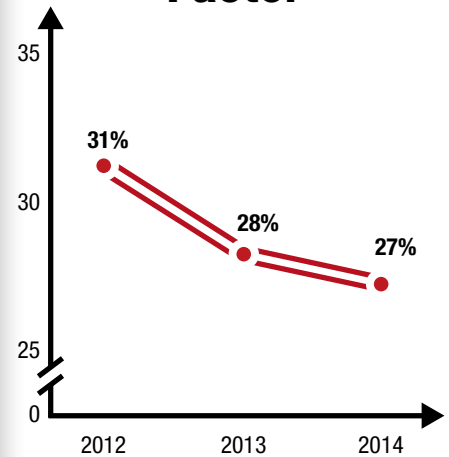
In the third quarter of 2014, PP&P polled a random, nationwide sampling of health system pharmacy directors on the factors impacting their generic purchasing decisions. We asked about the process for selecting a generic manufacturer, drivers of off-contract purchasing, satisfaction with negotiated prices, processes for adding biosimilars to formulary, current budget support, and future spending projections. We received a total of 356 responses, yielding a confidence interval of 5.03 (95% +/-5.03).

The survey results underscore pharmacy's continuing concern with ensuring a reliable supply of generic products. In fact, the vendor's ability to deliver a consistent supply and the availability of product in bar coded unit dose now rival price as key purchasing considerations for many pharmacy directors. Shortages remain a challenge, although the number of products on shortage has diminished and more facilities have improved their internal processes for managing this ongoing problem. Nonetheless, shortages continue to require increases in drug expenditures and pharmacy workloads.

Pharmacies remain more likely to conduct the majority of their generic purchasing through their wholesaler rather than their GPO, despite the high marks GPOs receive for their cost containment strategies. To leverage the aggregate purchasing power of their GPOs, most pharmacies endeavor to avoid off-contract purchasing, which generally occurs in response to a shortage or a product's lack of availability in unit dose.

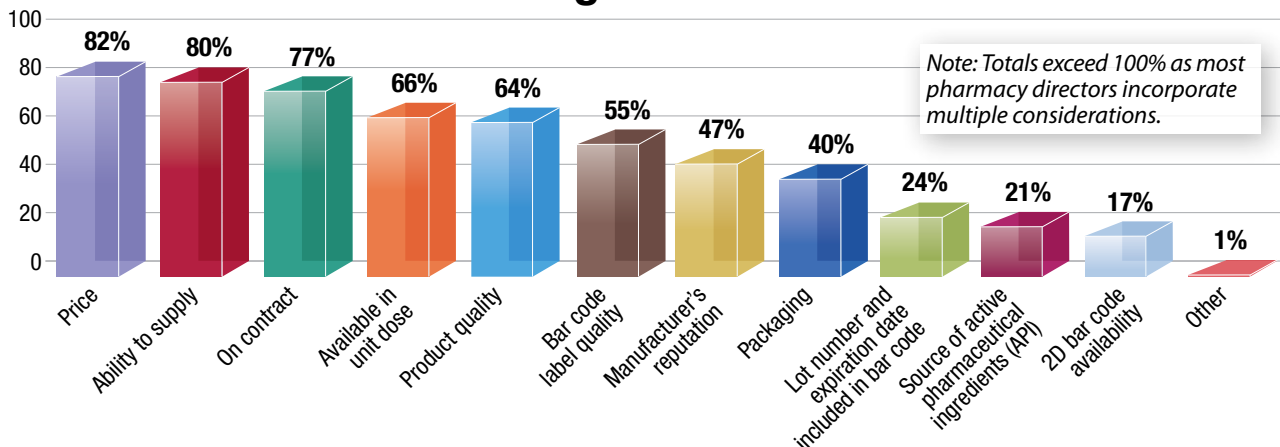
Looking forward, specialty medications are a serious and growing concern for pharmacy as their high costs will continue to pressure drug budgets. Health systems with a certified specialty pharmacy remain in the minority, but we will watch to see if this approach begins to trend upward. Pharmacy's interest in biosimilars also is increasing, although there are persistent concerns about how to develop an appropriate formulary review process for this new class of product. While drug budgets saw relatively modest increases this year, driven largely by efforts to control generic costs, the vast majority of health systems expect both their generic and overall drug spending to increase over the next few years.

Price as the Primary Purchasing Factor



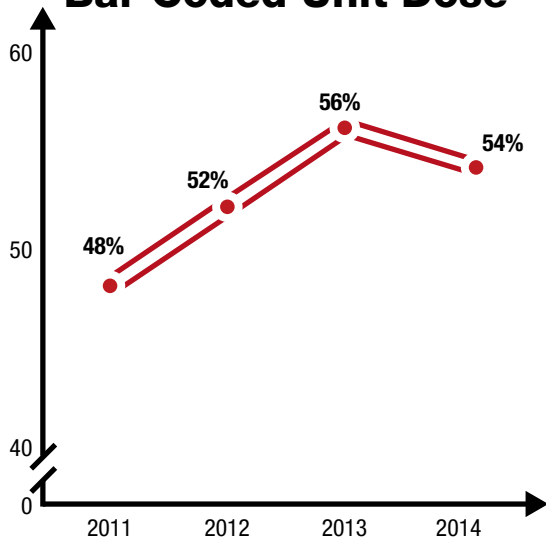
▲ **A diminishing number of health-system pharmacies** always consider price the most important factor in choosing a generic manufacturer.

Purchasing Considerations



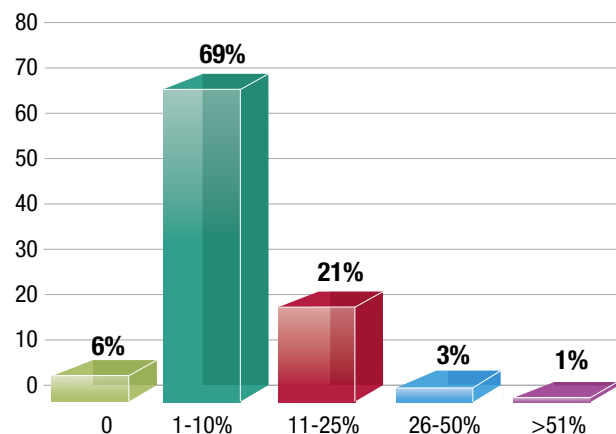
▲ **While pricing may not be the sole determinant** in purchasing, it is a strong factor, coupled with consistent supply, contract status, unit dose availability, and product quality.

Trends in Purchasing >75% of Generics in Bar Coded Unit Dose



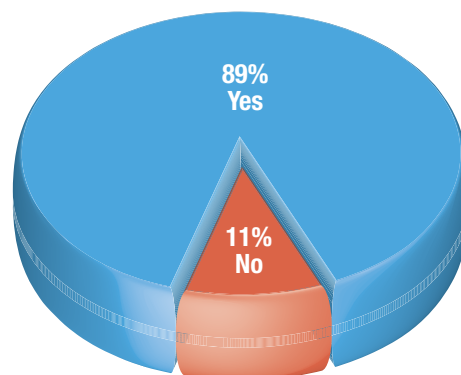
▲ The ability to purchase most generics in bar coded unit dose remains an elusive goal for 46% of facilities. In fact, just 4% are able to purchase all of their generics in this format.

Percentage of Generics Purchased Off-contract



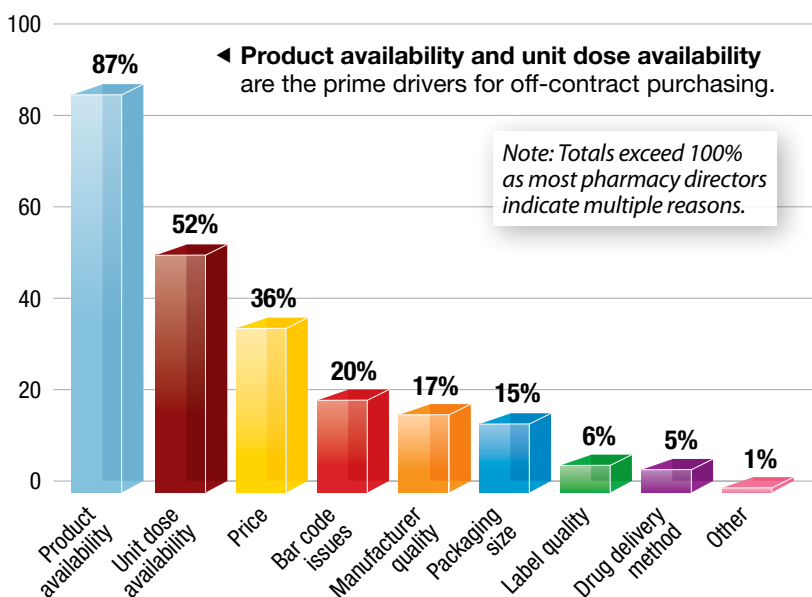
▲ Off-contract purchasing is an uncommon practice for most facilities and generally occurs for a limited number of products.

Willing to Pay More for Reliable Supply



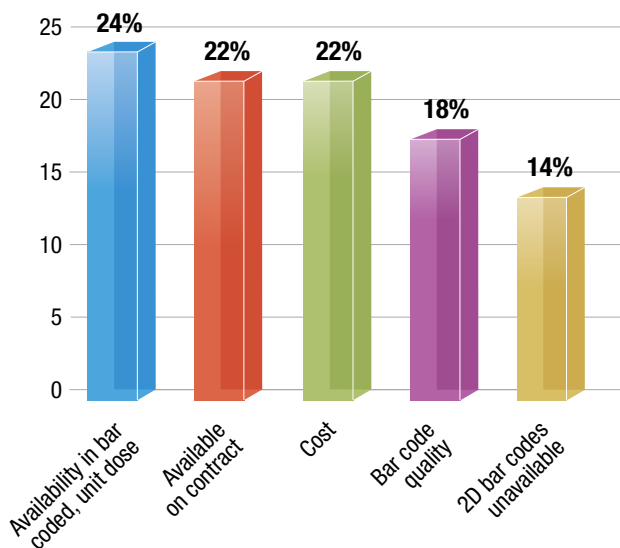
▲ Given the ongoing availability challenges surrounding generic products, the vast majority of facilities are willing to pay a higher price in order to ensure a reliable supply.

Reasons for Purchasing Off-contract



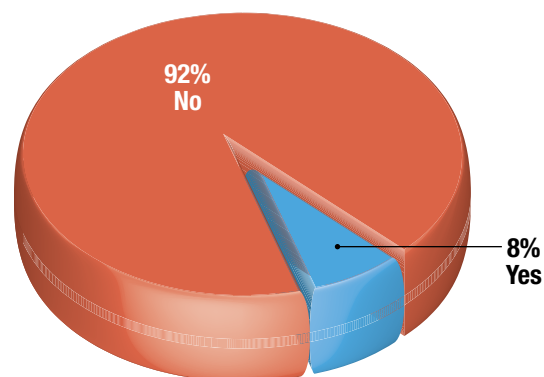
◀ Product availability and unit dose availability are the prime drivers for off-contract purchasing.

Roadblocks to Generic Purchasing



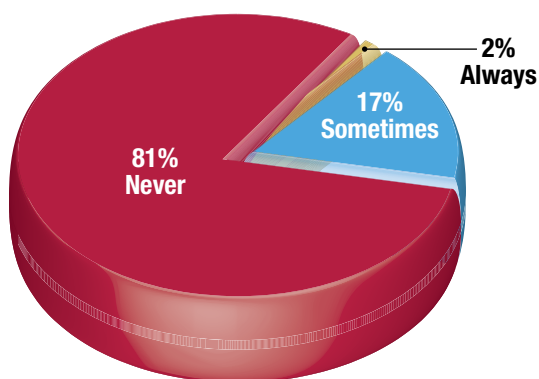
▲ **Availability and cost are the factors** that most commonly stymie pharmacy in the effort to purchase all generics in bar coded unit dose.

Use of Non-AB Rated Generics



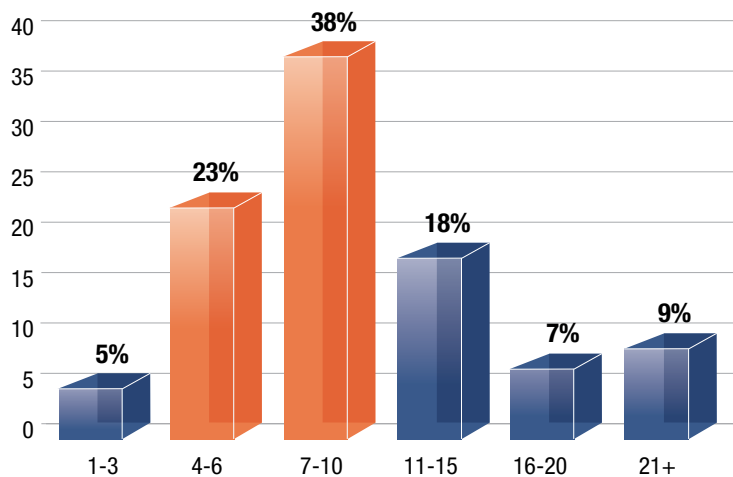
▲ **Rarely are non-AB rated generics** utilized by health system pharmacists, and usually only during a shortage or when it is the only product available.

Lot-specific Test Results Requested from Manufacturer



▲ **Lot-specific testing has yet to become** commonly requested from generic manufacturers. When these results are requested, it tends to be by larger facilities.

Number of Generic Manufacturers Used



▲ **There is a strong trend toward sourcing generics** from a smaller number of manufacturers. Two-thirds of health-system pharmacies currently rely on 10 or fewer manufacturers to supply their generics, while just 51% did so in 2010.