

The News Letter of James Dudley Management

20th Anniversary Bash



James Dudley Management celebrates 20 years of Strategic Consultancy in Consumer Healthcare—James Dudley with guest Stuart Edney Director of Seed Design see page 4

35, 500 Pharmacies Sign up to “Virtual Chains” in Europe

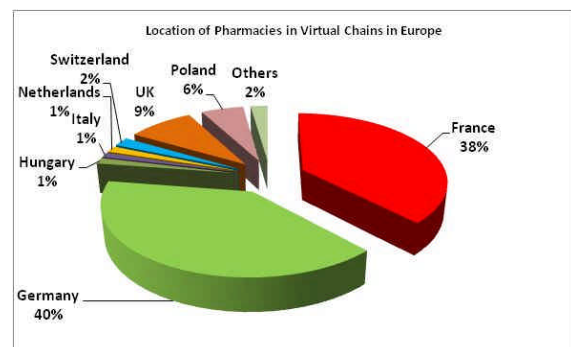
In 2010 European consumers are expected to purchase nearly \$37.5 billion worth of non-prescription OTC medicines for self-medication representing around 36% of world demand.

Accounting for 16% of retail pharmaceutical business in the region non-prescription self-medication is an important business category for both manufacturers and retailers.

Yet a number of major factors are coming into play which will influence the competitive environment for the consumer healthcare industry. Among these are the restructuring of the pharmaceutical supply chain, continued deregulation of retail channels, the growing importance of retail pharmacy groupings and mass market chains and the expansion of products licensed for sale in non-pharmacy outlets. These factors together will have a major impact on how manufacturers plan their strategies over the next few years.

These are among a number of important and far reaching conclusions taken from the results of the 7th edition of an 18 country study into factors driving change across the non-prescription and OTC self-medication industry in Europe – OTC Distribution in Europe the 2010 edition is published this month by James Dudley Management.

Figure 1: Location of Pharmacies in Virtual Chains % by European State 2009



Source: © James Dudley Management – OTC Distribution in Europe the 2010 Edition – Driving the Recovery

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James W Dudley's Presentation
Innovating Self-medication - Switch Strategies
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Innovating Self – Medication
European Rx to OTC Switch
Strategies

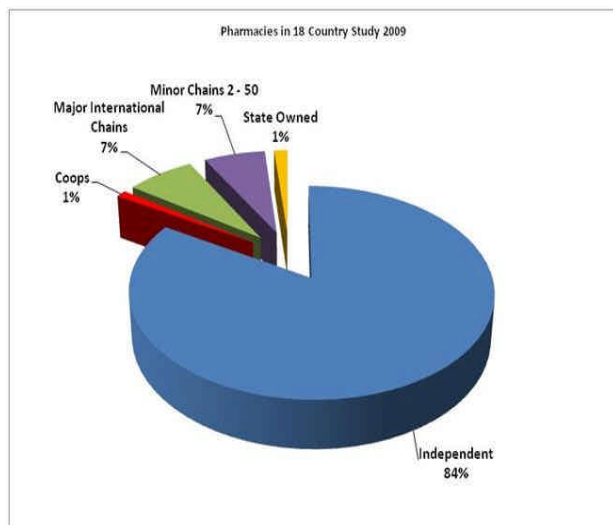
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Figure 2: Estimated % of European Pharmacies by Ownership Classification



Source: © James Dudley Management – OTC Distribution in Europe the 2010 Edition – Driving the Recovery

The failure of DocMorris to get a European Court of Justice ruling in favor of changing pharmacy ownership rules in Germany that would permit pharmacy chains has had its effects across the EU. DocMorris, the Dutch mail order company, challenged Germany's ban on non-pharmacists owning and operating pharmacies by seeking a license for its pharmacy in Saarbrücken¹. This resulted in a lawsuit being brought by several German pharmacists and pharmacists' associations. This was referred to the European Court of Justice (ECJ).

The basis of the case was the presumption of a breach of articles 43 EC and 48 EC within the German regulations. Article 43 EC concerns freedom of establishment for enterprises, while Article 48 EC dictates that companies should be treated equally in all European Union member states.

In May 2009 the ECJ ruled that Articles 43 EC and 48 EC [of the Treaty] do not preclude national legislation, such as that at issue in the main actions, which prevents persons not having the status of pharmacist from owning and operating pharmacies. The ruling has effectively ended pressures on Germany, France, Italy and Spain to open up the retail pharmacy sector to third party and multiple ownership.

“So while German pharmacists have been at the forefront of opposition to the formation of retail pharmacy chains there are more German pharmacies affiliated to voluntary chains than in any other country in Europe”.

Concentrations of pharmacy retail groupings based around a small number of cross border distributors and the emergence of aggressive mass market chains are shifting the balance of power of influence over consumers' choice, access and demand for self-care away from brand owners to organized distribution channels.

“Out of the 128,000 pharmacies found in the 18 countries under study around 35,500 are affiliated to virtual pharmacy chains through voluntary groupings and wholesaler led franchises. At the same time there are 19,020 pharmacies that are branches of wholly owned groups and retail pharmacy chains”, says James Dudley author of the Study.

Mail order and Internet pharmacies in Germany, Netherlands, Nordic markets, Poland, Switzerland and the UK have begun to take off. These, while taking between 3% and 5% of their respective markets they appeal to relatively small segments such as patients suffering chronic conditions and those seeking convenience and privacy. However, they are growing in importance and the large discounts they offer are causing pricing turbulence in a sector which has historically been fairly stable – especially Germany

Partial deregulation in Germany since January 2004 that allows pharmacists to own up to four pharmacies in close proximity is delivering considerable benefits. The number of pharmacy branches under management in Germany increased from 6% in 2006 to 13% in 2008, while the actual number of proprietors declined by 2,554. Since the introduction of the new rules the decline in the number of pharmacies in Germany has been reversed.

Coincidental to the introduction of limited branch ownership and the overall reduction in the number of pharmacy owners has been that average turnover has increased by 15% and the number of pharmacies with turnover in excess of €1.75 million has increased from 23% to 29%. Yet, the growth in small pharmacy groupings has also occurred within a background of the rapid growth of virtual chains created by voluntary groupings of pharmacies and wholesaler driven concept franchises.

Today some 65% of Germany pharmacies are affiliates of virtual chains representing 40% of all pharmacies in virtual chains in the 18 countries under study. So while German pharmacists have been at the forefront of opposition to the formation of retail pharmacy chains there are more pharmacies affiliated to voluntary chains than in any other country in Europe.

Figure 3: Emerging Virtual Pharmacy Groupings in Europe 2009

Country	Group	Sponsor/owner
Baltic States	Aptek	Phoenix
France	Pharmactive	Celesio/OCP
	Alphega	Alliance Boots
Germany	Commitment /DocMorris*	Celesio
	MVDA/Linda & Midas	Phoenix
	Meine Apotheke EMK**	Sanacorp
	Vivesco	Anzag
	Parmapharm	Independent co-operative
Hungary	Pearl Strategy Association or Gyöngy	Hungaropharma
Italy	Alphega	Alliance Boots
	SPEM	Phoenix
Netherlands	Mediq	OPG
	Kring	Alliance Boots
Norway	Selmos Valstine	Phoenix
Poland	I Care for My Health	Polska Grupa Farmaceutyczna sa
Spain	Alphega	Alliance Boots
Switzerland	Winconcept/Amavita	Galenica
UK	Numark	Phoenix
	Alphega	Alliance Boots/ Unichem

* Acquired 2007

** Acquired 2009

Source: © James Dudley Management – OTC Distribution in Europe the 2010 Edition – Driving the Recovery

“The battles for a share of this lucrative sector are becoming manifest in other European States”

The ambitions of mass market operators to gain a share of the consumer healthcare market are a continuing item on the agenda. While companies like Auchan, Leclerq and Carrefour have partially overcome restrictions in France through the introduction of pharmacist managed parapharmacies, the battles for a share of this lucrative sector are becoming manifest in other European States.

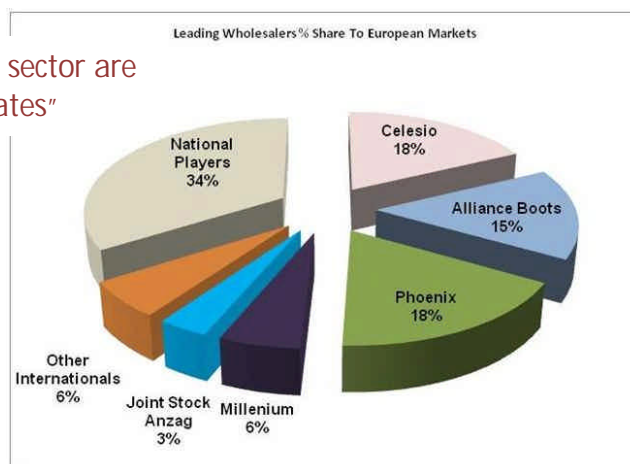
Examples are the introduction of pharmacies and OTC departments by the major retailing groups such as Tesco in the UK and Central Europe, Coop Italia, Carrefour, Leclerc and Auchan in Italy and Coop in Switzerland. ICA, the Ko-op and the department store group Åhléns have announced plans to enter the retail pharmacy sector in Sweden. This follows the country's decision to dilute the State monopoly of pharmacies and to relax ownership rules in the latter half of 2009

The concentration of pharmaceutical supply chain around key players together with the emergence of new business models that are transforming major pharmaceutical distributors including Celesio, Alliance Boots, Phoenix, Mediq and others, from wholesalers to structured international channel managers. These companies are creating international organizations that:

- Reach out directly to consumers/patients through different retail offerings including mail order and homecare services
- Fulfill manufacturer demands for fee based logistics through direct sales and contract selling services
- Grow customer loyalty franchises and virtual chains
- Compete in their traditional role as intermediary suppliers with own brands of generic medicines and OTC products.

Together with their associate companies, Celesio, Alliance Boots, Phoenix control a little over half of the European intermediary pharmacy market, have direct ownership of just under 6% of the region's pharmacies and sponsor over 13,000 of pharmacies affiliated to virtual pharmacy chains through voluntary groupings of retail pharmacies and franchise concepts

Figure 4 % Market Share Major European Pharmaceutical Wholesalers – 18 Country Study 2009



Source: © James Dudley Management – OTC Distribution in Europe the 2010 Edition – Driving the Recovery

Swedish, State owned pharmacy chain, Apoteket, is finally in the process of being partly privatized. This will be completed in 2009. At the same time private competition has been allowed into the Swedish retail pharmacy sector in order to dilute the State monopoly. This will fundamentally change the Swedish retail pharmacy environment and expand access for consumers and patients. It will also further strengthen the retail ambitions of the major international distributors and bring large Swedish non-pharmacy retailers into the pharmacy sector .

Expansion of the so called general sale list (GSL) of medicines that can be freely sold in any outlet has long applied to Britain but in recent years has extended to Czech, Poland, Norway, Denmark, Portugal, Hungary and the Netherlands. In the summer of 2009 Sweden published a list of medicines that would become available outside pharmacies at the end of 2009. With the numbers of markets for medicines licensed for sale in non-pharmacy channels such as supermarkets and convenience outlets expanding as part a continent-wide process of deregulation more and more major chain retailers are being drawn into the OTC self-medication sector.

OTC Distribution in Europe the 2010 edition is published by James Dudley Management Autumn/Winter 2009 for details and table of contents visit <http://www.jamesdudley.info/>

20th Anniversary Bash continued from page 1

James Dudley Management celebrated twenty years of consulting for consumer healthcare clients in September this year with a bash held in the grounds of James Dudley's Worcestershire home in the UK.

"In the 20 years we've been going we have worked on some spectacular projects. Among our clients when we first set out were Wellcome, Sterling Health, Ciba Geigy, Roche and Beecham. All these have over the years amalgamated but the brands we worked on are still thriving. But things have moved on. The healthcare market is vastly different today and managements are far more sophisticated. We have an array of new tools at our disposal and we need them because we face new and more complex challenges", says James Dudley

Germany rejects Two General-Sale Switch Proposals

Applications for two medicines to be switched from pharmacy only to general sale have been turned down in Germany

An application to switch medicines containing simethicone/dimethicone from pharmacy-only to general-sale status in Germany has been rejected.

At a meeting on 29 September, the country's expert committee for pharmacy-only status also decided not to give general-sale status to soluble and effervescent tablets containing the cough remedy N-acetylcysteine.

Germany's medicines manufacturers' association, the BAH, recently said that it opposed the switch of medicines from pharmacy-only to general-sale status



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