

(1) That hospital and institutional volume of drug usage will be substantially up in the immediate future. Some of this volume is now due to more patient coverage through government and private insurance, but some of it will come out of the retail pharmacy as more medicines are dispensed in association with hospital and other institutional treatment. As a result, hospital bulk packages of drugs will now be used on outpatient prescription to a substantial degree in direct price competition with the retail pharmacist.

(2) That the governments, State and Federal, which will now pay much of the Nation's drug bill, are going to insist on paying the government price for its purchases—not the much higher retail price.

(3) That the governments will see no reason to buy their drug requirements any way except direct from the manufacturer, thus eliminating wholesalers, commission agents, and other middlemen from this part of the market.

(4) The use of various means to permit substitution of brands for those specified, or to require prescribing in generic terms, will continue to be urged by many influential persons and professional groups. This will weaken market positions and set up new price pressures for many products vulnerable to these trends. Facing up to this fact alone is a difficult job and a major challenge for the pharmaceutical pricer.

Any new or revised approach to this job by the pharmaceutical pricer will, of course, bring a substantially altered pattern of income to his company. For this reason, this concept cannot be put into effect with immediate or all-inclusive coverage of any company's products. But, it can and should be adopted in new pricing, and also wherever changing circumstances permit on existing products on which there is need for one reason or another of pricing revision. Gradually this pricing policy should be implemented to bring order from chaos, and public understanding and approval from bewilderment and hostility.

Before closing this discussion of the pharmaceutical manufacturer's price schedule, two relatively minor aspects should be touched on—first, the so-called service products and, second, the use of special deals, temporary discounts, and other promotional activities that affect price.

This argument is made frequently by pharmaceutical companies that prices are maintained high on some volume products in order to permit the marketing of items which return no volume or profit at all, but provide a needed service for physicians in treating rare illnesses or for use in very specialized circumstances. Marketing of products at a loss does exist, and to the extent that money is found for these products from the earnings of others, the argument appears sound. However, the actual extent of such support is limited. If volume of the service items is small, both the cost involved and the out-of-pocket loss is small in terms of earnings elsewhere. Overall profits show this.

Senator NELSON. Mr. Squibb, may I interrupt a moment? That buzzer is a rollcall. I have to go to the Senate. I will be about 10 minutes. We can recess or you could continue to read your statement. I have some questions that I will want to get back to, but we can proceed in whichever way you prefer.

Mr. SQUIBB. I can wait for your return, if you wish.

Senator NELSON. All right, I will be back in 10 minutes.

(A short recess was taken.)