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Payment chain vs. supply chain: How they differ and why it matters

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Executive summary

Patient access to prescription pharmaceuticals relies on two interconnected but separate systems: (1) the supply chain, or the physical movement of medicines from manufacturers to pharmacies, providers, and other sites of care; and (2) the payment chain, which governs the financial and benefit arrangements that shape the coverage and reimbursement terms under which patient receive drugs through an insurance benefit.

Pharmaceutical distributors operate within the supply chain. They take physical custody and title to medicines; manage high volume inventory; oversee the logistics, storage, transportation, and delivery of medications; and assume financial, operational, and product-integrity risks. Pharmacy benefit managers (PBMs) operate within the payment chain. They administer pharmacy benefits and related service functions such as formulary administration, pharmacy network development, and manufacturer rebate negotiation. Although these entities are sometimes discussed together, their functions, incentives, responsibilities, and regulatory obligations differ.

These distinctions are important to consider as policymakers continue to pursue reforms intended to improve prescription drug affordability and access for patients. Policies are more likely to achieve their intended objectives when they are directed at the entities that control the relevant function and assume the associated risks. Policies addressing specific functions within the payment chain or supply chain may therefore not produce the same effects when applied to the other. Policymakers may avoid unintended consequences by understanding the fundamental difference between the payment chain and supply chain before applying policy changes that may not apply to each unique system.

Understanding the distinct roles, functions, and risks of payment and supply chain entities can help policymakers align policy requirements with their intended impact while preserving the safe, secure, and reliable delivery of medicines to patients and providers.

Table of contents

Executive summary 2

Background 4

Payment chain vs. supply chain 4

Payment chain functions 5

Supply chain functions 6

Policy implications 7

Case study 1: Delinking compensation from list price 8

Case study 2: Drug Supply Chain Security Act requirements 8

Conclusion 9

Background

Improving prescription drug affordability and access has long been a priority for federal and state policymakers. Over the years, policymakers have examined several aspects of prescription drug reform, with pharmaceutical manufacturers and PBMs drawing particular scrutiny. Congress reformed prescription drug pricing through the Inflation Reduction Act in 2022 and, more recently, passed the Consolidated Appropriations Act of 2026, which changed PBM operational requirements.[1,2]

As policymakers contemplate further reforms, attention has increasingly focused on a diverse set of entities, including PBMs and pharmaceutical distributors. These entities are sometimes discussed together by policymakers, despite significant differences in their functions. PBMs are *payment chain* entities that negotiate and administer pharmaceutical benefits, affecting drug coverage, reimbursement, and patient access. PBMs help design drug formularies and pharmacy networks, set utilization management requirements, engage in manufacturer rebate negotiations, and manage claims processing for reimbursement.[3] PBM behaviors can have substantial influence over the net price of a medicine, which drugs a patient can access through their insurance, and the price a patient pays.

In contrast, distributors are *supply chain* entities that facilitate the physical movement of medicines from pharmaceutical manufacturing facilities to sites of care. In doing so, distributors assume financial, operational, legal, and product-integrity risks throughout the process. Distributors do not determine the net price of a medicine or select which drugs a patient can access through their insurance.[4] Oftentimes when a distributor purchases an order of drugs, they do so before a specific customer segment or receiving pharmacy, hospital, physician-owned practice is identified.

As policymakers continue to consider prescription drug policy reforms, understanding the difference between the *payment chain* and the *supply chain* is increasingly important. Knowledge of the different functions, risks, and responsibilities of payment chain and supply chain participants can help ensure that policy solutions are appropriately targeted, address policymakers' concerns, and do not result in unintended consequences that could impact the reliability of pharmaceutical distribution and patient access.

Payment chain vs. supply chain

The *payment chain* and *supply chain* describe two distinct systems that impact patient access to prescription drugs, each with their own entities, functions, and responsibilities. The payment chain encompasses the financial and benefit-related processes that determine which prescription drugs are covered and how they are reimbursed, whereas the supply chain encompasses the physical movement, storage and delivery of prescription drugs.

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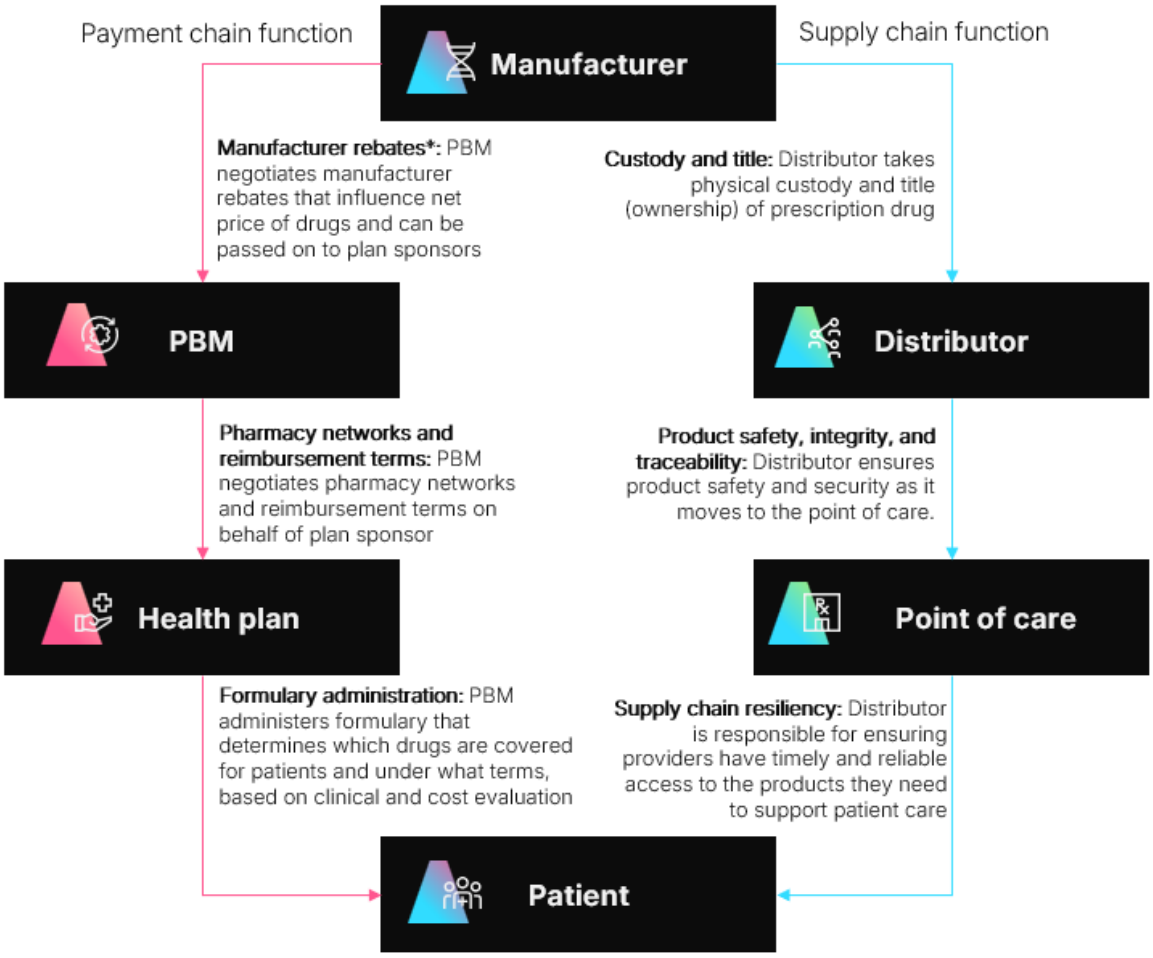
[1] H.R. 7148, Consolidated Appropriations Act, 2026. Signed into law February 3, 2026. P.L. 119-75. https://www.congress.gov/bill/119th-congress/house-bill/7148

[2] Inflation Reduction Act of 2022, H.R. 5376, 117th Cong. (2022). https://www.congress.gov/bill/117th-congress/house-bill/5376

[3] Pharmaceutical Care Management Association. *Pharmacy Benefit Companies 101: A Primer.* PCMA Rx Research Corner. March 16, 2023. https://www.pcmanet.org/rx-research-corner/pharmacy-benefit-companies-101-a-primer/

[4] Healthcare Distribution Alliance. *Understanding Healthcare Distributors and Their Role in the Supply Chain.* HDA Perspectives. February 5, 2026. https://www.hda.org/perspectives/2026/02/understanding-healthcare-distributors-and-their-role/

Payment chain vs. supply chain functions



*Rebates are typically provided retrospectively, so the payment and supply chains operate under different timelines.

Payment chain functions

- **Manufacturer rebates:** PBMs negotiate rebates, discounts, and other price concessions with manufacturers on behalf of health plans and their sponsoring employers. These arrangements influence net drug costs and inform formulary placement and patient cost sharing. Distributors do

not negotiate rebates or list prices and therefore do not have the ability to determine the net price of medicines.[5]

- **Pharmacy networks:** PBMs establish pharmacy networks, negotiate pharmacy reimbursement terms, and determine which pharmacies patients may use for in-network benefits. They administer the financial and benefit arrangements between payers, pharmacies, and patients. Distributors supply medications to pharmacies and other sites of care but do not determine or have influence over benefit-network participation.[6]
- **Formulary administration:** PBMs develop and administer formularies and determine related utilization management rules, including prior authorization and step therapy. These decisions affect which drugs are covered, their tier placement, and the conditions under which patients can access them. Distributors do not determine or have influence over insurance coverage or formulary status.

Together, these functions position PBMs as a key entity in determining what products patients can access under their insurance coverage, where they can access them, and the benefit designs that impact patient out-of-pocket costs.

Supply chain functions

- **Custody and title:** Distributors purchase pharmaceutical products, take physical custody and legal title, maintain inventory, fulfill orders, and transport medicines to pharmacies, hospitals, clinics, and other sites of care. They assume inventory, credit, and damage risk. PBMs do not take physical custody or title to products, although there are some instances where PBM-affiliated businesses perform these functions.
- **Product Integrity:** Distributors are responsible for maintaining product integrity, security, and traceability. Requirements include:
    - Drug Supply Chain Security Act (DSCSA) obligations for product tracing, verification of authenticity, electronic transaction data, and investigation of suspect or illegitimate products
    - Food and Drug Administration, state board of pharmacy, and state department of health requirements for licensure, storage, handling, and recordkeeping to prevent drug diversion, counterfeiting and stolen goods
    - Drug Enforcement Administration security and recordkeeping requirements for controlled substances.
    - Note: PBMs do not perform these physical product-safety and security functions.[7,8]

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[5] National Association of Insurance Commissioners. (2025, June 2). Pharmacy Benefit Managers. https://content.naic.org/insurance-topics/pharmacy-benefit-managers

[6] National Association of Insurance Commissioners, Pharmacy Benefit Managers

[7] U.S. Food and Drug Administration. (n.d.). Drug Supply Chain Security Act product tracing requirements: Frequently asked questions. https://www.fda.gov/drugs/drug-supply-chain-security-act-dscsa/drug-supply-chain-security-act-product-tracing-requirements-frequently-asked-questions

[8] U.S. Food and Drug Administration. (2023, December). Verification systems under the Drug Supply Chain Security Act for certain prescription drugs: Guidance for industry. https://www.fda.gov/regulatory-information/search-fda-guidance-documents/verification-systems-under-drug-supply-chain-security-act-certain-prescription-drugs

- **Supply Chain Resilience:** Distributors maintain inventory, geographically distributed facilities, transportation capacity, temperature-controlled storage, supplier relationships, monitoring systems, and allocation processes. These capabilities help ensure that medicines can be positioned and delivered to the appropriate location at the appropriate time. They also enable national emergency responses during shortages, natural disasters, public health emergencies, and other supply-chain disruptions. The wide use of distributor services, with 95% of drugs moving through distributors,[9] creates efficiencies in the supply chain and flexibility to respond to disruptions. PBMs do not perform these physical product-handling and logistics functions.[10]

Together, these distributor functions help ensure the secure, reliable, and timely delivery of medicines to sites of care.

Policy implications

The distinction between the payment chain and supply chain becomes increasingly important as policymakers consider reforms intended to improve prescription drug affordability and access for patients. Although both systems impact patient access to prescription drugs, they each have distinct functions, incentives, risks, and responsibilities. Policies designed to address specific functions within the payment chain may therefore not produce the same effects when applied to the supply chain, and vice versa. Policies governing the administration of benefits, negotiation of rebates, establishment of coverage rules, or determination of pharmacy network arrangements are most relevant to payment chain entities. Policies regulating the oversight of supply chain functions are most effective when applied to entities that purchase, safeguard, store, or physically transport prescription drugs.

When evaluating policies governing prescription drug affordability and access, policymakers may benefit from assessing the specific function and entity at issue, as well as the related incentives, risks, and responsibilities. For example, policymakers could consider questions like:

- What problem is the policy attempting to address and why?
- Is that problem associated with a function in the supply or payment chain?
- Which entity controls that function, and which policy levers can affect it?
- What risk or behavior is the policy designed to change?
- What incentives are being applied to alter behavior, and whose behavior is being altered?

Tailoring policy approaches to the underlying concern can help ensure that policy solutions achieve their intended goals and reduce the risk of unintended consequences for other parts of the system. The following examples illustrate how the rationale for a policy may apply differently depending on whether an entity operates within the payment or supply chain.

[9] Healthcare Distribution Alliance. (2024). Economic impact of healthcare distributors in the United States. https://www.hda.org/getmedia/50954eae-659f-401e-939c-14d7ee4ee487/HDA_Economic_Impact_Report-082625.pdf

[10] Healthcare Distribution Alliance. (n.d.). Supply chain resilience. https://www.hda.org/supply-chain-resilience/

Case study 1: Delinking compensation from list price

Federal and state policymakers have pursued delinking approaches intended to separate PBM compensation from the price of a drug. Lawmakers leading these efforts have stated that they seek to "delink PBM compensation from their negotiated rebates to disincentivize PBMs from promoting higher-priced medicines."[11] Compensation delinking is relevant to PBMs' payment chain functions, which include both manufacturer rebate negotiation and formulary design. Because PBMs directly influence both pricing and access, policymakers have sought to address scenarios in which pricing incentives influence formulary development.[12,13]

This policy rationale does not apply in the same way to distributors. Unlike PBMs, distributors do not determine formulary, coverage, or benefit-design decisions that determine which medicines a patient can access through insurance. As such, applying a similar policy to distributors would not address these policymaker concerns and could create supply chain disruptions.

Case study 2: Drug Supply Chain Security Act requirements

The DSCSA establishes requirements intended to strengthen the security and traceability of prescription drugs as they move through the U.S. supply chain. For distributors, these requirements include transacting only with authorized trading partners; maintaining and exchanging electronic transaction information, transaction history, and transaction statements; verifying product identifiers; and establishing processes to identify, investigate, quarantine, and notify appropriate parties about suspect or illegitimate products.

The policy goal of the DSCSA is to improve patient safety and supply chain security by enabling trading partners and regulators to trace products and respond to potential diversion, counterfeiting, theft, or other product-integrity concerns. These policy requirements align with the role of distributors because they are directly involved in the physical movement and custody of pharmaceutical products and play a direct role in product traceability and security. They can maintain and exchange the information necessary to trace individual product packages, investigate potential concerns (e.g., adverse events associated with a product lot), and help remove suspect products from the supply chain.[14]

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[11] United States Senate Committee on Finance. (2025, December 4). *Crapo, Wyden Introduce Bipartisan Pharmacy Benefit Manager Legislation. https://www.finance.senate.gov/chairmans-news/crapo-wyden-introduce-bipartisan-pharmacy-benefit-manager-legislation*

[12] Federal Trade Commission. (2026, July 15). *FTC secures major settlement with Caremark, resolving antitrust case against second drug middleman.* https://www.ftc.gov/news-events/news/press-releases/2026/07/ftc-secures-major-settlement-caremark-resolving-antitrust-case-against-second-drug-middleman

[13] Federal Trade Commission. (2026, February 18). *FTC secures landmark settlement with Express Scripts to lower drug costs for American patients.* https://www.ftc.gov/news-events/news/press-releases/2026/02/ftc-secures-landmark-settlement-express-scripts-lower-drug-costs-american-patients

[14] U.S. Food and Drug Administration. (2023, August). *Enhanced drug distribution security requirements under Section 582(g)(1) of the Federal Food, Drug, and Cosmetic Act—Compliance policies.* FDA

PBMs, by contrast, manage benefits and coverage but do not take ownership of or control the physical movement of individual drug products. The same requirements under the DSCSA would have limited application to PBMs, whose role is in the payment chain and do not play a role in physical product security.

Conclusion

Payment and supply chain functions within the prescription drug delivery system are not interchangeable. Distributors principally support the physical availability, secure handling, and delivery of medicines, while PBMs primarily administer coverage, reimbursement, and related financial arrangements. As policymakers pursue prescription drug affordability and access objectives, a function-based approach can help align policy requirements with the entities that control the relevant decisions and assume the related risks. Such alignment may support more targeted policymaking while helping preserve the reliable delivery of medicines to patients and providers.