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CAPDM Returned Goods/Unsaleables (RGU)
Best Practices
FINAL DOCUMENT

Background

The Canadian pharmacy supply chain has long been challenged in finding a common approach to the handling and management of returned goods/unsaleable product that needs to be processed through the reverse logistics channel. Expired and unsaleable product in the possession of a retailer needs to be processed back to the manufacturer via the distributor or self-distributing retailer either directly or through a returns management facility. The industry through the efforts of ECRx attempted to find a resolution to the problem through the development of a “one box” solution but was not successful in convincing all of the interested parties to adopt a harmonized approach.

The CAPDM Customer Service Committee identified returned goods/unsaleables as a significant issue to the industry trading partners and a common challenge to be overcome. The committee determined that a good approach to the problem would be to develop a “**Best Practices**” document to address the **six most significant issues that impact distributors and self-distributing retailers**. The CAPDM Board of Directors supported the idea of creating a Returned Goods/Unsaleables Sub-committee. The sub-committee is comprised of member representatives from the pharmacy supply chain including distributors, manufacturers and self-distributing retailers.

The intent of this document is to provide all participants in the supply chain with what the sub-committee believes are the best practices to address the six areas of most concern. The best practices outlined here can be used by companies looking to develop new policies or to revise existing policies for the handling of returned goods/unsaleables. Through better understanding of the areas that are frequent sources of concern for trading partners, and acknowledging the best practices to resolve the issues, it is our hope that procedures could be adopted to bring efficiencies to the reverse distribution process.

The recommended best practices to address the six areas of concern are as follows:

1. Allowable time frame for return to manufacturer

Rx manufacturers and Non-prescription manufacturers:

Product should be accepted for return credit 3 months (or a time period that is acceptable for sale such as special requirements for nutritional products) before the product's expiry date and up to 12 months after the product's expiry date.

Reasons for the above recommendations are as follows:

- Distributors or self-distributing retailers should not sell a product that is within three months of its expiry date because retailers have a general expectation that they will receive products with a reasonable amount of shelf life.
- A non-prescription product's expiry date is visible to the end consumer. Consumers are educated and selective. Consumers take the time to examine the date on the package prior to making their purchase, as well product freshness is important to them.
- Prescriptions may be dispensed for up to 90 days supply. Pharmacists should therefore receive product with shelf life of at least 90 days in **addition** to normal distribution lead times and reasonable inventory turnover time at distribution and retail level.

2. Industry wide position on returned goods that require special handling, temperature controls and injectable products

Health Canada requires that product returned to a pharmacy distributor/self-distributing retailer for resale can only be resold if the distributor/self-distributing retailer can ascertain that the product has not been; mishandled, altered, contaminated, stored or transported outside of the temperature requirements as outlined by the manufacturer. In situations where distributors and self-distributing retailers are unable to make these determinations, returned goods that require special handling (including temperature controls) should be classified as unsaleable.

Recommendation: Distributors, self-distributing retailers and manufacturers should provide clear information to their pharmacy clients regarding any special handling requirements for sensitive products such as refrigerated, injectable and biologic products, and policies regarding returns (when returns are possible). Pharmacies ordering such products should acknowledge these requirements and policies when processing an order with a distributor or self-distributing retailer.

3. Responsibility for freight from distributor/self distributing retailer to manufacturer and disposal of product and packaging

Responsibility for freight charges should be fair and balanced for the pharmacy supply chain trading partners. The following recommendations are being suggested:

- i) Freight charges for product returned (damaged, expired, recalled, etc.) from a retail pharmacy to a distributor or self distributing retailer are generally assumed to be the responsibility of the distributor or self distributing retailer if the product was originally distributed by them to that retailer.
- ii) Freight charges for product returned (damaged, expired, recalled, etc.) by a distributor or self distributing retailer to a manufacturer or a designated returns management facility should be the responsibility of the manufacturer if the manufacturer has directed that the product be returned to them.

To ensure that returns are processed in an efficient manner, the manufacturer and the distributor or self-distributing retailer may negotiate a specific timeframe or value threshold for shipments of returns.

- iii) If a manufacturer elects to have the distributor or self distributing retailer dispose of or destroy the product instead of returning it to the manufacturer, the distributor or self distributing retailer should never give the product away or attempt to resell the product. The cost of disposal and/or other related costs should be charged to the manufacturer. The other related costs should be identified and agreed to up-front by the manufacturer.

4. Distributor/Self Distributing Retailer guidelines for determining whether product should be returned to stock

Saleable*:

- ◆ Distributor/self-distributing retailer can ascertain that the product has not been mishandled, altered, contaminated, stored or transported outside of the temperature requirements as outlined by the manufacturer
- ◆ Product is clean, without price stickers, customer labels or other markings
- ◆ Original packaging and seals are intact
- ◆ Expiry date is within guidelines for sale to pharmacy (refer to CAPDM's Green Paper on Expiry Dates)
- ◆ Product sold in cases or displays must be complete, in original packaging, which must be clean and undamaged
- ◆ All pieces of multi-part product or 'kits' must be intact, and original packaging must be clean and undamaged

Unsaleable:

- ◆ A product that does not meet the above criteria
- ◆ Recalled or withdrawn products
- ◆ Manufacturer discontinued products
- ◆ Product sold in glass injectable dose vials or ampoules
- ◆ Products that have knowingly or suspected to have been exposed to over heat, broken cold chain or freezing or exposed to storage conditions outside of a manufacturer's specifications

5. Returns management facility application of manufacturer policies; no recourse for distributors/self-distributing retailers on rejected claims

If a product that is returned to a returns management facility by a distributor or self distributing retailer is rejected for credit by the returns management facility, the distributor or self distributing retailer should have the option of having that product returned to the distributor or self distributing retailer at the expense of the distributor or self distributing retailer. This should only be required in exceptional cases where an error has been made and the value of the product is in excess of the costs associated with this service.

Manufacturers may need to revise their written agreements with their returns management facility to allow for this provision, to develop procedures and to determine an appropriate charge to the distributor or self distributing retailer for this service.

Distributors and self distributing retailers should ensure that all of their returns processing staff are adequately trained to ensure that only product authorized for return by the manufacturer's returns policy is returned to returns management facilities.

6. Costs related to processing 3rd party credit notes for items returned to a returns management facility

A manufacturer can elect to use the services of a returns management facility for the handling of returns and can contract with that returns management facility to issue payment directly to individual pharmacies for the product that they return. If a manufacturer elects to have a credit note issued to a retail pharmacy for their returns through a distributor/self-distributing retailer, then a payment by the manufacturer to the pharmacy distributor/self-distributing retailer for the service is appropriate. The Product Recall/Withdrawal (Suggested Allowance for Distributor Cost Recovery) Green Paper has already outlined a suggested charge for this type of service at \$5.00 per credit note issued, regardless of value. This fee represents a significant savings for manufacturers when compared to the cost of issuing a cheque to individual accounts through a returns management facility, and it is believed to be fair compensation for the service provided.

*** Please note**, this list may need to be revised based on the upcoming changes to the Health Canada Food and Drug Regulations (Amendment to Division 2 of the Food and Drug Regulations-Schedule 1447 (housekeeping amendments)).
http://www.hc-sc.gc.ca/hpfb-dgpsa/inspectorate/ltr_stakeholder_1447_e.html

The information published in this document represents suggested industry “best practices”, as determined by CAPDM. The best practices are intended to provide voluntary procedures that enable members to build stronger relationships between business trading partners if fully implemented. CAPDM encourages its members to consider these best practices and adopt them into their everyday operations where appropriate. Each member is however responsible for using his or her own judgment and in no event will CAPDM or its directors, employees, agents or advisors be liable for any direct, indirect, special or consequential damages resulting from the use of this information.
