

The News Bulletin of James Dudley Management

Further Pharmaceutical Wholesaler Concentration in Europe



Picture: Alliance Healthcare Deutschland

Europe's intermediary pharmacy channels will continue to reshape through mergers, acquisitions and joint ventures both for defensive competitive reasons and to gain scale efficiencies. Stronger multinational businesses will be internationally expansionary especially in entering emerging markets both within and outside Europe.

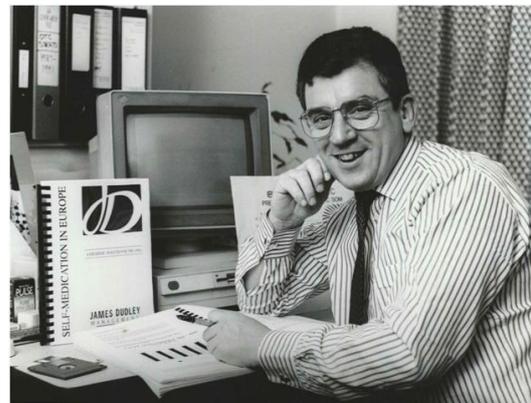
So says the latest 20 Country study *'OTC Distribution in Europe' - the 2016 edition* – the New Global Agenda

Over the years wholesalers and retailers have had to match changing needs of the customers they serve and the pressures on costs, margins and investment requirements needed to compete in the prescription sector of the market. At the same time governments across Europe are gradually changing the regulatory environment in such a way as to reduce the costs of service delivery and through reregulation to open up competition.

These measures have both directly and indirectly contributed to acceleration in the unfolding process of consolidation among pharmaceutical wholesalers in Europe.

Europe's Longest Running OTC Market Report Celebrates 25th Anniversary

When marketing strategist James Dudley penned the first edition of his strategic analysis of the European Self-medication market in 1991 he had little idea that he had started a continuous market research project that would still be publishing the widely acclaimed industry report *OTC Distribution in Europe* 25 years later. This biennial strategic analysis covering 20 European markets is a highly regarded source of knowledge for the consumer healthcare industry.



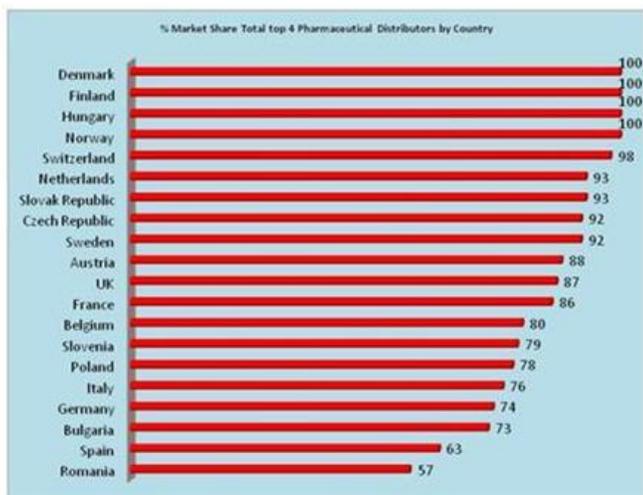
Picture: (1991 JDI Archive) Shows Author - James Dudley with the First Edition of *OTC Distribution in Europe* in 1991

OTC Distribution in Europe not only provides one of the largest data bases and statistical analysis of the channels which serve 473 million people living in 20 European countries it follows the unfolding trends influencing industry competitiveness and provides insights into change.

The latest 2016 edition is titled *'OTC Distribution in Europe - the New Global Agenda'* was published late last month. The new 2016 study explores the distribution channels for consumer healthcare in 20 European States: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and the United Kingdom.

In the 20 countries under study there are only two where the top four wholesalers combined market share is less than 70% and these are Romania (58%) and Spain (59%) as the figure 1 below shows.

Figure 1: Share of Intermediary Wholesale Pharmaceutical Market taken by the four largest Healthcare Distributors in each European State



Source: James Dudley Management – OTC Distribution in Europe – 2016 edition – The New Global Agenda

The exit of Mediq from European wholesale and retail pharmacy was a notable event in the last two years. Advent sold off Mediq pharmacy chains and wholesale operations in Poland and the Netherlands.

AC Pharma the wholesale division was sold to Neuca and its retail chain Mediq was sold to Dr Max (Penta) in Poland in the autumn of 2013.

Brocacef (Phoenix) in the Netherlands began the process of acquiring Mediq’s Dutch wholesale and retail businesses in December 2014. While Mediq had only a minor share of the total pharmaceutical market of the 20 countries in the Dudley study, its shares in Poland and the Netherlands were significant.

The three largest and international distributors are Celesio (McKesson), Alliance Healthcare (WBA) and Phoenix which between them control just under half of the European intermediate pharmaceutical market.

There is at least one out of these three major wholesalers in 19 out of 20 European healthcare markets covered in the Dudley report. Celesio and Phoenix are present as major pharmaceutical wholesalers in 12 of the European States in the study. Alliance Healthcare is present in 9.

While the three control the total Norwegian wholesale healthcare market and 85% of the British market between them, Celesio and Phoenix together have 100% share of the Danish and 60% of the Austrian pharmaceutical markets.

Loss Making Pharmacy2U Ordered to Meet Pharmacy Standards

The mail order and Internet Pharmacy ‘Pharmacy2U’ made a loss of £860 million on sales of £17.5 million as at year ending March 2015. The company put the loss down to increased distribution costs and high investment in NHS marketing.

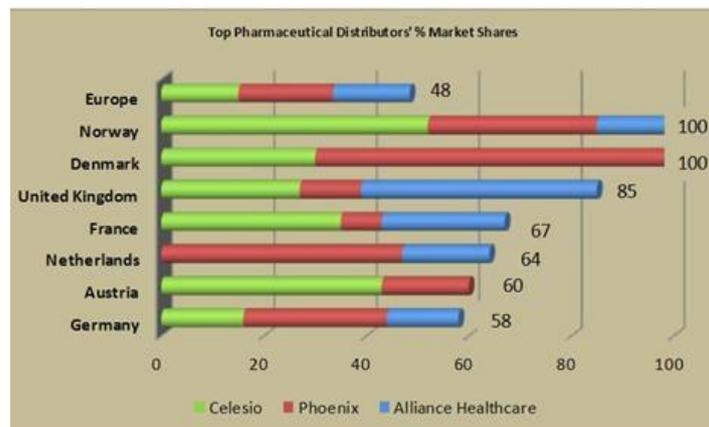
Despite increased investment the company has come under scrutiny for service failures.

Following complaints that patients were not receiving their prescriptions in December a special inspection was carried out by the General Pharmaceutical Council (GPhC) and National Health England.

The Council found that the company had not met some of the GPhC’s standards for a registered pharmacy in that there was a failure to identify and manage risks to patients receiving their medication.

Pharmacy2U, one of the original pioneers of mail order pharmacy in Britain, was ordered to put in place an action plan.

Figure 2: Share of Intermediary Wholesale Pharmaceutical Market taken by Celesio, Phoenix and Alliance Healthcare in Seven European States



Source: James Dudley Management – OTC Distribution in Europe – 2016 edition – The New Global Agenda

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WBA Q1 Result

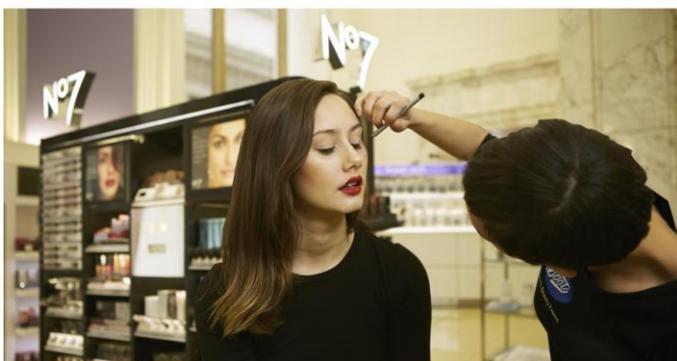
WBA reported Q1 figures in January 2016. An operating income of \$1,468 million and net earnings of \$1,110 was generated from \$29,033 in Net Global Sales.

The International pharmacy division produced total sales of \$3,531 million generating adjusted operating income of \$315 million.

Boots pharmacies in the United Kingdom reported that comparable pharmacy sales were up 3.5% and comparable retail sales were up 0.8%. The company also reported growth from boots.com and that cosmetics were the best performing category.

There was also particularly good comparable sales growth in Mexico and Republic of Ireland.

WBA also reported pharmaceutical wholesale division Q1 total sales at \$5,796 up 3.1% which generated adjusted operating income of \$166 million. The adjusted operating margin was 2.9%.



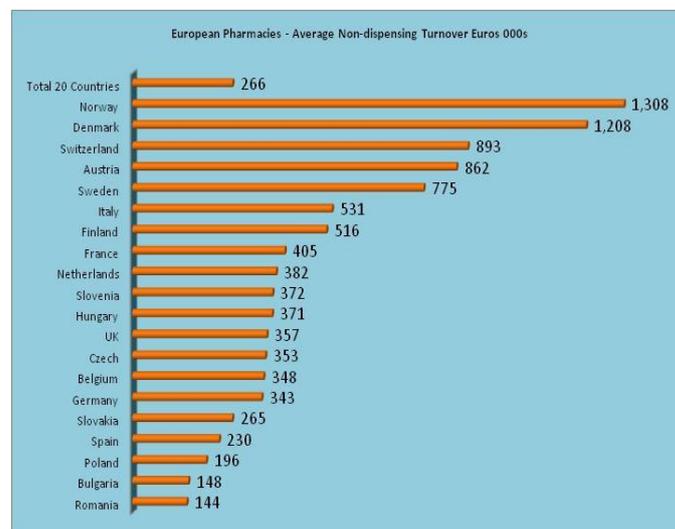
Picture: WBA

New Figures on Sales of Non-dispensed Complimentary Ranges in Pharmacy - 20 European States

In our December 2015 issue of 'Update' we examined the opportunities for OTC medicines as a growth element in the pharmacy sales-mix. This prompted some readers to ask the question about opportunities for a wider range of non-dispensed or complimentary pharmacy ranges. Furthermore, it is also an issue that the proportion of pharmacy sales taken by non-dispensed lines does not necessarily correlate with the highest per pharmacy sales potential when compared on a country by country basis.

Taking all 145,000 or so pharmacies in our 20 country market study we found that on average non-dispensed sales were roughly €266,000 per pharmacy and represented 27% value sales turnover. However, further analysis shows that the top five countries for non-dispensed complimentary pharmacy ranges are Norway, Denmark, Switzerland, Austria and Sweden as the figure below shows¹.

Figure 1: Average Sales Value of Non-dispensed Pharmacy Ranges per Pharmacy for 20 European States - €000's



Source: Based on Data from James Dudley Management – OTC Distribution in Europe – 2016 edition – The New Global Agenda

Norway's 5.1 million inhabitants are served by just 790 pharmacies which on average have an annual turnover exceeding €4 million. It is hardly surprising that with nearly a quarter of pharmacy turnover being generated by so called traded goods and 8% from OTC medicines that Norway's pharmacies sell on average €1.3 million of non-dispensed complimentary pharmacy lines annually.

Most of Norway's pharmacies are branches of the three main European pharmacy chains Apotek 1 (Phoenix), Vitusapotek (Celesio) and Boots Apotek (WBA).

Denmark's independent pharmacies generate an average €1.2 million of non-dispensed lines a year. 8% of pharmacy turnover is from OTC self-medication, 11% is from personal care and 4% is from other complimentary ranges.

In Switzerland the country's 1,764 compete with druggists for a share of the non-prescription OTC market and yet sell on average €893,000 of non-dispensed complimentary pharmacy lines annually. 35% of the average pharmacy turnover in Switzerland is from non-dispensed ranges.

¹ Durchschnittliche Verkaufswert der nicht verzichtet Pharmacy Ranges pro Apotheke für 20 europäische Staaten

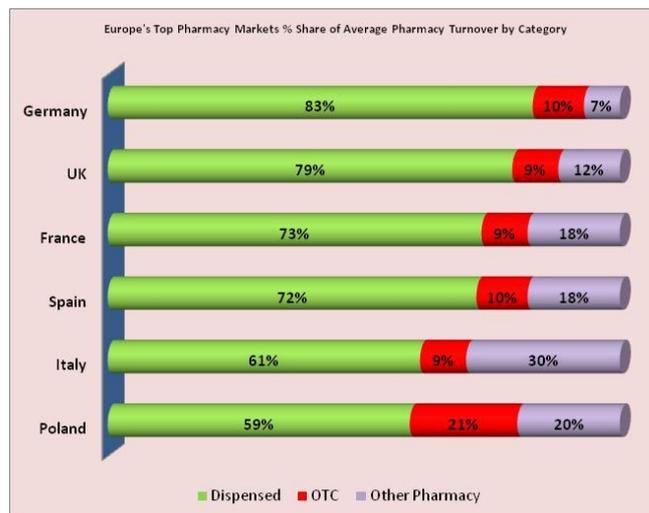
With an average annual turnover of €2.694 million 32% of an Austrian pharmacy is from non-dispensed lines and OTC medicines - the latter accounting for 21% of total turnover. Personal care and cosmetics represent 4% and homeopathic remedies take 1% of turnover. The remaining 6% of turnover is made up of patient care products and other complimentary pharmacy ranges.

Sweden’s pharmacies sell on average €775,000 of non-dispensed complimentary pharmacy lines annually. A quarter of the average pharmacy turnover in Sweden is from non-dispensed ranges.

Europe’s top six pharmacy markets are Germany, UK, France, Spain, Italy and Poland. Non-dispensed lines and OTC medicines make up the highest share of pharmacy turnover in Poland and Italy. While in France and Spain these complimentary ranges represent 27% and 28% of turnover respectively, these account for only 17% of German pharmacy business.

While nearly two thirds of the UK’s largest pharmacy chain Boots the Chemist (WBA) turnover is from non-dispensed business this compares with only 21% for the average British pharmacy

Figure 2: Europe's Top Pharmacy Markets % Share of Average Pharmacy Turnover by Category



Source: James Dudley Management – OTC Distribution in Europe – 2016 edition – The New Global Agenda



OTC DISTRIBUTION IN EUROPE - 20 COUNTRY CONSULTANCY REPORT -

This latest tenth edition is the largest and most up to date strategic analysis of the supply network serving the non-prescription and OTC Self-medication sectors in Europe

Markets covered are: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Netherlands, Norway, Poland, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and the United Kingdom

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