

THE WALL STREET JOURNAL.

© 2003 Dow Jones & Company. All Rights Reserved

THURSDAY, DECEMBER 11, 2003 - VOL. CCXLII NO. 115 - ★★ ★★ \$1.00

New J&J Policy Aims to Thwart Counterfeits

By SCOTT HENSLEY

IN A BID to thwart counterfeiters, Johnson & Johnson says it will no longer sell drugs or medical devices to U.S. wholesalers that also buy the drug maker's products from other sources.

With the ultimatum, Johnson & Johnson becomes the first major company to openly take action to block a trapdoor counterfeiters have exploited to slip knockoffs into the nation's supply of medical products.

The move could set a standard for the rest of the industry and ultimately boost the company's public image—just as J&J pioneered tamper-proof packaging for drugs after several bottles of its Tylenol pain reliever were laced with poison more than 20 years ago.

The New Brunswick, N.J., health-care product maker is notifying wholesalers and distributors by letter this week that they have until Jan. 19 to agree to purchase its goods only from J&J, or be shut out as company customers starting in March.

To put the heat on wholesalers to cooperate, J&J says it will post the names of companies that agree to participate on company Web sites on Jan. 26. Some big drug distributors already have said they will go along with the plan.

The company also is sending 210,000 letters to hospitals, pharmacies and other users of its drugs and devices about the pending change. "We'll ask end customers to only buy product from wholesalers and distributors who buy only from us," says David Y. Norton, chairman of J&J's North American pharmaceuticals group. "We can't make them [end users] do that but we're going to strongly encourage that."

J&J's sweeping initiative applies to all its prescription drugs, biotechnology therapies, medical devices and clinical laboratory tests sold through wholesalers or distributors. Some of the biggest-selling health products in the country are affected, including Risperdal, an antipsychotic medicine; Procrit, a biotech anemia remedy; and Cypher drug-coated stents used to prop open blocked arteries.

J&J is the first major company to impose such a stringent standard so broadly and with such fanfare. A few companies have quietly tried similar approaches with individual products that have been prime targets of counterfeiters. But until recently, many companies have been loath to acknowledge risk from counterfeits, fearing the news might frighten patients.

For their part, some of the largest distributors say they already buy best-selling drugs or those at high risk of counterfeiting only from their makers. Nevertheless, the high-profit move by J&J is likely to ratchet up the pressure on distributors to shun the shadowy secondary market for health-care products. It also may spur other drug and medical-device makers to adopt the same policy.

The effort to keep J&J products off the secondary market may also protect it from price competition, but the company says that's not its intention and it doesn't expect much benefit.

Most prescription drugs and medical devices pass from manufacturers to distributors that warehouse the products and ultimately fill orders from pharmacies, hospitals and doctors. These wholesalers, and other companies that repackage drugs and devices, also buy and sell medical products among themselves, a practice the J&J move is designed to stop. This loosely regulated secondary market helps fill spot shortages of drugs and devices and also provides a source of additional profit for wholesalers. Sometimes wholesalers snap up drugs or devices from the resellers when their prices are lower than those of original manufacturers. Precise figures on the size of the secondary market are scarce, but major U.S. drug distributors say the secondary market is at most a tiny fraction of their total business.

Counterfeiters use the secondary market to offer wholesalers bogus products at tempting

Please Turn to Page B2, Column 1

In Demand

Drugs targeted by counterfeiters:

DRUG	COMPANY
Lipitor	Pfizer
Serostim	Serono
Procrit	J&J
Zyprexa	Eli Lilly
Viagra	Pfizer

J&J Drug Policy Targets Fakes

Continued From Page B1

prices. The most common forms of counterfeiting include outright fakes; medicines that are authentic but illegally relabeled to show a higher concentration; drugs made for foreign markets then diverted for sale in the U.S.; or drugs that have been diluted or tampered with in some way.

Whatever their form, counterfeits are increasingly sophisticated. J&J says, and often are practically indistinguishable from genuine goods. That helps explain how wholesalers can unwittingly introduce bogus medicines into the drug supply, industry and government officials say.

J&J has been working on the plan for months and discussed the initiative with major wholesalers in advance. J&J expects most wholesalers to comply.

Wholesalers that certify they will buy J&J products only from J&J also agree to be subject to spot audits of their warehouses and records by J&J inspectors, the drug maker says. If company investigators determine that a distributor isn't living up to the agreement, then J&J would stop shipping its products to the wholesaler.

Some wholesalers are already falling in line with J&J's new policy. AmerisourceBergen Corp., the largest U.S. distributor of pharmaceuticals, says it plans to cooperate. "We will now purchase all J&J products directly from them," says Michael Kilpatrick, a spokesman for AmerisourceBergen, Valley Forge, Pa. He says the company currently buys less than 1% of J&J products from other sources.

McKesson Corp., San Francisco, says that since 2001 it has been buying the top 200 drugs by volume only from their manufacturers. In addition, a buy-direct policy exists for various pricey medicines and those used to treat par-

ticular conditions, such as HIV/AIDS, says a spokesman for the drug and device distributor, Cardinal Health Inc., a big Dublin, Ohio, distributor, didn't return calls for comment.

Starting two years ago, J&J began providing incentives to the biggest wholesalers to reduce speculative buying. At the time, J&J's aim was to minimize its inventory fluctuations and big swings in quarterly sales. While the arrangement, whose precise terms remain confidential, achieved what J&J wanted, it also produced a side effect: When wholesalers took on less excess inventory, there was less resold on the secondary market.

The latest initiative would take another step toward eliminating trade of the company's products in that market. Under antitrust laws, companies have wide latitude in dealing with distributors of their products, so J&J's move wouldn't be considered an illegal restraint of trade.

J&J has been a continuing target for scammers. In 1982, seven people died after taking Tylenol containing cyanide. The company quickly withdrew Tylenol from the market while it redesigned the packaging to hinder tampering. The crisis led to improvements in packaging of consumer goods.

This past year one object of counterfeiters was J&J's anemia drug Procrit, the company's biggest-selling product with \$2.1 billion in sales for the nine months ended in September. Counterfeiters netted a profit of hundreds of dollars a vial by soaking the labels off Procrit vials containing the lowest strength of the medicine and affixing fake labels for the highest strength.

Most recently, J&J notified customers in late October that it was aware of counterfeit versions of Prolene, a synthetic mesh used in surgery to repair hernias.