

they were licensed to do business in their respective states. When we refined our questioning to ask if they were licensed by their respective departments of public safety in the states they distribute pharmaceutical drugs, we were shocked to find out the real answers. In all three cases, the answers were some version of “no, but we are within compliance of state commerce regulations.” At least on the surface, it appears that the Drug Quality and Security Act is attempting to close a regulatory loophole by requiring 3PLs to meet minimum federal regulations when handling pharmaceutical drugs. This is especially appropriate when we consider illegal Internet pharmacies and how they distribute their products in the United States through 3PLs.

It is a big step forward to distinguish 3PLs from wholesale distributors, and to require 3PLs to meet federal standards. Why is the new Drug Quality and Security Act so vague regarding reverse distributors? As we can see, they are an important part of the pharmaceutical drug supply chain and very important to protect the quality and secure the supply chain.

REVERSE DISTRIBUTORS

Most pharmaceutical drug manufacturers have a returns allowance for their pharmaceutical drug products. These allowances can vary by pharmaceutical drug, but a rule of thumb is that these allowances are approximately 2.5% of the store or pharmacy value of the drugs. No matter how you cut the numbers, the total dollar amount of these returns is in the tens of billions.

There are three main reverse distributor companies in the marketplace: GENCO, Inmar, and Stericycle. Just like the big three wholesale distributors, these three reverse distributors have rich histories.

Hyman Shear started GENCO in 1898 as H. Shear Trucking Company, delivering commodities in the greater Pittsburgh area, and 117 years later, it is still based in Pittsburgh. Over the years, GENCO evolved from transportation to warehousing as Sam Shear became the CEO in the 1940s. Herb Shear became CEO in 1971 and led the transformation into the GENCO of today. Herb identified unmet needs in the supply chain and launched new services at GENCO, including reverse logistics and later liquidation. Reverse logistics was born of necessity. Oftentimes, returned products would pile up in a distribution center until space became an issue, and then they were sent to a landfill. Herb knew there was still value in the product and pioneered a new software platform called R-Log that