Navigating the Storm

How Pharmaceutical Wholesalers Can Thrive Amid Tariffs, the IRA, and Drug Pricing Legislation

March 2025

The story in brief

The pharmaceutical industry is facing a confluence of challenges and uncertainty that threaten to disrupt established business models and squeeze profit margins.

The Gathering Storm

As tariffs loom and drug pricing is reshaped by the Inflation Reduction Act, pharmaceutical wholesalers face intensified challenges that began with COVID-19 and ongoing geopolitical risk. The convergence of these pressures call for immediate strategic shifts to avoid margin erosion and supply chain disruptions.

Navigating the Turbulence

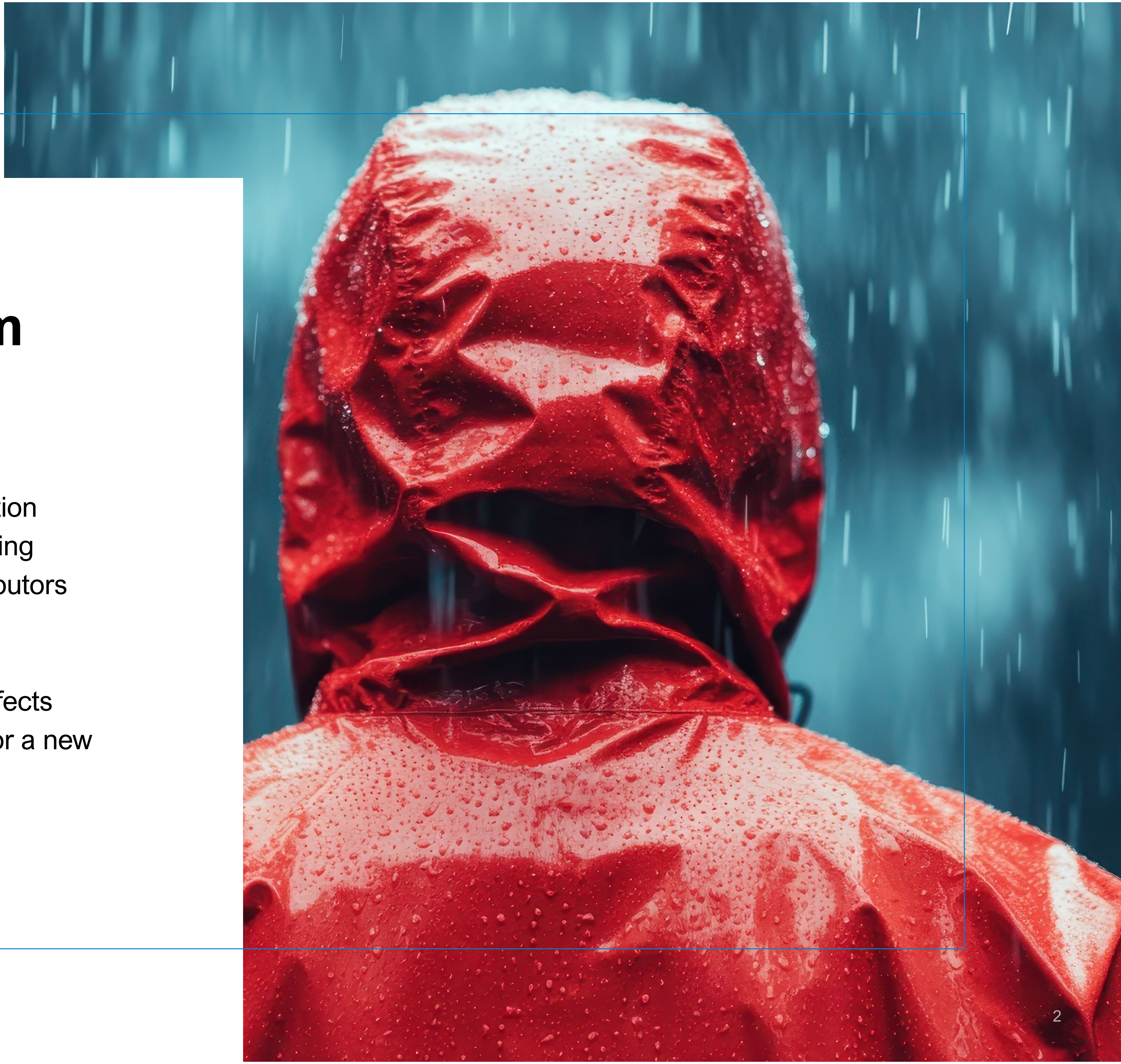
To thrive amidst uncertainty, wholesalers must accelerate adoption of proactive strategies. This includes embedding a sustaining capability to manage supply chain risks, enhancing supply chain visibility to track product origins, diversifying sourcing to mitigate tariff impacts, and negotiating flexible agreements with manufacturers to share risks associated with price fluctuations.

Charting a Course for the Future

The path forward demands a steadfast commitment to innovation and collaboration. Wholesalers must intensify their investments in technology for real-time inventory management and predictive analytics; continue expanding value-added services to differentiate in a competitive marketplace; and actively engage in policy advocacy to shape regulations. Those who adapt swiftly will not only survive but emerge as leaders in the evolving pharmaceutical landscape.

The Gathering Storm

A seismic shift looms on the horizon for the pharmaceutical industry. As tariffs, the Inflation Reduction Act (IRA), and evolving drug pricing legislation converge, wholesalers and distributors find themselves at the epicenter of an unprecedented transformation. This section explores the potential impacts and ripple effects across the supply chain, setting the stage for a new era in pharmaceutical distribution.



Potential tariffs may disrupt the delicate balance of the global supply chain

What is the impact?

The proposed tariffs could significantly disrupt various stages of pharmaceutical manufacturing and distribution, potentially leading to increased costs and supply chain challenges. Key areas of impact include:

- APIs, drug product, excipients, packaging (needles, vials, syringes, cartons, etc)
- Medical devices and components
- Finished pharmaceutical products
- Cross-border manufacturing and distribution

Table 1

Hypothetical US trade policy scenarios and illustrative impacts. These examples reflect possible future developments rather than enacted policies as of February 2025

Potential Tariff Scenarios and Supply Chain Impacts

Tariff Proposal	Country	Potential Tariff	Category / Stage	Potential Impact
Section 301 Tariffs	China	Up to 25%	APIs, Finished Products	Increase in production costs for generics; potential shortages
Section 301 Tariffs	China	Up to 25%	Medical Devices	Higher costs for advanced medical equipment; disrupted supply of diagnostic tools
Section 232 National Security Tariffs	Mexico	Up to 25%	Medical Devices	Disrupted access to PPE, syringes, and diagnostic tools
Section 301 Tariffs	Canada	Up to 25%	Finished Products	Limited access to certain treatments, increased OOP expense
Generalized System of Preferences (GSP) Expiration	India	Up to 7.5%	Generic Finished Doses	Further pressure on generic drug manufacturing
Harmonized Tariff Schedule (HTS) Chapter 30 Revisions	Various	Up to 10%	Finished Products	Potential elimination of exemptions for pharmaceutical products

Sources: International Trade Administration 2023 Budget Report, The Presidents 2024 Trade Policy Agenda;

The IRA is reshaping drug pricing and market access

Impacts	Evidence	Implications for Distributors
Increased Utilization Among Medicare Beneficiaries	• The Medicare drug price negotiation provision could reduce prices for selected medications by an estimated 25–60%, significantly improving medication adherence. Studies show that for every 10% reduction in out-of-pocket costs, adherence improves by approximately 3–5%.[1] • Expanded eligibility for Part D low-income subsidies suggests increased utilization. One study found that the availability of subsidies led to an average increase of about 9 new prescriptions per new enrollee.[2,3] • A study by USC and the University of Wisconsin-Madison concluded that the IRA's cap on insulin out-of-pocket costs boosted prescription fills. Medicare beneficiaries filled about 50,000 more insulin prescriptions per month at $35 each.	• **Patient Services for Pharma:** Improved patient services offerings to help Pharma customers better engage patients as increased adherence leads to patients filling more Rx • **Higher Volume, Lower Margin:** Greater prescription demand could boost distribution volumes but price controls and negotiated Medicare prices may pressure margins • **Operational Adjustments:** The IRA's expanded Medicare price controls, inflation penalties, and out-of-pocket caps may require enhancements to the Medicare Transaction Facilitator's (MTF) data tracking and reporting functions, leading to new IT system requirements for distributors
Shifting Rx Product Mix	• The IRA's "pill penalty" disincentivizes the development of new small molecule drugs in exchange for more complex biologics, which will likely drive growth in specialty medications. • IRA provisions aim to increase reimbursement rates for qualifying biosimilars.	• **Growth of Specialty Channel:** Specialty will be the most important channel, and distributors will need a strategy for upstream and downstream specialty stakeholders • **Reimagined Group Purchasing (GPO):** Engaging more specialty providers could allow distributors to influence switching strategies to higher margin products and increase GPO admin fees
Drug Shortages	• The Manufacturer Discount Program reduces manufacturers' share of brand drug spending. Lower reimbursement may shrink margins, making some drugs less economically viable. In response, manufacturers could cut production, delay launches, or discontinue drugs, risking supply shortages[5] • The "Maximum Fair Price" could lead to situations where independent pharmacies are reimbursed below their acquisition cost for certain drugs, causing financial losses or inventory management issues for small independents	• **New Unmet Needs for Independent Pharmacies**: Independent pharmacies may need enhanced inventory management solutions, financial support to navigate cash flow challenges, and administrative assistance to manage reimbursement complexities and patient demand • **Demand Fluctuations:** Pharma-driven inventory constraints could impact contract fulfillment

Sources: 1. National Pharmaceutical Council ; 2. AARP 3. Medicaid 4. USC; 5. BRG;

Beyond the IRA, drug pricing legislation is likely to further compress margins for major pharma players

Legislation is expected to impact manufacturer margins the most, though tariffs will be a major disruptor for wholesalers

(% Margin Impact)*

Policy Change	Biopharma	Providers	Wholesalers	Key Drivers
Medicare Drug Price Negotiation	-2 to -5% on selected drugs	Neutral	-1 to -2%	• IRA price setting compresses manufacturer receipts • Providers could benefit if savings are retained (though not guaranteed) • Wholesalers largely pass through price changes, seeing minimal but possible margin impact
340B Program Expansion	-2 to -3% on outpatient drugs	+9-12% from discounted drugs	+2-3% distribution volumes	• Deeper 340B discounts reduce biopharma margins for eligible outpatient drugs • Providers capture additional savings through 340B participation • Wholesalers see more throughput and potentially higher fee revenue
PBM Transparency Rules	-3 to -5% in rebated product segments	Neutral	1-2% from narrower spreads	• Forced pass-through of rebates cuts into biopharma's net returns • Provider impact limited unless reimbursement shifts significantly • Wholesalers lose some spread-based revenue or face renegotiation on distribution fees
Tariff Increases on APIs	-1 to -4% on products reliant on API imports	Neutral	-3 to -5%	• Higher import costs raise COGS for API-dependent product lines • Providers largely shielded unless drug shortages inflate purchasing expenses • Wholesaler's ability to pass along tariff costs varies by channel

**These scenarios reflect modeling assumptions rather than definitive forecasts and should be used for comparative planning purposes only*

Navigating the Turbulence

In the face of uncertainty, opportunity awaits the bold. This section delves into how wholesalers and distributors can not only weather the storm but emerge stronger. We examine proactive strategies to mitigate risks, leverage existing strengths, and uncover hidden opportunities. From supply chain diversification to technological innovation, discover how industry leaders are turning challenges into competitive advantages.

There are three strategic imperatives for wholesalers to consider

Anticipate Shifts

Adapt supply chains and inventory strategies to navigate tariffs, IRA pricing pressures, and geopolitical risks.

Protect Margins

Secure profitability through advanced contracting, biosimilar partnerships, and operational efficiency gains.

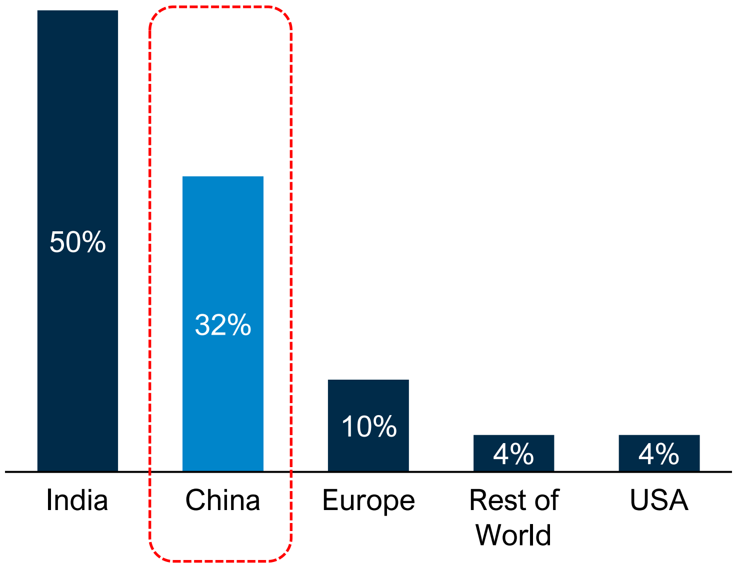
Expand Services

Grow high-margin specialty offerings and data-driven solutions to offset core distribution pressures.

Anticipate shifts by understanding supply chain footprint and proactively adapting to tariff and IRA pressures

The US relies heavily on China for supplies of active pharmaceutical ingredients (API); tariffs on China could put undue pressure on pharma supply chains in the US

Figure 1: 32% of Active API Drug Master Files are held by China



Source: USP
*HAD = Healthcare Distribution Alliance
AAM = Association for Accessible Medicines

Key Moves

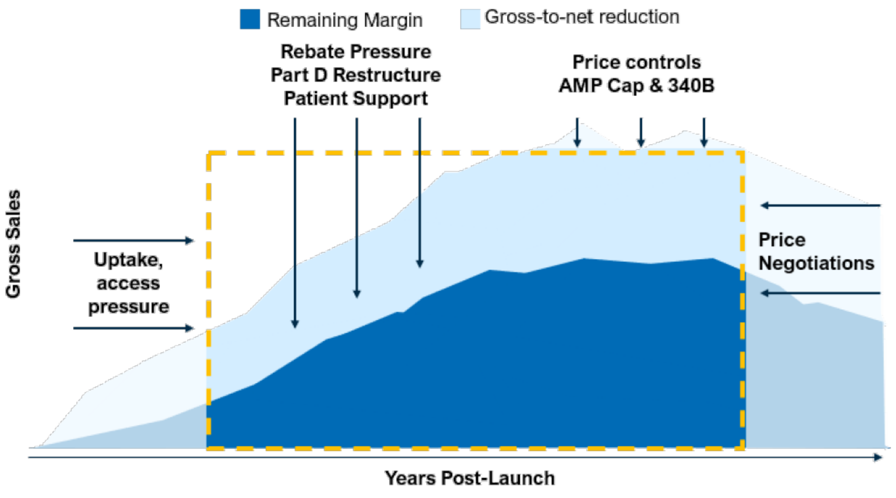
1. **Start scenario planning** for tariff impact and FDA recalls from manufacturing facilities
   - Conduct SKU level geographic mapping using tax, import, and export data, to identify vulnerable portfolio segments
   - Clearly inform upstream and downstream customers about potential cost increases tied to trade policies and pricing reform legislation
   - Build and expand internal customs function to oversee supply chain and duty management to enable proactive vs. reactive tax strategy
2. **Identify immediate term mitigation strategies** to reduce impact of tariffs and legislation
   - Optimize shipping routes, consolidate shipments, and reduce accessorial charges
   - Maximize warehouse efficiencies, such improving distribution center layouts, workforce scheduling, and streamlining order fulfillment
   - Consider applicability of first sale rule on import transactions to reduce dutiable value
3. **Incorporate long-term tiered inventory strategy** to balance tradeoff in carrying costs vs. potential lost revenue from stockouts
   - Segment SKUs between critical tier (e.g., Onc. Drugs, PPE) and routine tier items (e.g., OTC medications), and adjust inventory based on impact from supply chain disruptions
   - Enhance forecasting for Pharma manufacturers to mitigate potential short-term shortages and stock outs as they transition to domestic sourcing and manufacturing

Protect margins by taking decisive action for stronger performance

The IRA and potential PBM reforms may compress margins by reducing reimbursement rates and product mix for high rebate specialty generics

The cumulative effects of pricing reforms for drugs will be felt by the entire industry, including distributors

Figure 2: Economic Compression of a Drug over Product Lifecycle



Source: IQVIA Market Access Center of Excellence

Key Moves

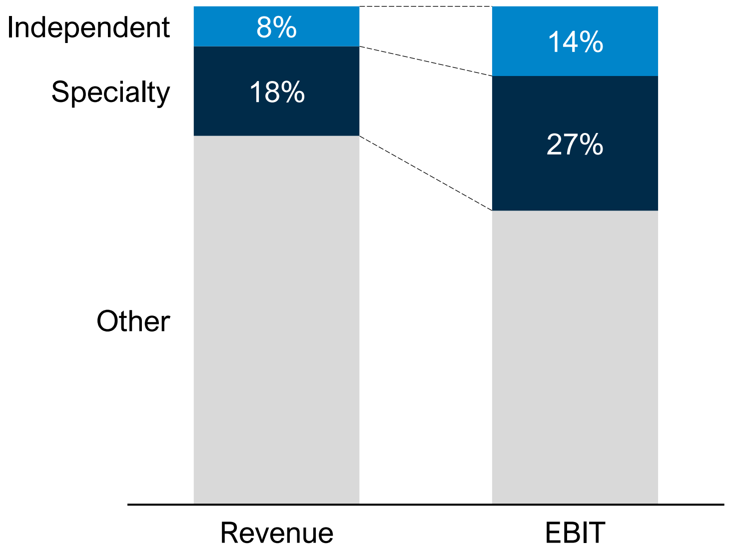
1. **Negotiate contracting** with suppliers and payers to include tariff adjustments and performance awards
   - Incorporate tariff pass-through clauses where possible, and predefine thresholds (% tariff increases), that allow for pricing adjustments with downstream customers
   - Consider service-level agreements and performance benchmarks to reward on-time delivery
2. **Build biosimilar expertise** to enable higher overall margins in class facing $200B market opportunity over next 10-yrs
   - Partner with biosimilar manufacturers pre-commercialization, leveraging payer relationships to advocate for favorable formulary placement and exclusive distribution rights
   - Offer favorable rebating terms for PBM owned biosimilar companies (e.g., Cigna Evernorth's Accredo) for higher share capture
3. **Advance technology systems** to improve visibility across the supply chain, reduce cost-pressures, and enable more agile decision making
   - AI and other digital tools to create greater visibility into pricing, rebates, and cost structures to adapt quickly to reimbursement and IRA-driven pricing changes
   - Help customers by offering data-driven insights, ensuring better cost control, and ultimately improving overall service levels

Expand services beyond core distribution

Evolving market dynamics with 340B regulation, biologic patent expirations, and supply chain disruption are leading to changing customer demands and unmet needs

Specialty drugs are on the rise and represent significant opportunity for wholesalers to boost margins

Figure 3: Revenue and EBIT of Independent, Specialty, and Other Providers



Source: Cowen Research 2024, A&M Analysis

Key Moves

1. **Invest in specialty provider channels** which have the highest margins and low negotiating leverage
   - De-bundle offerings to tailor to provider needs, offering inventory planning, back-office support, and financial credit
   - Focus on delivering exceptional service on tables takes such as 'just-in-time' shipping and pharmacy integration
2. **Expand data solutions to manufacturers** highlighting insights from 340B claims, biosimilar uptake, and IRA drugs
   - Create internal monitoring capability for 340B dispensing pharmacies to identify trends, anomalies, and potential duplicate orders, as an ancillary service to manufacturers
   - Publish purchasing trends on biosimilars and drugs selected for IRAs to catalyze offering as a thought leader
3. **Consider vertical integration with cold chain logistics** to strengthen bargaining position in specialty therapeutics
   - Consider joint partnership with refrigerated logistics provider to improve delivery time for specialty providers
   - Expand domestic cold storage warehousing capacity to meet demand and reserves of specialty therapeutics

Charting a Course for the Future

The pharmaceutical landscape is being redrawn. In this new world, adaptability and foresight are the currencies of success. This section explores how wholesalers and distributors can position themselves at the forefront of industry evolution. We investigate the power of strategic collaborations, the potential of data-driven decision making, and the importance of value-added services in defining the future of pharmaceutical distribution.

Evolving dynamics will create new friction points and shift customer needs

Three moves will help distributors respond proactively and stay ahead

New Entrants ✓
Disrupting the market and looking to reshape traditional models

Payer Uncertainty ✓
Pricing reforms and transparency requirements demand data and analytics

Political Uncertainty ✓
Stay agile to adapt to regulatory shifts and changing policies

Pharma Under Pressure ✓
amid pricing reforms and looming tariffs

Pharmacies Strained ✓
administrative and financial burdens in inventory management demand new solutions

Providers Adapting ✓
demand for high-touch care require new support models and service solutions

1. Strategic Collaborations

Bypass outdated intermediaries and break away from traditional models by forging bold alliances with traditional and non-traditional stakeholders

- Responsive inventory strategies
- Rural specialty networks
- AI-powered supplier eco-systems

2. Data-Driven Decision Making

Predict demand, ensure pricing transparency, and adapt in real time to make smarter, more informed decisions and turn data into a competitive advantage.

- Geospatial Analytics (GeoAI)
- AI-powered dynamic pricing
- Digital Twins Simulations

3. Value Added Services

Transform the distributor business model with new, value-added services that create stickiness with customers and help improve margins

- Subscription plans
- Direct-to-Patient Enablement
- Integrated Financial Services

Strategic Collaborations

01

Responsive Inventory Strategies

What if…

Distributors worked with manufacturers to implement dynamic inventory strategies that prioritize tariff-sensitive products?

Rural Specialty Networks

What if…

Distributors collaborated with rural health systems and independent pharmacies to establish community-based specialty networks through shared resources like cold chain infrastructure or telehealth support?

AI-Powered Supplier Ecosystems

What if…

Distributors collaborated with technology firms to build AI-driven supplier ecosystems that optimize sourcing decisions based on real-time tariff changes and IRA pricing compliance?

Data-driven decision making

02

Geospatial Analytics (GeoAI)

What if…

Distributors utilized geospatial AI modeling to redirect supply chains away from high-tariff risk regions and optimize distribution hubs based on trade policy shifts?

AI-powered Dynamic Pricing

What if…

Distributors used predictive analytics to model the financial impact of tariffs, IRA, policy changes, etc., and adjust sourcing strategies dynamically?

Digital Twins Simulations

What if…

Distributors built a digital twin environment to simulate supply chain scenarios under varying geopolitical conditions?

Value-added services

03

Subscription Plan

What if…

Distributors created a subscription model for health systems and independent pharmacies, in which they pay a fixed monthly fee for value-added services like predictive inventory management, exclusive access to pricing tools, and risk mitigation strategies tailored to IRA and tariff changes?

Direct-to-Patient Enablement

What if…

Distributors offered turnkey solutions to support manufacturers seeking to offer DTP models for chronic condition management?

Integrated Financial Services

What if…

Distributors offered integrated financial support services, such as cash flow management tools and flexible payment terms, tailored to help independent pharmacies navigate reimbursement challenges under the IRA?

Thank you

A&M
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Acknowledgments

The authors would like to thank the following for their contributions to this report:

Supply Chain Practice
Kirk Waldrop
Ben YoKell

Tax Practice
Brian Pedersen
Brad Humphrey

ACE Program
Charlie Chmelik