

## PRESS RELEASE

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### ***SEMPORA Market Survey: The UK pharmacy market 2008***

## **"Tougher competition in the UK pharmacy market will lead to the loss of another 1,200 pharmacies in the next five years"**

*London, 30th May 2008*

***The strong growth of retail chain and supermarket pharmacies along with recent changes to the Pharmacy Contract, new POM-to-P switches, increasing numbers of generic and retail own label products and falling retail prices for OTC medicines, make the UK an increasingly tough market, according to a survey conducted by the management consultancy SEMPORA Consulting. Current market conditions and future developments are increasing pressure on pharmaceutical companies and UK retail pharmacies to overhaul their strategies for marketing, sales, product portfolios and pricing.***

The survey results – which are based on the detailed responses of 504 consumers, 162 pharmacists and 60 executives of leading UK OTC companies – confirm that UK pharmacies as well as OTC manufacturers, although in view of different market challenges, are facing increasingly aggressive competition.

UK pharmacies feel their biggest market challenges are the recent changes to the Pharmacy Contract and the aggressive growth of price-focused supermarket pharmacies (see Figure 1). "Over 60% of UK pharmacies have already seen profits decline in the past three years" explains Jens Hoffmann, Managing Consultant at SEMPORA Consulting. "This trend is expected to continue, accelerated particularly by falling OTC prices and declining revenues from traditional sources, especially prescriptions."

### **Independents are facing a tough future**

The number of independent pharmacies is expected to decrease by up to 18% by 2013 (see Figure 2). "A surprisingly high number of independents have revealed that they plan to close or sell their pharmacy if market conditions get much tougher" adds Hoffmann.

"Altogether, more than 1,200 pharmacies could be at stake. All the major chain operators are currently trying to grow their pharmacy network through acquisitions so they need to have a good system for identifying these pharmacists and bringing them on board."

But not all independents will give up their businesses in the face of increased competition. Most will try to survive by focusing even more on their core competences of good customer service and close personal contact – and will be counting on enhanced support from the manufacturers' side. When asked about current levels of support from the pharmaceutical industry in this difficult market environment, over 50% of independent pharmacists expressed the need for better marketing & sales support and training from the OTC industry. And almost half of independent pharmacists see growth potential for their pharmacy through better category management concepts from manufacturers for specific OTC categories.

### **Pharmacy chains need clearer positioning and better customer service**

Despite the growing power of the multiples in the market, pharmacists employed by chains still see significant room for improvement in the marketing strategies and general performance of chain pharmacies. One third of UK chain pharmacists think that their company brand is not clearly positioned in the market place, and more than half want better internal marketing & sales training. Moreover, the majority of UK consumers, pharmacists and manufacturers are convinced that independent pharmacies outperform pharmacy chains in terms of good customer service and in-depth consultation and advice (see Figure 3).

These qualities, along with a broad range of professional pharmacy services, are becoming increasingly important and are seen as the key to future success in the UK pharmacy market. Special offers for OTC products, formerly a key differentiator for many chain pharmacy operators, are no longer regarded as the most important driver of growth and consumers do not see 'low prices' as a critical differentiator when choosing a pharmacy. Most consumers are even prepared to pay a little more for their medicines if they receive better customer service and in-depth consultation.

The frequent use of OTC special price offers in the past has given consumers a distorted view of pricing in UK pharmacies. Most consumers estimate prices for common OTC products at only 50-80% of the recommended retail price. Linked to those distorted price perceptions, consumers feel that OTC prices have risen in the past three years, whereas pharmacists and manufacturers report constant or falling OTC prices (see Figure 4).

### **Challenges for OTC companies**

The pharmaceutical industry believes that prices in the UK pharmacy market are too low. "Falling OTC prices are seen as the main driver of the decline in OTC margins as witnessed by many OTC executives in the past three years" explains Tobias Brodtkorb; Managing Partner at SEMPORA. "Most OTC executives admitted that their influence on retailer pricing strategies is decreasing. In fact, today, most manufacturers usually have to comply with the price demands of chain pharmacies in annual talks." Declining margins, along with the growing importance of own label products and generics are therefore seen as the biggest market threats for manufacturers in the UK. Moreover, the expected reduction of pharmacy chain portfolios (to up to three top brands and one own label product per category in the long term), increasing the risk of being de-listed, and the industry's ambition to launch more POM-to-P switches, leaves OTC executives with a number of highly complex internal and external challenges.

### **Management agenda for OTC executives**

In order to benefit from the continuing growth of own label products, OTC companies will have to check their production capacities as well as retailers' demand for the production of own label products – currently, more than 40% are already producing own label products for retail partners. The changes to the market environment also require a review of manufacturers' discounts & allowances systems – currently, more than 80% of manufacturers see a need for this to be updated. In order to avoid being de-listed in pharmacy chains, OTC companies will have to focus even more on building strong OTC brands. Ongoing brand investment, selected line extensions and, if required, brand repositioning according to the changing demands of the market are essential in order to secure long-term profitable growth. Other tasks for OTC companies include better preparation and management of POM-to-P switches, particularly in terms of pharmacy training and information, the launch of pharmacy partnership programmes and the overhaul of existing category management concepts.

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The full survey report provides a detailed look at the impact of recent and possible future developments in the UK pharmacy market (including POM-to-P switches, changes to the Pharmacy Contract, etc.) and the likely reactions of the different market players. The report draws relevant conclusions for pharmaceutical companies, pharmacy chains, independent pharmacies and pharmacy cooperatives and is available from SEMPORA Consulting, London ( )

**About SEMPORA Consulting:** SEMPORA is a leading management consultancy with focus on strategy, marketing and sales consulting, with offices in London and Bad Homburg / Frankfurt (Germany). SEMPORA's industry focus is in Health Care, Fast Moving Consumer Goods, Retail and Travel/Tourism.

**About the author:** Jens Hoffmann is a Managing Consultant at SEMPORA Consultant. His consulting focus is in Health Care, Pharmaceuticals and Fast Moving Consumer Goods.

**For further information please contact:**

**Jens Hoffmann**

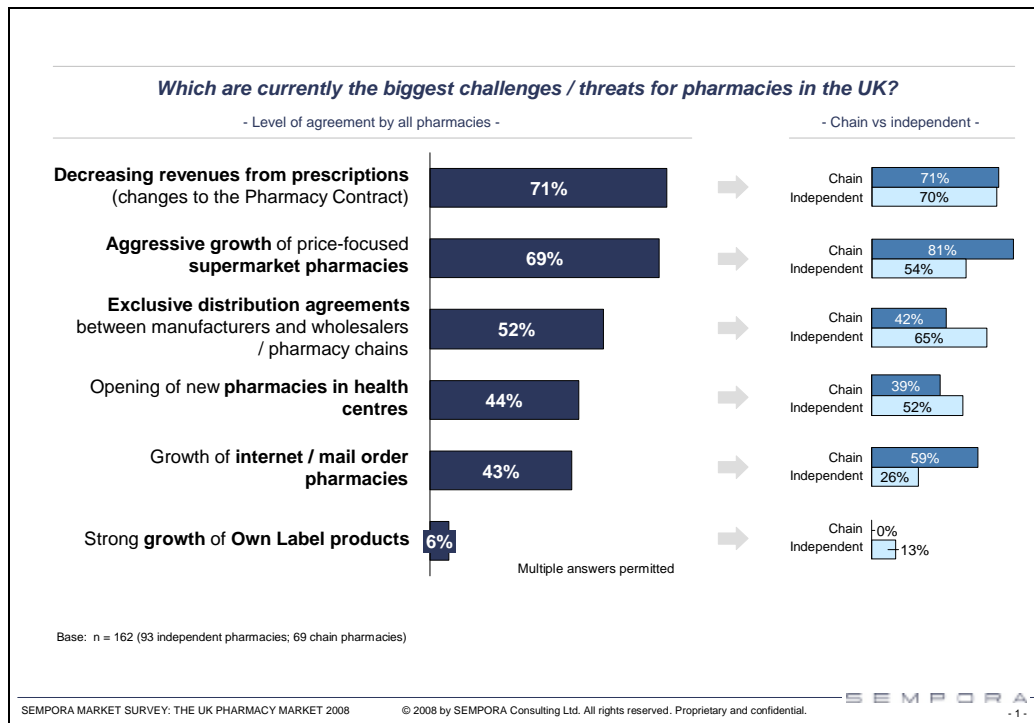
SEMPORA Consulting Ltd  
33 St James's Square  
London SW1Y 4JS

Tel: +44 (0)20 3178 4612  
Fax: +44 (0)20 7661 9400  
E-mail:

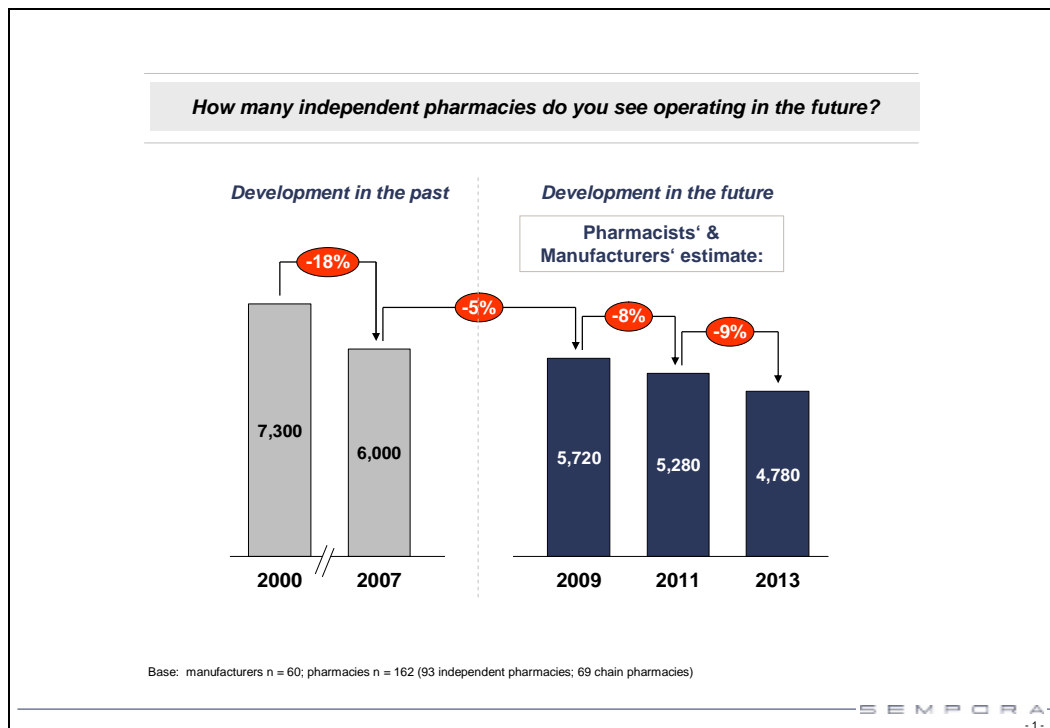
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*UK Pharmacy market, UK health care market, over the counter (OTC) medication, Pharmacy Contract, own label products, generics, pharmacy services, pharmacy chains, independent pharmacies, pharmacy cooperatives, POM-to-P switches*

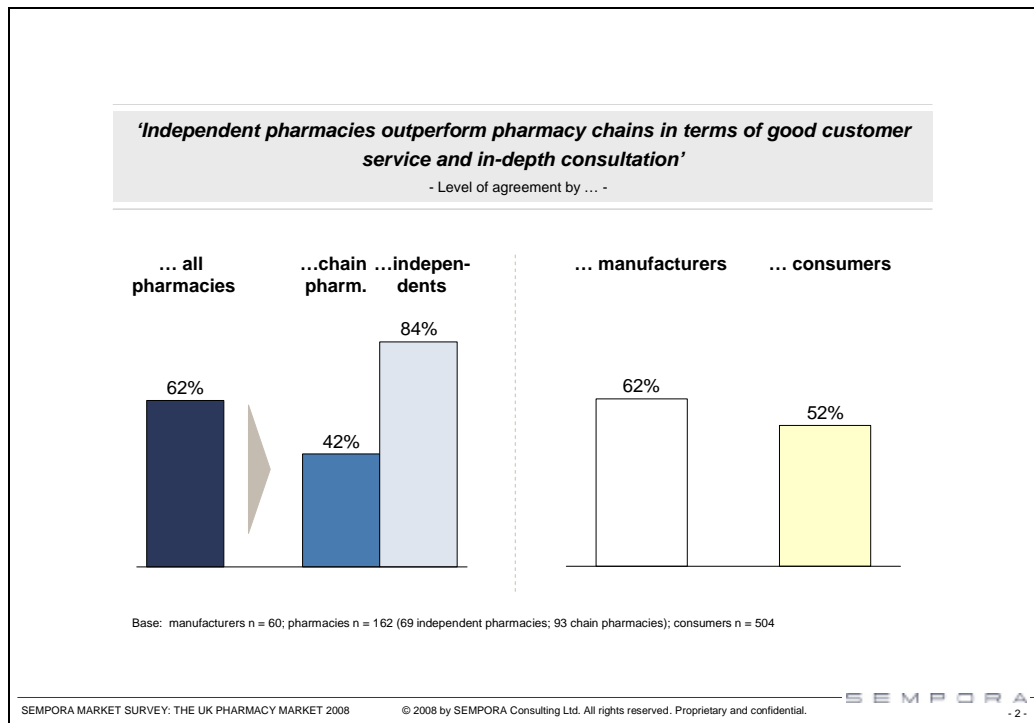
**Figure 1: Biggest challenges / threats for pharmacies in the UK**



**Figure 2: Market shakeout of independent pharmacies**



**Figure 3: Service performance of pharmacy chains vs. independents**



**Figure 4: Development of OTC prices 2005-2008**

