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The News Letter of James Dudley Management

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Pharmacy Chains back on the Agenda in Germany

Picture: DocMorris

An end to the ban on pharmacy chains and self-selection of pharmacy-only non-prescription medicines by consumers to drive price competition in Germany's non-prescription market, are recommendations urged by the country's monopolies commission, the Monopolkommission.

In its 18th expert report published in July to Germany's economics ministry the commission argued that lifting regulations forbidding self-selection of pharmacy-only non-prescription medicines as laid down in paragraph 17 of Germany's pharmacy law, (Apothekenbetriebsordnung) would contribute to stimulating price competition.

The commission also insisted that Germany's restrictions on third-party ownership and pharmacy chains must be lifted.

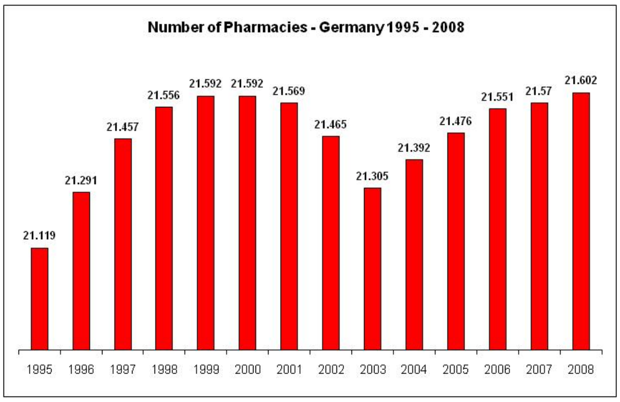


Figure 1: Number of Pharmacies in Germany 1995 – 2008
Source: James Dudley OTC Distribution in Europe 2010 – Driving the Recovery
Based on data from ABDA

Pharmacy ownership above the current limit of four shops should be allowed according to the commission. The Monopolkommission also emphasized that merger controls should be strengthened to avoid local or regional pharmacy monopolies.

The Monopolkommission provides independent advice to German legislators on competition issues. However, the commission recognizes that it has no power to force through its recommendations and that the previous German government had ignored its suggestions to liberalize the country's supply chain for non-prescription pharmaceutical products.

New Mail Order Pharmacy for the Over-50's

A new mail order joint venture between Celesio's DocMorris mail order business and the Klingel Group to target the over-50s healthcare segments has been announced. The new business Wellsana Apotheke is a mail order pharmacy for the over-50s. Market entry is planned for 2011, provided that agreement is received from the European antitrust authority

Both parties hold equal shares in the new brand. The company will be based in Heerlen. "The strengths of both companies are combined in the Wellsana pharmacy", says DocMorris's Olaf Heinrich. DocMorris is Europe's largest mail order pharmacy and Wellsana as a brand has been established over many years. The specialist mail order business sells wellness products and non- pharmacy- health products.

While DocMorris has the experience in the fields of pharmacy and logistics, Klingel's Wellsana business focuses on customers aged 50 years and over.

Mail Order and Internet Pharmacies - the New Retail Challenge for Europe's Drug makers – Says New Report

Results of the first major 17 European country study into mail order and Internet pharmacy markets show that five key factors are responsible for driving the success of the channel. In the markets where these are present mail order and Internet pharmacies are beginning to make an impact but where they are absent legal channels are replaced by the massive growth of unregulated, illegal and fraudulent organizations which use the Internet to access customers.

The new study "Mail order and Internet Pharmacy in Europe – Embracing the New Challenge", written by the healthcare strategy consultant James W. Dudley, compares the European growth drivers with the success already achieved in the USA and shows a new and challenging retail channel breaking through in Germany, the United Kingdom, Switzerland, the Netherlands and Poland.

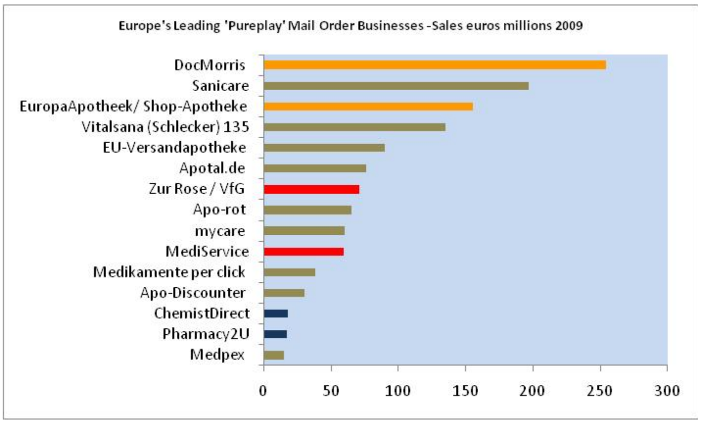
"When we add together the different Internet services available to Europeans we find a virtual healthcare community which not only provides legal access to prescription and non-prescription medicines and other associated products but includes online medical consultants where patients can get advice and obtain prescriptions for drugs for embarrassing conditions, contraception and lifestyle as well as other personal concerns such as STD – most of this barely existed before 2004" James W Dudley author of the report

The question now for manufacturers is whether to resist the development of the mail order channel in order to preserve prices and maintain the confidence of their traditional pharmacy customers or to identify areas of opportunity to reach specific target audiences that find procurement through mail order preferable to traditional pharmacies for whatever reason.

Unlike the USA, the European mail order and Internet pharmacy market is predominantly based around consumer demand for non-prescription medicines, vitamins and supplements, home care and personal healthcare. Yet, the online healthcare market is diverse and presents opportunities for prescription medicines whether branded or generic, medical devices and also healthcare services. In a number of European States patients can access medical consultation and obtain prescriptions which in turn can be used to obtain medication from any online pharmacy.

Of 17 European countries covered in the Dudley study 13 allow mail order trade in non-prescription medicines but only 9 permit mail order and Internet access to prescription medicines. Even so, both Switzerland and Poland have restrictions on home delivery. Austria permits mail order in non-prescription medicines from other EU States on a very restricted basis but not from internal companies.

Figure 2: Europe's Leading 'Pureplay' Mail Order and Internet Pharmacies – based on estimated euro Turnover for 2009



Source: Mail Order and Internet Pharmacy in Europe – Embracing the New Challenge by James W. Dudley 2010

Five factors have been identified in the Dudley study which contributed to the success of Mail order and Internet Pharmacies in some European States.
These are: -

- The entrepreneurial drive from a core group of companies with expertise and who are prepared to take on the pharmaceutical establishment, the law and take financial risks to provide the stimulus of early market entry
- A legal framework and code of practice supporting the development of mail order and Internet pharmacies
- Web savvy user segments with identifiable needs for which the mail order and Internet pharmacy offer is both relevant and an economic channel option especially for patients requiring, convenience, keen pricing and above all privacy.

- Major wholesale and retail companies which as early adopters have identified the advantages of investing in new direct to consumer channels with national and international brands either to strengthen and renew their own brands or to break into new channels

- A business environment which institutionally helps consumers distinguish between reliable and unreliable outlets and protects them from counterfeit medicines and fake pharmacy websites thus opening the way for more risk adverse adopter segments.

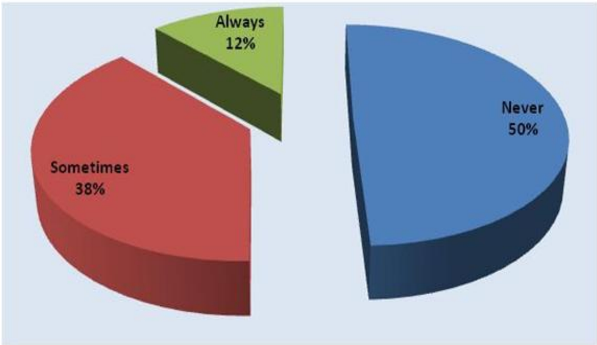
So far the study reveals that few healthcare manufacturers and associated suppliers have designed communications packages of products and services that exploit Internet technology and the privacy and convenience that online pharmacies offer as a competitive advantage over other channels

"While mail order and Internet pharmacies represent a small fraction of consumer purchases of pharmaceutical preparations and related healthcare and personal care products in Europe, the channel should not be underestimated", Says Dudley.

For example almost a third of consumer purchases of the weight reducing brand Alli (GSK) in 2009 in Germany were through mail order and Internet pharmacy. Other expensive and segment focused non-prescription and OTC medicines are promoted by mail order and Internet pharmacies with high discounts.

The growth of the legitimate sector has been held back by regulatory hurdles. However well intentioned the contradiction in the attitudes of regulators attempting to ban or restrict direct delivery marketing of pharmaceutical products has led to the massive growth of unregulated, illegal and fraudulent organizations which use the Internet to access customers. The main objectors however appear to be pharmacist trade associations.

Figure 3: % German Consumers Purchasing Non-prescription Medicines from the Internet 2009



Source: James Dudley Management – Mail Order and Internet Pharmacy in Europe – Embracing the New Challenge 2010

"If consumers are to have trust in mail order and Internet pharmacies and governments are seen to be protecting the public then legitimate online retailers need to stand out with some sort of safety mark with a system similar to the seal introduced in Germany by the German Institute of Medical Documentation and Information (DIMDI)," says James W Dudley author of the report. "The Federal Ministry of Health in Germany has been campaigning for this for some time at an EU level", Says Dudley.

Germany is the largest mail order and Internet pharmacy market in Europe having grown from virtually nothing at the beginning of 2004. Yet it had taken the entrepreneurial vision and sheer determination of the Dutch mail order company DocMorris to win a three year legal battle and break open the German online pharmacy market with a land mark ruling in the European Court of Justice in 2003.

This changed the law banning distance marketing of pharmaceutical products in 2004 and opened the way for new online driven channels in Germany.

Online "pureplay" pharmacies have driven the sector especially in Germany but also in the United Kingdom and Switzerland. By 2010 the leading firms have an estimated combined turnover of €1.3 billion and represent 62% of the European mail order and Internet pharmacy sector.

400 Hungarian Pharmacies Face Bankruptcy

The Hungarian government has halted the opening of new pharmacies until the end of 2010. This puts to an end the current round of liberalization of the pharmacy sector less than three years since it began. Previous laws ensured that pharmacists owned at least 50% of pharmacies were overturned in 2007 as were demographic and geographical restrictions.

Since deregulation the number of pharmacies increased from 2000 to 2400, following 600 openings and 200 closures, but most of the new pharmacies were established in cities, not in rural areas. It is believed that around 400 pharmacies are now close to bankruptcy due to State changes to remuneration and over competition.

The new clamp down will hit large and small pharmacy chains in Hungary including the drugstore chain dm and Phoenix which is affiliated to UTA Pharma Beteiligungs GmbH the leading chain operator in the Hungarian pharmacy market.

Poland – VAT Hike for Pharmaceuticals

On 3 August the Polish government approved an increase in the VAT on pharmaceuticals from 7% to 8%. The VAT hike will be effective from 2011. The rise, forms part of a wider set of financial measures which envisage small VAT increases for most categories of goods and services.

The measure is meant as a temporary one and will be effective over the three years to the end of 2013. However, the Polish government has not ruled out further increases with a one-point increase in July 2011 and another one in July 2012 on the cards. The increases are aimed at reducing the country's budget deficit to below 3% of GDP and keeping public debt to below 55% of GDP.

However, Poland's overall economy is in better shape than most in the EU. Estimates from a Bloomberg survey of economists suggests that Poland's industrial output probably increased by over 12% on an annual basis in July.

Poland was the only EU economy to dodge recession as a result of the worldwide credit crisis. Undoubtedly Poland has benefited from the recovery in Germany.