SEMPORA MARKET SURVEY:

THE UK PHARMACY MARKET 2010/11

Widespread scepticism about the impact of NHS reforms, price and margin pressure, whilst the online pharmacy channel is poised for growth.

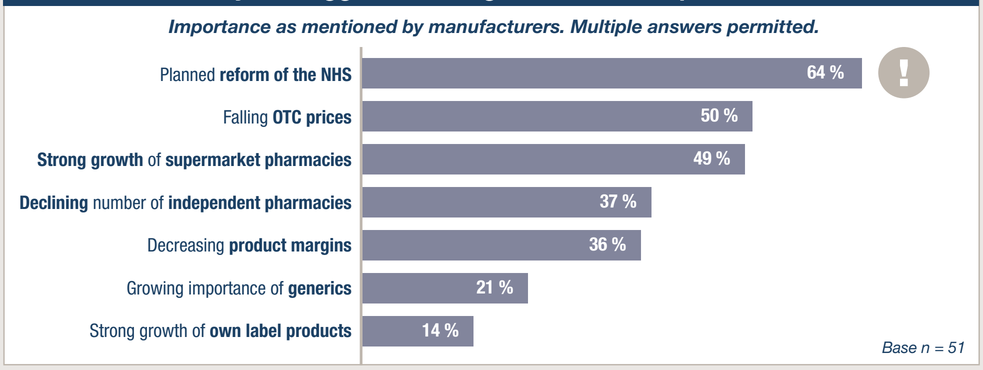
Growth in retail chain and supermarket pharmacies share, increasing numbers of generic and retail own label products and falling prices for OTC medicines, continue to make the UK a tough market. At the same time, pharmacy sector professionals are most concerned about the pending changes to NHS structure, according to a SEMPORA survey conducted at the end of 2010 and which updates previous research from 2008. Whilst debate and some refinement to the proposed Government-driven changes continues, these market conditions and future developments increase pressure on pharmaceutical companies and UK retail pharmacies to review their strategies for marketing, sales, product portfolios and pricing. Internet pharmacy has so far remained relatively underdeveloped but it is only a matter of time...

The new survey results are based on the detailed responses of samples of UK consumers, pharmacists in England and executives of leading UK OTC companies. The survey found that most pharmacists (75%) and OTC manufacturers (64%), although concerned by a range of different market challenges, agree that NHS reforms present the biggest market challenge in their sector. Competition in the pharmacy market continues to intensify as the OTC manufacturer market consolidates and pharmacy chains increasingly dictate the market.

Challenges and concerns

For pharmacists, the potential effects of the NHS reforms replace changes to the community pharmacy contract as their previous biggest concern in 2008. This principal challenge is followed by concerns about exclusive distribution agreements, pharmacy needs assessments, whilst pharmacists are still worried about aggressive growth of price-focused supermarket pharmacies, previously rated the second most important challenge (see figure below). 77% of responding pharmacists disagreed with the statement that "the reforms have will have a positive effect for the UK pharmacy market".

What are currently the biggest challenges / threats for pharmacies in the UK?



BIGGEST CHALLENGES AND THREATS FOR PHARMACIES IN THE UK
Manufacturers see the planned NHS reform as the biggest challenge for pharmacies

Opportunities

Most pharmacists who responded reported that profits have declined further in the past few years and, continuing to face difficulty in retaining customers, independent pharmacies want to focus more on the quality of customer service.
After NHS reform, manufacturers consider the next biggest challenges as the growth of supermarket pharmacies, which has increased in importance since 2008, decreasing product margins and the growing importance of generics (the major challenge reported in 2008 along with 'strong growth in own label products').

- The biggest future growth chances are expected to arise from the increasing consumerisation of healthcare, i.e. a growing patient autonomy and information. Other key factors are considered to be: development of clinical services to support pharmacies with their products, investment in and management of strong OTC brands, partnership programmes for top pharmacies and preparation and support for POM-to-P switches.
- The majority of pharmacists consider that the quality of costumer service and a wide range of pharmacy services have become more important and future growth driver. This is especially important for independent pharmacies which will have to concentrate more on customer service & consultation. A majority of consumers say they are even prepared to pay a little more for their medicines if they receive better customer service.
- 64% of OTC manufacturer respondents considered internet pharmacy growth to be important, or very important, to future profitable growth.

Internet pharmacy is a challenge and an opportunity

Although internet penetration remains low compared to other categories, with only 4% of consumers 'usually' using the internet for their OTC purchases, 20% of consumers have already shopped at an internet or mail order pharmacy and most consumers (80%) believe that their importance will grow in the future. Nearly a third said they use the internet to compare prices for non-prescription medicines and 78% have researched medical conditions and medicines online. However, around of fifth of people who had bought on the internet said they would not do so again. The main reasons given for not buying online at all were around the 'sensitivity' of products and lack of professional advice. Though most consumers are not familiar with them, 70% are willing to try a prescription vending machine.

A third of pharmacists see internet pharmacies as a challenge for their business whilst around two thirds of manufacturers consider their growth as an important factor in their future profitable growth.

OTC Price Management remains difficult

OTC price management:

- Special offers for OTC products have lost importance when it comes to increasing footfall in pharmacy stores.
- While manufacturers report falling or constant OTC prices the majority of consumers and pharmacists feel that OTC prices have risen.
- Consumer price awareness has increased – they now have a more accurate view of OTC prices than 2 years ago.
- Despite the general use of aggressive OTC price offers, 'low OTC prices' are not regarded as the key differentiator in the future UK pharmacy market

Consumers and NHS reforms

NHS reforms:

- Consumers feel that general health care has improved, but costs have increased.
- Results suggest some consumer scepticism when it comes to NHS reforms – whilst 45% felt 'adequately' informed about recent changes and 31% about pending changes 69% felt that the reforms would not have a positive impact either on pharmacy services or on health care in general.

The latest SEMPORA survey reflects the fact that we are facing a challenging time in the development of the pharmacy market. Changes like the NHS reforms present new challenges as well as commercial opportunities. At the same time retailers and manufacturers have to gain a deeper understanding of the potential of the internet pharmacy market. In the UK, OTC pharmacy has penetrated the online market very slowly compared to other product categories and to countries like Germany, for example, where this sector already accounts for 10% of OTC sales. There are structural differences but the potential should not be underestimated. Some brands are already generating over 30% of sales through this channel.

CONTACT:
Francis Prosser
f.prosser@sempora.co.uk
+44 (0) 20 31 78 46 12

Daniela Giese
d.giese@sempora.co.uk
+44 (0) 20 31 78 46 12