McKESSON
Empowering Healthcare

Global Healthcare User Group

Automatic Product Identification in Support of Wholesale Distribution

December 2005

Ronald Bone
SVP, Distribution Support
**McKesson Supply Solutions**

Agenda

- **Who is McKesson**
- Current use of Scanning
- Serialization and RFID
- Florida Pedigree
- HLS Priorities

# McKesson facts

- **Founded 1833, headquartered in San Francisco**
- **24,000 employees**
- **$80.5 billion in revenues**
- **$11.7 billion market cap**

REVENUES

Medical-Surgical $2.9 B

Pharma Solutions $76.3 B

Provider Technologies $1.3 B

OPERATING PROFIT

Medical-Surgical $102 M

Pharma Solutions $1 B

Provider Technologies $107 M

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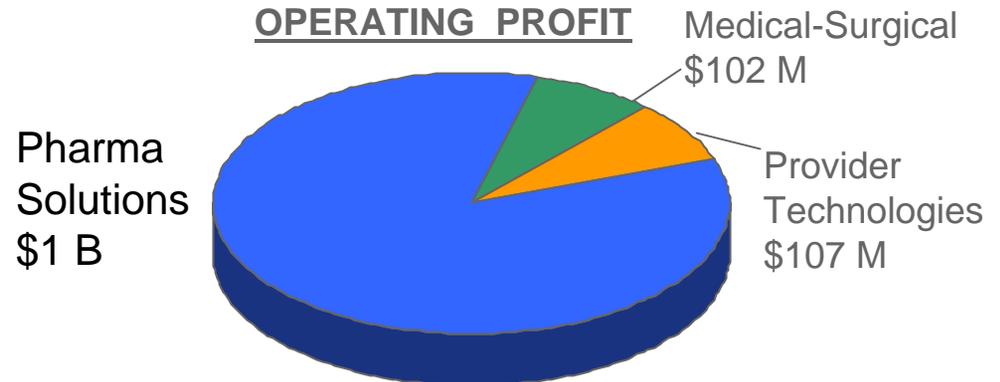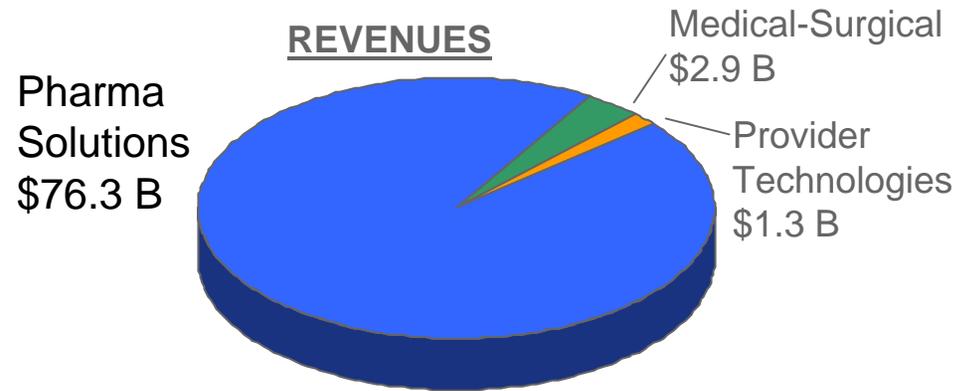
McKesson Across America ~ *Facility Locations*

◆ **Business Unit HQ**   ● **Provider Technologies**
★ **Pharmaceutical DC**   ▲ **Medical-Surgical DC**

Medication Management

Pharmacy Systems

CACD

Automation

Moore Medical

Medical Surgical

Medical Management

Corporate & Pharmaceutical HQ

Specialty Pharmaceutical

Zee Medical

Rx Pak

Sky Pharmaceutical

Provider Technologies

Corporate Finance

Automated Prescription Systems

Specialty Pharmacy
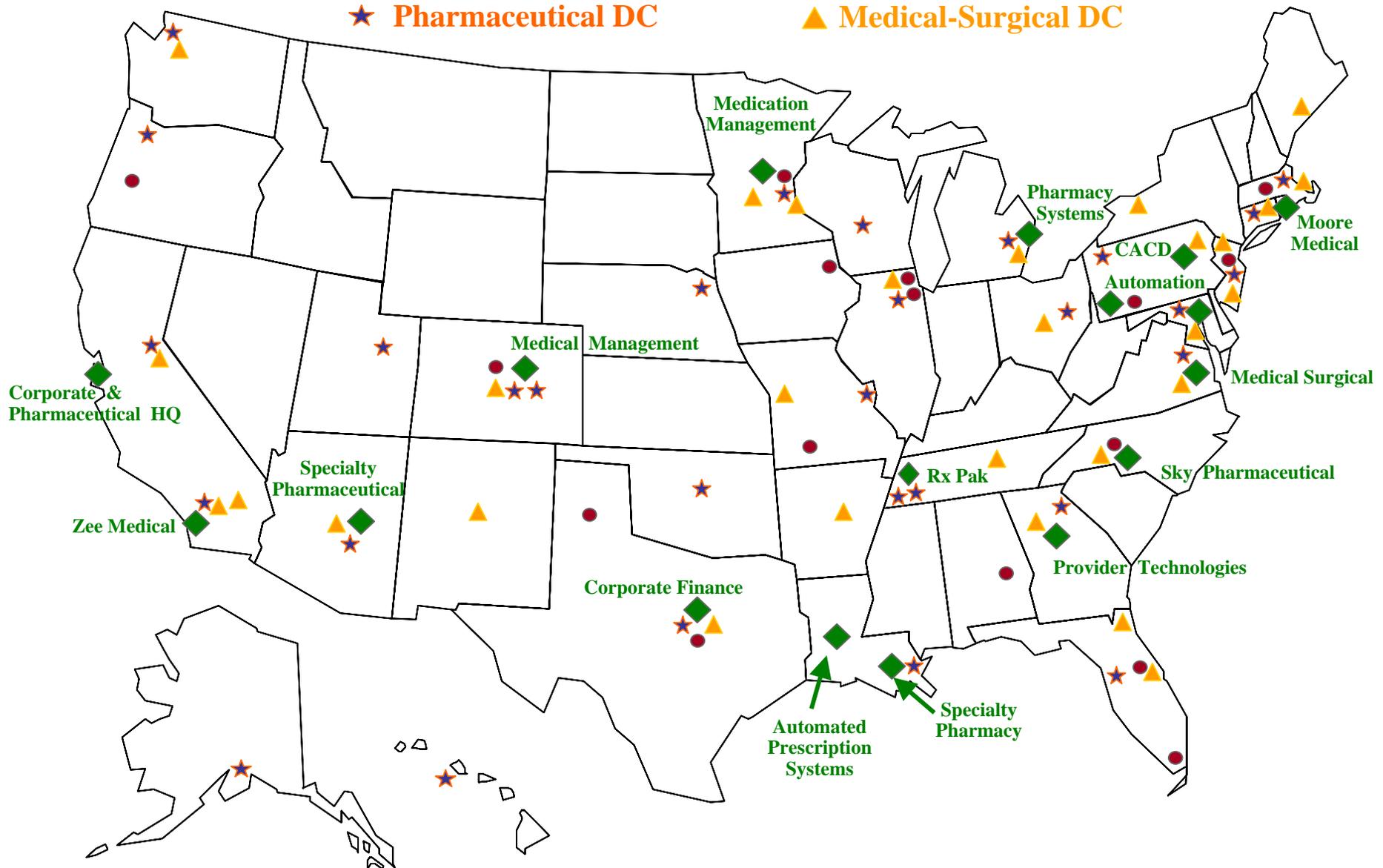
Delivering Value from the Center of Healthcare

Pharmaceutical & medical-surgical distribution to all sites

Solutions for medication safety
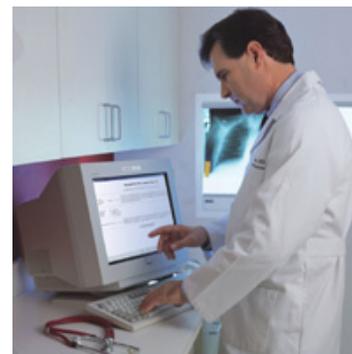
Information systems for hospitals, payors, home care, and physicians

Retail pharmacy automation

Inpatient automation

Specialty pharmaceuticals

Drug cards for seniors

Pharmaceutical repackaging

Disease management

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McKesson Has Historically Employed Technology

Econo Most Electronic Ordering 1969

Econo Link Electronic Ordering 1989
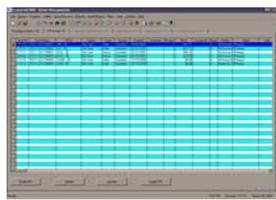
Electronic Data Interchange 1992
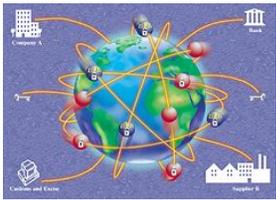
Supply Management Online Web Technology 2000

Closed Loop Delivery Technology 2001

RFID Shipment Pilot 2003
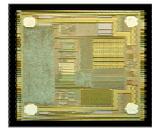
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Symbol Wearable System

Acumax – Barcode Reader

- **Everything is bar coded and scanned**
  - Product
  - Shelf & case storage locations
  - Moveable units (totes, pallets, etc.)
  - Drop zones

- **Every process is confirmed by scanning**
  - Receipt
  - Putaway
  - Replenishment
  - Picking
  - Cycle counting
  - Staging on the shipping dock

- **No paper is used in the warehouse**

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Stats on scan reads

- **2,700 wearable units deployed in the system**
- **One facility performs ~ 1 million scans per day**
- **The balance of the network scans ~ 3 million scans per day**

- **All four data points are not always there or readable**
  - **NDC**
  - **Qty per case**
  - **Lot**
  - **Expiration date.**
- **Poor label quality (must be able to scan for pedigree)**
- **Currently many case labels cannot be read**
- **Issues especially around distinguishing different strengths**

Agenda

- Who is McKesson
- Current use of Scanning
- Why Serialization and RFID
- Florida Pedigree
- Issues Moving Forward

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There are various expectations within the industry regarding implementation of RFID

	2004	2005	2006	2007
FDA Adoption Guidelines	**Feasibility studies** for the tagging of pallets, cases, & packages	Tagging of *some* pallets, cases, & packages for **highly counterfeit**	Tagging of *most* pallets, cases, & packages for **highly counterfeit** Tagging of *some* pallets & cases for others	Tagging of *all* pallets & cases Tagging of *most* packages at unit level
Pharma Industry Org Guidelines		**NACDS**: tagging at the pallet & case level		**NACDS**: tagging at the unit level **HDMA**: tagging at the unit level
Other Industry Requirements	WM C2 WM Top 100 DOD	Target Limited Albertsons Top 100 Wal-Mart All Suppliers	Tesco All Suppliers **CA State** **Florida State** **Texas State**	Target All Suppliers

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FDA Combating Counterfeit Drugs

February 2004

Combating Counterfeit Drugs

December 2004

Called for pedigree Database

May 2005

Combating Counterfeit Drugs: A Report of the Food and Drug Administration Annual Update

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FDA Opened Cases '97 to '04

Counterfeit Drug Cases Opened by FDA per Year

Year	Cases
1997	9
1998	5
1999	11
2000	6
2001	21
2002	27
2003	30
2004	58
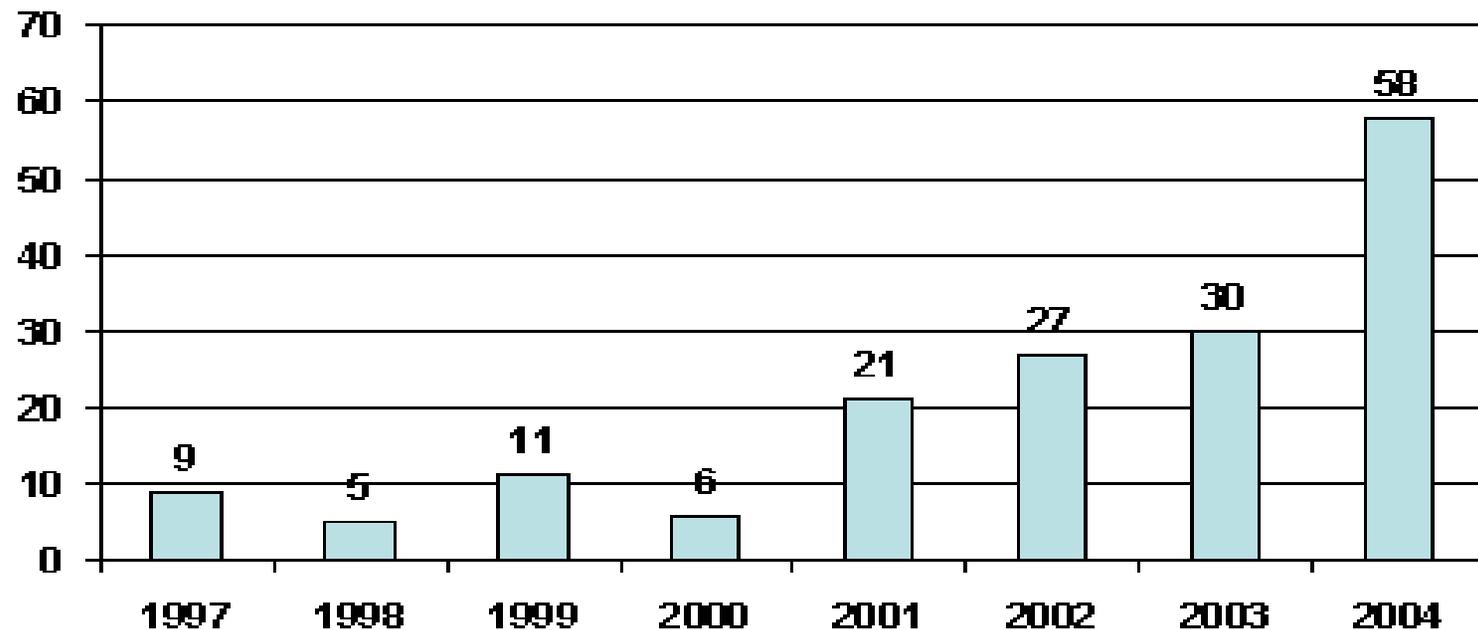
Source: FDA Annual report

Where Drug Incidents Occur

Location	Fake	Diversion	Theft	Total
USA	32	30	14	76
Colombia	41	15	4	60
China	56	3	0	59
Russia	40	8	2	50
India	36	3	0	39
Peru	21	4	0	25
Ukraine	23	1	0	24
Brazil	3	4	12	19
Israel	17	1	0	18
Mexico	6	5	6	17
UK	14	2	1	17

Source: USA Today – Summer 2005

Recent Negative Press Coverage
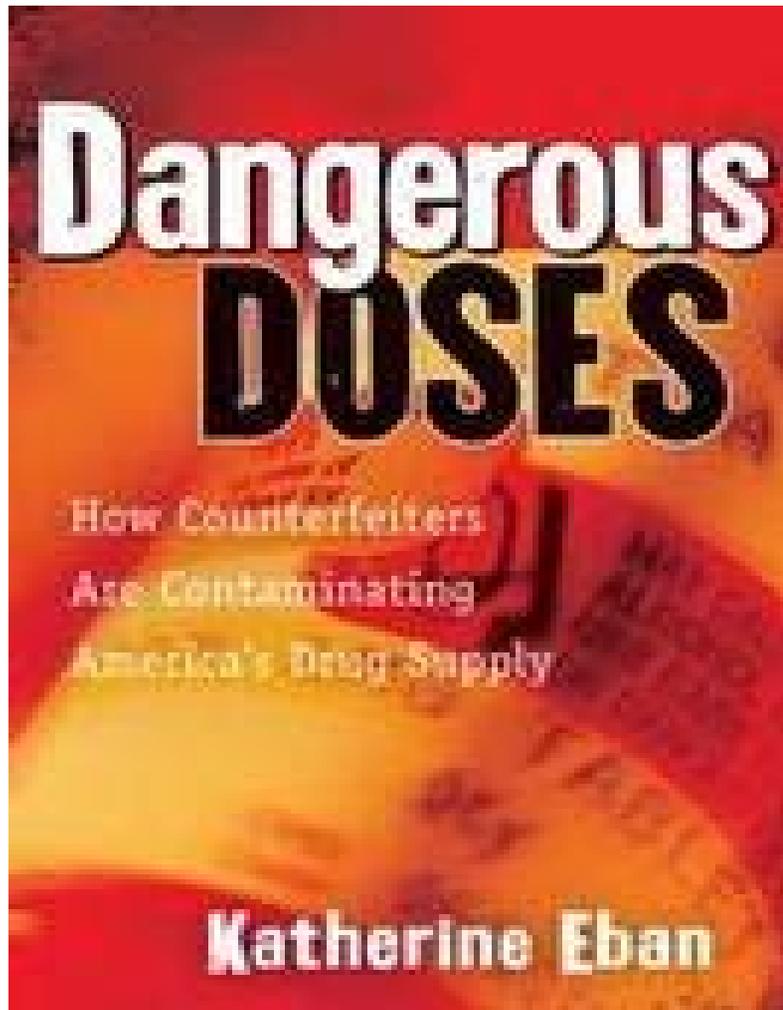
Vanity Fair May '05

DRUGSTORE COWBOYS
THE DANGEROUS TRAFFIC IN FAKE PRESCRIPTION MEDICINES

Counterfeit Labeling Of Epogen

Store at 2° to 8°C

Location of storage temperature

1 mL Single Use Vial

Rx Only

ALFA

U.S. License No. 1080

AMGEN

2° to 8°C

Degree sign present

COUNTERFEIT

2 to 8 C

Degree sign not present

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Pedigree Legislation Active in 28 States

As of August 24th, 2005

Map of the United States showing pedigree legislation status by state.

Annotations on map:
- No rules defined (pointing to IN)
- No rules defined (pointing to VA)
- As early as Jan. 1, 2007 (CA)
- No rules defined (AZ)
- No rules defined (NM)
- July 1, 2006 (FL)

Legend:
- Red: Passed Legislation and Immediate Action Needed
- Blue: Pedigree Legislation Introduced
- Hatched: Normal Distribution
- Yellow: Passed Pedigree Legislation
- Gray: No Pedigree Legislation

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Florida Regulatory Update

- ■ **Open issues with the Department of Health – Next Meeting January 19**
  - ● **Pedigree Auto-Authentication Proposal**
    - – **Documents cannot technically be embedded and authenticated**
    - – **Issues will occur because some will be XML and others EDI**
    - – **Recommend that Affiliated Group be allowed as referred to in the current Specified Drug list language**
  - ● **Drop Shipments** - **Products shipped directly from the manufacturer to the retailer should be exempt**
  - ● **Emergency Shipments- If a facility should be rendered unusable - Allow for exemption for products purchased from a non-pedigree facility**
  - ● **Serialization - Needs to be a widely used standard with agreed upon technology**
  - ● **Current Inventory - It may take 3 to 6 months to get the product out of the inventory after July 2006. Need to treat slow moving product differently and have a phasing in of all products**

Key Florida Dates

- **January 19th Rule Session**

- **January/February '06 - Final Rule expected**

- **March '06 – Electronic Purchase Order Confirmation and Advance Ship Notices from Suppliers**

- **March '06 – All products received in the warehouse with pedigree**

- **July '06 – Florida Pedigree Law in place**

Issues to Consider

- Technology must continue to evolve for broad industry adoption - Critical Issues for serialization are:
  - **RFID hardware interaction with other devices**
  - **Hardware compatibility and tag frequencies**
  - **Proper network security and access**
- **What role do 2D Barcodes have**
- Implementation for broad adoption may be more complex than anticipated.
  - **Requirements for systems and packaging—especially in addressing data sharing and consumer privacy concerns.**
- Pharmaceutical *Industry* must continue to actively engage with Federal/state regulatory agencies, standards-setting organizations, and industry trade associations.

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HLS Work Group & Task Forces - 2006

Initiate Discussion Groups

HLS Business Action Group

HLS Strategic Plan

Cold Chain Med Devices Biologics

Strategy Work Group

Information Work Group

Technology Work Group

R&D Work Group

Joint Public Policy Steering Committee

Process Work Group

Implement & Adoption

Serialization 1B

Joint HLS/EPCIS Pedigree R1

EPC global Applied Tag Performance

Joint Item Level Tagging FMCG, DoD & HAG

Decommission

Auto-ID Labs

Track & Trace

Security Work Group

Tag Frequency

Reverse Logistics

☐ HLS Top Priorities – 2006   ☐ On-Going EPC Working Groups

☐ On-Going HLS Working Groups   ☐ Next few months (2005/Early 2006)

EPCglobal