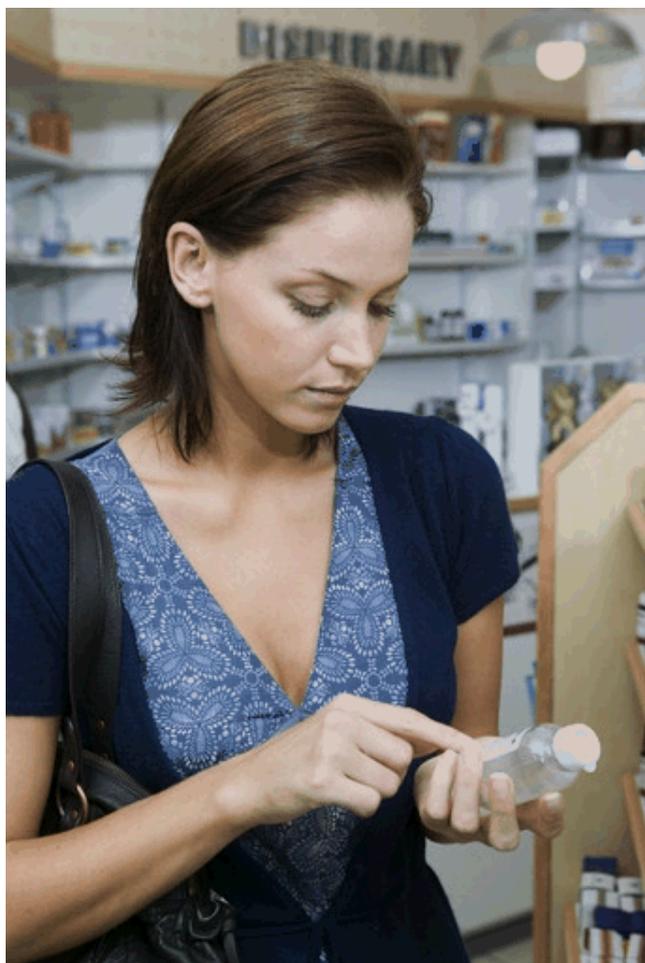


## Wishing You a Prosperous 2010



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**OTC Distribution in Europe the 2010 edition – Driving the Recovery** by James W. Dudley is now available for details and table of contents visit



<http://www.jamesdudley.info/newpubs.htm>

## Mail Order Sales Up - but Celesio's Retail Pharmacies under Cloud in Ireland, Italy and the Netherlands?

Celesio's mail-order turnover from on-line activities in Germany, Netherlands, Norway and UK rose significantly in the first nine months of 2009 by 14.9 per cent to €186.6 million. This is equivalent to the total turnover of more than 160 of the company's retail pharmacies.

According to the Company strengthening its mail-order operations is important in building Celesio's Patient and Consumer Solutions division in the future. Celesio currently operates the Dutch-based DocMorris mail-order pharmacy, which serves customers in Germany and the Netherlands, as well as the mail-order operations of its Lloydspharmacy chain in the UK and Vitusapotek chain in Norway.

In Germany, a television campaign led to a strong boost in mail order demand with orders peaking at some 10,000 per day for the mail-order pharmacy DocMorris. According to Service Barometer DocMorris is the leading mail order company in Germany in 2009 with 15% share.

On a darker note Celesio is examining the future of its pharmacy operations in Ireland, Italy and the Netherlands, according to chief executive officer Fritz Oesterle.

Addressing a press conference in Germany in December, Oesterle said the Europe-wide pharmaceutical retailer and distributor was "evaluating whether to continue its pharmacy operations" in the three countries.

The company had already announced on 8 October 2009, that valuations were adjusted by €274 million in the course of the annual review of goodwill for its retail activities. The adjustments referred to the retail pharmacies in the Netherlands, Ireland and Italy as well as for DocMorris' brand partner business. The mail-order pharmacy business remained unaffected.

Back in October the Company described the Dutch preference policy as generics tendering in all but name and that it was this that was responsible for the reduced income streams of pharmacies in Holland. Meanwhile reduced medicine prices and a cut in pharmacists' remuneration had had the same effect in Ireland. Government measures in Italy were also blamed for the "additional and unpredictable decline in pharmacy margins".

News...

## Going Dutch - Mediq Finds Alternative to Preference Policy

Mediq Pharmacies, the Dutch retail chain, and healthcare insurer CZ have signed a two-year contract that offers an alternative to the preference policy.

The key elements of the contract are that prices of pharmaceuticals will be lower, the fee for service received by Mediq will be higher and Mediq will control its own pharmaceuticals product portfolio.

Mediq represents the largest retail pharmacy chain in the Netherlands and has 14% share of the sector.

Whereas insurers take on pharmaceuticals purchasing under the preference policy, Mediq will remain responsible for supplier selection in this contract. This deal puts Mediq pharmacists back in the driving seat in deciding the pharmaceuticals to be dispensed on the basis of GPs' prescriptions and stops insurers centrally determining which medicines qualify exclusively for reimbursement. In addition, Mediq Pharmacies and CZ will jointly develop additional healthcare services for their customers. The contract is set to become effective on 1 January 2010.

Mediq will receive a lower but fixed reimbursement from the insurer for pharmaceuticals dispensed. The costs of pharmaceuticals will consequently be lower. At the same time, CZ will pay Mediq the maximum dispensing fee per prescription item set by the Dutch Healthcare Authority ((Nederlandse Zorgautoriteit - NZa). This fee is currently at € 7.94, i.e. € 0.66 higher than the basic fee of € 7.28. In addition, CZ will no longer withhold a certain percentage (known as the clawback) on the reimbursement for the agreed range.

Mediq will retain the purchasing function. Under the preference policy, pharmacies are required to stock the various different preferred pharmaceuticals of the various healthcare insurers, who in addition regularly switch their preference. Mediq avoids the associated logistical and administrative costs by purchasing itself. This also enables Mediq to negotiate better terms with suppliers.

Mediq recently signed similar contracts with Zilveren Kruis Achmea and Agis and with these contracts is positioning itself for the free market to be introduced in the pharmacy sector.

Marc van Gelder, CEO Mediq: "We have never supported the preference policy, as it leads to an erosion of healthcare. This agreement with CZ provides an alternative that ties in with Mediq's strategy. The additional healthcare services lead to improved health for end users".

## Major Acquisition in Fragmented German Mail Order Pharmacy Market

The mail-order pharmacy Europa Apotheek Venlo Germany has acquired shop-apotheke.com, an online OTC medicines and healthcare products retailer, for an undisclosed fee.

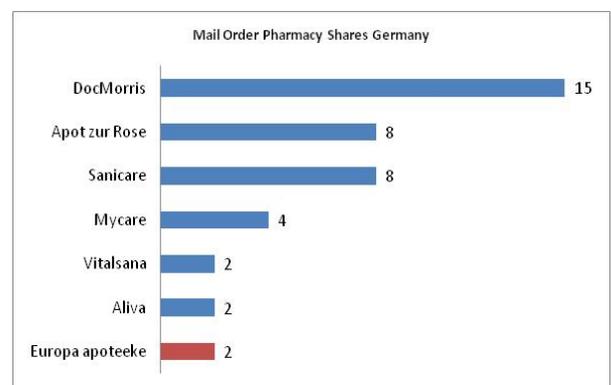
Medco Health Solutions – the US pharmacy benefit manager, which acquired Europa Apotheek in April 2008, said the acquisition expanded both its product offering and the channels through which it reached consumers in Germany.

The German pharmacy mail order business was born out of changes to the laws on distance selling of pharmaceutical products in 2004. The rapid growth of on-line business start ups have left the German pharmacy mail order sector highly fragmented with the top seven operators taking around 41% share. Europa Apotheek jointly takes fifth place in the German market with just 2% market share according to Service Barometer. It can be expected that there will be further consolidation in the sector. The market leader is DocMorris which is owned by Celesio.

Europa Apotheek based in Venlo is a Dutch pharmacy certified by TÜV Nord with over 180 employees. The business was founded in 2001 and operates in the German and Dutch markets. Europa Apotheek Venlo is among the largest mail-order pharmacies in Europe and as a full-service pharmacy supplies drugs to patients with chronic diseases such as diabetes, cardio-vascular diseases, arthritis, asthma, COPD multiple sclerosis and HIV. Europa Apotheek Venlo also maintains an order-and-pickup service for prescription drugs at PharmaPoints in some 1,000 dm-drogeriemarkt drugstores.

shop-apotheke.com was established some six years ago as a mail-order pharmacy in Germany and has over 300,000 registered buyers and approximately 2.4 million visits/visitors per month to its website. The company has TUV quality certification.

% Share Mail Order Pharmacies in Germany 2009



Source: Service Barometer

## Sweden's Pharmacy Monopoly is No More!



Picture Bertil Hagberg

Oriola-KD and two private equity groups have come out tops over some of the most hotly tipped industry bidders in the SKr5.9bn (€560m) auction of part of Sweden's state-owned Apoteket pharmacy chain.

The winners, Altor and Segulah private-equity investors and Oriola-KD have acquired the bulk of the state-owned Apoteket pharmacies. Altor and Segulah, both Nordic-focused buy-out funds, were successful bidders and point to a revival in the region's private equity market after a long period of inactivity since the financial crisis. Altor won the biggest nationwide cluster of 208 Apoteket stores.

Kronans Droghandel Retail AB, a company jointly owned by Oriola-KD Corporation and Kooperativa Förbundet (KF), has won the tender for a national pharmacy cluster with 171 pharmacies. Proforma net sales of the 171 pharmacies in 2008 were SEK 4.4 billion (€421 million), 14.5 per cent of Swedish pharmacy market. Proforma operating profit including average central overhead costs of Apoteket AB in 2008 was SEK 183 million (€17.6 million), 4.2 per cent of net sales. The net debt of the acquired pharmacy cluster at the end of August 2009 was SEK 136 million (€13 million). The pharmacy cluster employed 931 employees at the end of 2008.

The total purchase price of the acquisition is expected to be approximately SEK 1.56 billion (€150 million) in cash. The closing of the transaction is expected to take place in the first quarter of 2010, and is subject to approval by the Swedish Competition Authority (Konkurrensverket) and the granting of pharmacy license by the Swedish Medical Products Agency (Läkemedelsverket).

Medstop owned by the private equity company Segulah won the bid for three pharmacy clusters with a total of 62 stores with combined sales of SEK 3.1 billion (€296 million)

Alliance Boots, Europe's largest pharmacy group, was among those whose bids failed.

Celesio had previously announced that it would not participate in a bidding war and would set up a new 100 branch pharmacy chain under the DocMorris banner progressively over the next few years.

As well as selling off the 465 pharmacies in eight large clusters, the Swedish government has made 150 pharmacies available to small businesses. The other 330 pharmacies will remain under the control of Apoteket. All of Sweden's 945 pharmacies had been under state control as part of the Apoteket chain.

### Rx to OTC News

## German Parliament Approves Pantoprazole Rx to OTC Switch

From 1 January 2010 medicinal products containing 20mg pantoprazole for short-term treatment of heartburn and acid reflux will have OTC status in Germany.

Germany's upper house of parliament, the Bundesrat, passed legislation on 18 December that allowed the marketing status of 20mg pantoprazole to be changed from prescription-only to non-prescription. The maximum pack size will be 14 tablets or capsules. However, OTC 20mg pantoprazole will be indicated for adults only.

The proposed switch from prescription only to OTC (Rx to OTC) was introduced soon after Nycomed commercialised 20mg pantoprazole tablets in Germany as the non-prescription medicine Pantozol Control - the first OTC proton pump blocker on the German market approved for short-term treatment with frequently recurring heartburn

Germany was among the initial countries where Nycomed introduced Pantozol Control after the 20mg pantoprazole tablets gained non-prescription status for frequent heartburn throughout the European Union in June. Pantozol Control is only the second EU wide Rx to OTC switch achieved through a Centralized Procedure

The Rx to OTC switch of all 20mg pantoprazole formulations with a maximum pack size of 280mg is seen very much as a tidying up exercise after Nycomed's switch became effective throughout the European Union.

The general switch will inevitably lead to the introduction of a number of branded and generic non-prescription competitors to Nycomed's Pantozol Control as the pantoprazole patent ran out in Germany in early 2009.

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Comment....

## German Pharmacies Grow in Number

Since January 2004 German pharmacists have been able to own up to four pharmacies in their neighborhood.

While skeptics accused the German Government of watering down plans for unlimited controls on pharmacy chains at the time, the policy of allowing a pharmacist to own up to three branch pharmacies along with the main retail store seems to have contributed to halting the worrying decline in numbers.

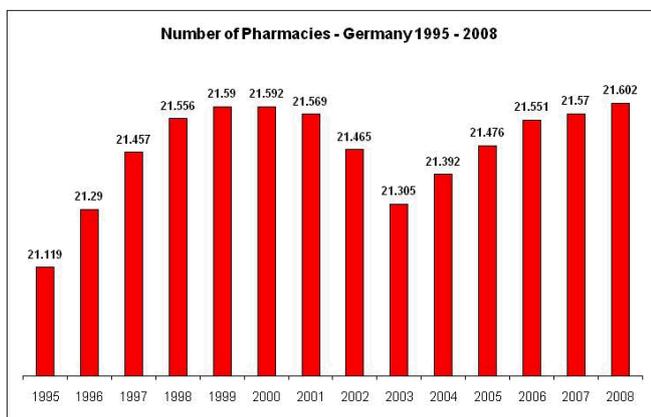
The number of pharmacy branches under management in Germany increased from 6% in 2006 to 13% in 2008, while the actual number of proprietors declined by 2,554 according to ABDA. Since the introduction of the new rules the decline in the number of pharmacies in Germany has been reversed. Having dipped to 21,300 in 2003, German pharmacy numbers have climbed back to over 23,600 today – a figure close to the previous peak in 2000.

Following the introduction of limited branch ownership and the overall reduction in owner managers the average pharmacy turnover has increased by 15% and the number of pharmacies with turnover in excess of €1.75 million has grown from 23% to 29%. The increase in small pharmacy groupings has also coincided with the rapid growth of virtual chains created by voluntary groupings of pharmacies and wholesaler driven concept franchises.

According to OTC Distribution in Europe the 2010 edition some 65% of Germany pharmacies are affiliates of virtual chains representing 40% of all pharmacies in virtual chains in the 18 European countries covered by the study.

Average pharmacy annual turnover is €1.75 million (up from €1.52 million in 2005) but 57.5% of pharmacies fall below this figure. While just under a quarter of pharmacies are struggling to survive, pharmacies in the top 20% have sales of over €2.0 million a year.

Number of Pharmacies in Germany 1995 to 2008



Graph: James Dudley Management – OTC Distribution in Europe the 2010 Edition – Driving the Recovery (data ABDA/Anzag/James Dudley)

## Important new Report

### “OTC Distribution in Europe”

The New 2010 Edition

#### Driving the Recovery



“This study has identified themes of change that are reshaping the structure of the healthcare supply chain, focusing buyer power and presenting suppliers with new strategic challenges.

The aim of this seventh study into OTC Distribution in Europe is to explore these themes and to provide a reasoned framework for anticipating unfolding threats and opportunities”. James W. Dudley

This is the seventh edition of James Dudley's highly regarded 18 country consultancy report - *OTC Distribution in Europe*. This much expanded 2010 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 With over 460 pages and 200 graphs, tables & figures



For details and table of contents visit [Click http://www.jamesdudley.info/newpubs.htm](http://www.jamesdudley.info/newpubs.htm)



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