

expiration date may still be effective and not pose a substantial risk to those who might consume them. However, in the legitimate channels, these items have been deemed by law to no longer have any value able to be derived from their intended production purpose.

The black market might have other ideas. Reverse distributors have no incentive to engage in reintroducing product into legitimate channels, or illicit channels in the case of controlled substances. The big three reverse distributors have built their businesses over several years and decades, accomplishments that cannot be achieved without integrity and proper operational controls. However, given the low-margin nature of the industry, there is an incentive for individuals (the 1%) to bypass and divert product away from the destruction stream. We believe the biggest risk for diversion and theft is at the linkage points—from the pharmacy to or through the wholesale distributor or courier to the reverse distributor.

TITLE II AND THE VALUE OF RETURNS

We believe the question that the CEO, and especially the CFO, of pharmaceutical drug manufacturers should be asking is, “How might we reduce the cost of our returns from 2.5% to 2.0%?” This would produce a half point of margin for the company, less any initial costs, but plus any operational efficiencies that result from the effort.

As we described earlier, pharmaceutical drug returns primarily occur because of recalls, expiring drugs, product damage in transit, and product to be quarantined (i.e., illegitimate product). With the new Title II track and trace regulations, we believe that the time has come for someone innovative to unlock the latent value of returns.

The returns process described earlier focuses on the operational process and the issuing of debit and credit memos. The value today for multiple parties is perceived to be twofold: to minimize the cost to return and destroy the drugs, and to speed up the issuance of credit memos from the appropriate parties. The value tomorrow goes far beyond the value today.

With the advent of product identifiers enabling product tracing on all pharmaceutical drug packaging, reverse distributors and wholesale distributors can now work toward the answer to the question, why does this return exist? When the retail pharmacy sends pharmaceutical drugs back to the wholesale distributor, it wants it done swiftly and with financial