DocMorris deal reflects changes in distribution

Celesio's acquisition of mail-order pharmacy DocMorris has put the spotlight firmly on the anticipated changes in the way medicines are distributed in Europe. Deborah Wilkes looks at the prospects for pharmacy chains.

Celesio will "definitely not leave the field open to others, and most certainly not to companies that are foreign to the pharmaceutical market", says Fritz Oesterle, chairman and chief executive of Celesio

"With this step, Celesio gets hold of the only pharmacy brand which is known all over Germany," was how chairman and chief executive officer, Fritz Oesterle, unveiled Celesio's acquisition of DocMorris to the world last week.

"The purchase of DocMorris is a logical step with regards to the expected liberalisation of the German pharmacy market by the European Court of Justice," added Oesterle, pointing out that Germany's Celesio was sending "a clear signal against discounters, and both national and international interested parties not related to the pharmacy business".

According to Oesterle, it had been vital to act quickly to ensure that Germany's leading pharmacy brand did not fall into the hands of a foreign owner or an investor from outside the pharmacy services market. "There is nothing more powerful than an idea whose time has come," he remarked.

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With the DocMorris brand in the bag, Celesio clearly believes it is well-placed to capitalise on the anticipated arrival of pharmacy chains in Germany. Currently, pharmacists can only own and operate a maximum of four outlets, and third-party pharmacy ownership is banned altogether.

The pan-European retailer and wholesaler is also bullish about the prospects for liberalisation in other important countries in the medium term.

Noting that the European Commission was taking action against pharmacy ownership restrictions in Austria, France, Italy and Spain (**OTC *bulletin***, 30 March 2007, page 7), Oesterle said the pharmacy market was opening up across Europe. "We will use these opportunities for growth – wherever practical – and will definitely not leave the field open to others, and most certainly not to companies that are foreign to the pharmaceutical market," he pledged.

Existing national regulations on pharmacy ownership are clearly curbing Celesio's ambitious plans in retailing.

Only a small number of countries in Europe – including Belgium, the Czech Republic, Ireland, the Netherlands, Norway, Switzerland and the UK – allow companies to own large pharmacy chains. Some countries restrict ownership of pharmacies to pharmacists, while others keep pharmacies under state control. And several allow pharmacists to own chains, but restrict the size to two, three or four branches.

Nevertheless, Celesio and rival pan-European retailing and wholesaling companies are building up substantial retail presences wherever the law permits. They have responded rapidly to the gradual deregulation of pharmacy legislation, particularly in northern Europe, as well as the privatisation of publicly-owned chains in countries like Italy.

As can be seen from Figure 1, Celesio's Pharmacies division recorded a double-digit rise in turnover to €3.27 billion in 2006. However, Celesio only operates pharmacy chains in seven European countries, and more than two-thirds of the division's turnover is generated by Lloydspharmacy in the UK.

Rival pan-European retailer and wholesaler Alliance Boots is in a similar position. The group has a network of around 3,000 retail outlets, including associates, of which about 2,700 have a pharmacy. However, the vast majority are part of Boots the Chemists and Alliance Pharmacy in the UK, with the remaining 400 spread across Ireland, Italy, the Netherlands, Norway, Switzerland and Thailand.

The third major pan-European retailer and wholesaler, Phoenix, also owns pharmacies in some countries, including Norway and the UK.

These three groups already dominate pharmaceutical wholesaling in Europe. A new OTC distribution study from OTC marketing strategist James Dudley notes that they accounted for around half of the market in 20 key countries in 2006.

The Dudley study points out that the vast majority – 86% – of the 126,152 pharmacies in the eighteen European countries covered by the study remain independent. Of the 14% in a chain comprising two or more branches: 6% are part of a minor multiple consisting of 2-50 branches; 5% are in a chain owned by international wholesalers such as Alliance Boots, Celesio, OPG and Phoenix; 2% are state or municipality owned, mainly in Italy and Sweden; and 1% are in cooperatives (see Figure 2).

The Dudley study highlights that excluding Sweden – where all pharmacies are state-owned by Apoteket – Norway has the highest proportion of pharmacies in a chain at 98.1%, with Alliance Boots, Celesio and Phoenix owning the vast majority of pharmacies in the country (see Figure 3).

Country	Annual sales (€ millions)	Change 2005/2006 (%)	Number of pharmacies
UK	2,266	+11.9	1,556
Norway	391	+6.4	132
Italy	206	+0.1	162
Netherlands	152	+31.6	56
Ireland	122	+8.2	60
Belgium	98	+14.2	91
Czech Republic	36	-4.7	43
Total	**3,270**	**+10.9**	**2,100**

Figure 1: Turnover of Celesio's Pharmacies division in 2006 and number of pharmacies at 31 December 2006 broken down by country (Source – Celesio)

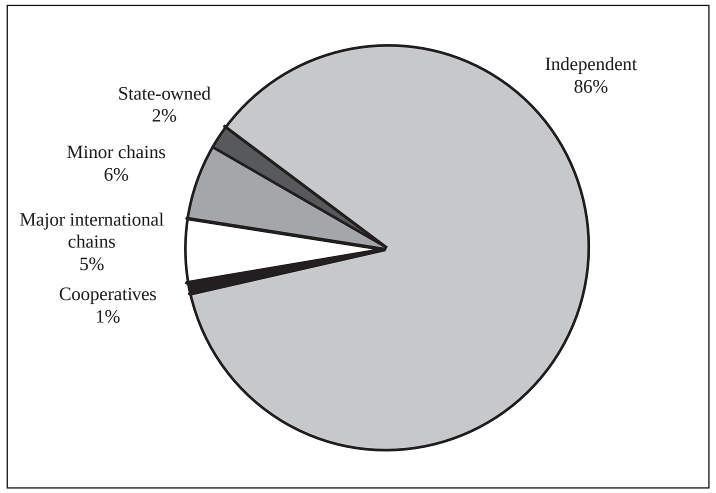

Figure 2: Breakdown of ownership of 126,152 pharmacies in eighteen European countries in 2006 (Source – James Dudley Management)

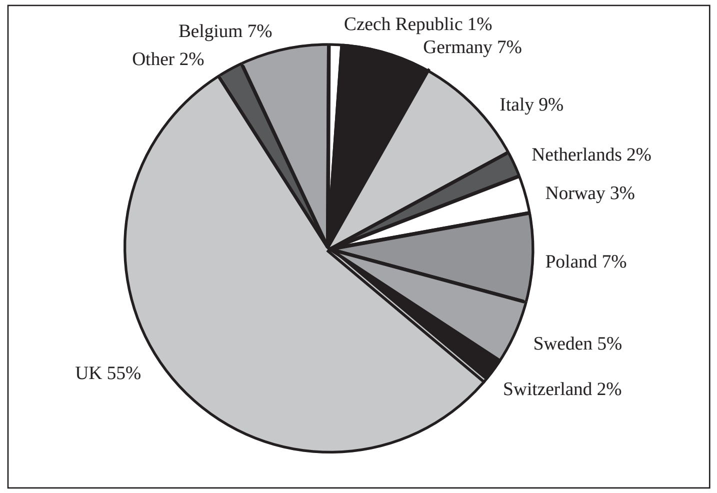

Figure 4: Breakdown of pharmacies in a chain comprising two or more branches in 2006 by country (Source – James Dudley Management)

Of the approximately 17,000 pharmacies in a chain comprising two or more branches, notes the Dudley study, more than half are in the UK (see Figure 4).

Meanwhile, the number and membership of 'virtual' chains – independent pharmacies affiliated to buying groups, often under the control of wholesalers – is on the increase in Europe. In Germany, for instance, Celesio runs the Commitment programme for independent pharmacies, wholesalers Anzag and Sanacorp offer Vivesco and Meine Apotheke respectively, and the marketing association of German pharmacists, the MVDA, operates Linda.

The Dudley study points out that around a quarter of pharmacies in the 18 countries covered by the study are members of virtual chains. Germany and France – two of the countries where large pharmacy chains are not permitted – have the highest proportion of pharmacies in virtual chains (see Figure 3).

Chains of 10,000 pharmacies

Clearly, the arrival of pharmacy chains in big European pharmaceutical markets – such as France, Germany and Spain, each with more than 20,000 pharmacies – could transform the retailing businesses of companies like Alliance Boots and Celesio. According to the Dudley study, major wholesalers could be capable of building up European chains comprising as many as 10,000 pharmacies.

As flagged up by Celesio's Oesterle, players on the margin of the pharmaceutical market might also be keen to grab a piece of the action. The Asian group AS Watson is one to watch, with its existing presence in the health and beauty sector encompassing the Rossmann chain in Germany, the Superdrug and Savers chains in the UK, and the Kruidvat and Trekpleister chains in the Netherlands. And leading supermarket groups might also have a go.

Discussing Celesio's branding strategy for pharmacies, a group spokesperson told **OTC *bulletin*** that Lloydspharmacy would continue to be valuable in English-speaking markets, while DocMorris might be viable in Scandinavia and eastern Europe. Even if southern European pharmacy markets were liberalised, added the spokesperson, the DocMorris name was unlikely to be accepted in countries such as France and Italy.

Meanwhile, Stefano Pessina, executive deputy chairman of Alliance Boots, is keen to extend the Boots brand into continental Europe, according to an interview in *The Daily Telegraph* newspaper. Pessina acknowledges, however, that it will "take time" to get European governments to make changes.

One country already planning to liberalise its pharmacy market is Sweden, where the state-controlled body Apoteket owns all pharmacies. At the end of last year, the newly-elected government appointed a special commission to look into ways of introducing competitors to Apoteket and to consider the possibility of putting some non-prescription medicines on general-sale outside pharmacies. The commission is to report back by the end of 2007.

"Whether Sweden's pharmacy market will be more attractive for having been liberalised, largely depends on how the current 850 state-run pharmacies are released into the competitive market," commented Oesterle. "Celesio will definitely give its backing to a fair system of liberalisation for the Swedish pharmacy market and will be very insistent on this."

Meanwhile, the European Commission is putting pressure on a number of countries over restrictions on pharmacy ownership.

Just a few weeks ago, the European Commission asked France to supply information on its pharmacy ownership rules. It has concerns about France's requirement that anyone wanting to open a pharmacy should be a qualified pharmacist and should belong to a professional organisation. This prevents anyone from owning more than one pharmacy as well as the development of pharmacy chains.

France has two months to respond to the letter of formal notice, which is the first stage of the pre-litigation procedure. The next stage would be the release of a reasoned opinion, giving a detailed statement – based on the letter of formal notice – of the reasons that have led the European Commission to conclude that the member state concerned has failed to fulfil one

Country	Pharmacy chain (%)	Virtual chain (%)
Austria	1.6	2.1
Belgium	22.0	3.8
Czech Republic	9.9	0.0
Denmark	18.4	0.0
Finland	19.4	0.0
France	0.0	60.0
Germany	5.7	62.4
Hungary	0.0	0.0
Italy	8.8	0.0
Netherlands	19.2	11.2
Norway	98.1	0.0
Poland	10.0	0.0
Slovakia	5.6	0.0
Slovenia	0.0	0.0
Spain	0.0	1.0
Sweden	100.0	0.0
Switzerland	18.0	44.0
UK	73.0	49.0
Total	**13.5**	**27.3**

Figure 3: Proportion of pharmacies in a chain of two or more branches or in a virtual chain in 2006 for 18 countries (Source – James Dudley Management)

or more of its obligations under the Treaty or other European Union legislation. The action against France follows similar moves against Austria, Italy and Spain (**OTC *bulletin***, 31 July 2006, page 9).

The Commission announced in July 2006 that it was taking Italy to the European Court of Justice over restrictions imposed by its national legislation on who can acquire and own retail pharmacies. At the same time, it formally requested that Austria and Spain "amend their national rules relating to the setting up of pharmacies".

Referred to European Court of Justice

In Germany, DocMorris has challenged the country's ban on non-pharmacists owning and operating pharmacies by seeking a licence for its store in Saarbrücken. At present, the DocMorris pharmacy is free to operate, although a lawsuit brought by several German pharmacists and pharmacists' associations has been referred to the European Court of Justice (**OTC *bulletin***, 16 April 2007, page 9).

Celesio insists that the German pharmacy market is on the verge of liberalisation. "This is a fact," maintains Oesterle. "Whether we like it or not, we have to adjust our approach."

Germany's ban on pharmacy chains is holding for now, but the general consensus among industry and pharmacists is that it is merely a matter of time before German legislation is changed. A survey conducted by Sempora Consulting in Germany in January and February of this year involving 118 pharmacists, 108 consumers and 42 manufacturers of OTC medicines, prescription-only drugs and diagnostic devices found that almost all manufacturers and three-quarters of pharmacists believed pharmacy chains would be permitted in Germany within the next five years (**OTC *bulletin***, 16 April 2007, page 20).

The survey revealed one in five pharmacists intended to sell their store if the ban on non-pharmacist ownership was lifted

Interestingly, the survey also revealed that one in five pharmacists intended to sell their store if the ban on non-pharmacist ownership was lifted.

Dudley maintains that the "retail pharmacy concepts developed by DocMorris in Germany have the potential to revolutionise the development of pharmacy chains across Europe".

DocMorris has come a long way since 2000 when it started out as an online pharmacy targeting German customers from a base in the Netherlands (**OTC *bulletin***, 31 July 2000, page 28). The retailer reported a turnover of €172 million last year, and claims to have 850,000 mail-order customers.

Over the past seven years, DocMorris has consistently pushed the boundaries of medicines distribution, resulting in a steady stream of lawsuits brought by German pharmacists and their trade associations. Both its activities and pharmacists' responses have also given it a high profile with the general public. Dudley points out that many German consumers recognise the DocMorris name and associate it with "discounted prices and good value".

DocMorris is now seeking to capitalise on this reputation in Germany with a franchise scheme for pharmacies. Around 20 pharmacies have already adopted the DocMorris name and green livery, and the firm is seeking to build a virtual chain of 500 pharmacy partners within the next three to five years (**OTC *bulletin***, 25 January 2007, page 16).

According to DocMorris, pharmacies joining its franchise scheme have on average doubled their turnover and, in many cases, trebled their number of customers.

Dudley points out that the pharmaceutical supply chain in Europe has evolved over the past 60 years in a regulatory environment designed to support pharmacies. "Despite a decade of warning signals," he observes, "the supply industry is only just waking up to the fact that consumers are increasingly deciding for themselves where to shop, and that may include the internet."

Within this context, branding will increasingly become an issue for retail pharmacies, he believes. They will need to position their offering in a meaningful way for consumers, competing both with other pharmacies and the increasing number of non-pharmacy outlets allowed to sell medicines in Europe.

Pharmacists cannot expect governments to keep offering them shelter, he adds. "While concerned about health and safety issues, governments are becoming keener to encourage consumer choice for economic reasons. After all, these same governments want consumers to spend more of their own money on their own health," he says.

Switching lifestyle drugs from prescription to non-prescription status will also give pharmacies a chance to differentiate themselves, believes Dudley, by providing specialist support services. "Introducing lifestyle OTC medicines through switches over the next five years will present important opportunities for organised pharmacies," he says, highlighting GlaxoSmithKline Consumer Healthcare's plans for a European switch of the weight-loss medicine orlistat (**OTC *bulletin***, 27 February 2007, page 1).

Dudley also draws attention to the recent initiative from Boots the Chemists in the UK, which gave men the opportunity to obtain Pfizer's prescription drug for erectile dysfunction, Viagra (sildenafil), directly from selected stores (**OTC *bulletin***, 27 February 2007, page 18).

OTC marketing strategist James Dudley maintains that the greater choice available to consumers across Europe is putting pressure on pharmacies to "crystallise their offering"

The growing number of countries allowing a selection of non-prescription medicines to be sold in supermarkets and other non-pharmacy outlets is also touched upon by Dudley. These mass-market distribution channels are dominated by chains, often with aggressive pricing policies and private-label offerings, he notes.

Denmark, Norway, Switzerland and the UK are just some of the countries with a substantial general-sale category, he says, and the Netherlands is in the process of introducing its own general-sale category. He also draws attention to the emerging general-sale sector in Italy.

IMS Health's Jürgen Petersen recently provided an update on Italy's 'Bersani decree' implemented in August 2006, which allowed all non-prescription medicines to be sold by general retailers, such as supermarkets, but with some restrictions (**OTC *bulletin***, 31 July 2006, page 1). Petersen said 85 mass-market outlets offered non-prescription medicines as of March 2007, compared with around 16,800 pharmacies. The 85 outlets were concentrated mainly in the north of the country, led by Coop with 54 stores, and followed by Carrefour, Auchan and Leclerc.

With greater choice available to consumers, the time has come for pharmacies to "crystallise their offering", says Dudley.

■ For further information on 'OTC distribution in Europe – the 2007 edition' contact James Dudley Management (Tel: +44 1562 747705; Fax: +44 1562 750275; E-mail: information@james-dudley.co.uk; Website: www.james-dudley.co.uk).

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