

The CHAIRMAN. Well, do you find that volume purchasing from a wholesaler is in fact the ordinary way of getting the product? Is it the normal credit you get for wholesale purchases or is the wholesale price not necessarily a good indication?

Mr. MICHELOTTI. The average wholesale price is, as I mentioned, a good indicator of a single line item purchase; but for volume purchases, \$100 invoices for goods all in one manufacturer's products or some such thing, very typically are competitive arrangements that create 10-percent discounts, 5-percent discounts, whatever.

The CHAIRMAN. Can you imagine some purchasers where pharmacists have a direct relationship with the manufacturer?

Mr. MICHELOTTI. Sure, there are several different ways of purchasing. The two most common are on direct account with the manufacturing firms, and a number of our major manufacturing firms have direct accounts with the pharmacist throughout the United States.

The other typical way is through a service wholesaler and they carry, obviously, all the various lines.

The CHAIRMAN. Well, the manufacturer as a matter of policy has a direct purchasing arrangement with the pharmacist, but that manufacturer does not typically have wholesale outlets?

Mr. MICHELOTTI. Some have a limited wholesale distribution arrangement simply because most pharmacists prefer to buy their products directly for slightly less money.

However, there are some companies that conduct their business on almost an equal mix. Approximately half through the wholesaler and half their own company.

The CHAIRMAN. Well, then, when you are determining the reimbursable price, if you are dealing with a product of a manufacturer who does not have a wholesaler, you can still use the average wholesale price even though the manufacturer's price might be much lower?

Mr. MICHELOTTI. Yes, we have done this in California in attempting to be equitable to the broad demographic differences in the State. There may be some small mom-pop-type pharmacies in out-lying-type communities that don't have the volume necessary to purchase direct from a manufacturer or from a wholesaler with volume discount deals. So to be fair to everyone, we have taken literally the highest or the most readily available wholesale price, the average wholesale price listed in these documents. It is to a certain extent a windfall to those individuals with the capacity to purchase in larger quantities, et cetera, but what we don't want to do is impinge on the small businessman who doesn't have that volume of traffic advantage, the multiple discount capability and that sort of thing.

The CHAIRMAN. Would you find that acquisition costs would present a series of administrative problems?

Mr. MICHELOTTI. We are currently dealing with that. We recognize the proposed Federal MAC regulations are speaking to acquisition costs. In our comments in January we offered as you know, a technical discrepancy with that. We felt that our program was easier to monitor and administer. But in recognizing that may eventually be what is handed down from the Federal Government, we are doing a feasibility study to try to speak to that particular issue.

The CHAIRMAN. Go ahead.