

## RETAIL PHARMACY

**THE POWER AND EVOLUTION OF BOOTS**

*In 2011, five years after the £11bn merger of Alliance Unichem and Boots to form Alliance Boots, the group reported passing two key milestones – over £20bn annual sales turnover and a trading profit of over £1bn, a near doubling over the last four years.*

The rise of the group, to reach these impressive figures has been marked by acquisition and geographic expansion, notably the recent addition of some £6bn in annual turnover through Germany's wholesaler ANZAG and Turkey's Hedef Alliance.

This article gives an overview of the size, power and evolution of Boots and comments on the implications for pharmaceutical manufacturers.

**From UK National Treasure to Global Empire**

When Victorian agricultural worker John Boot moved to Nottingham to open a herbalist store, he could not have imagined that over 160 years later his name would still be behind the retail icon, now a multi-national group generating over £20bn of sales and £1bn of profit each year. Around 50% of group revenues are now derived from international operations.

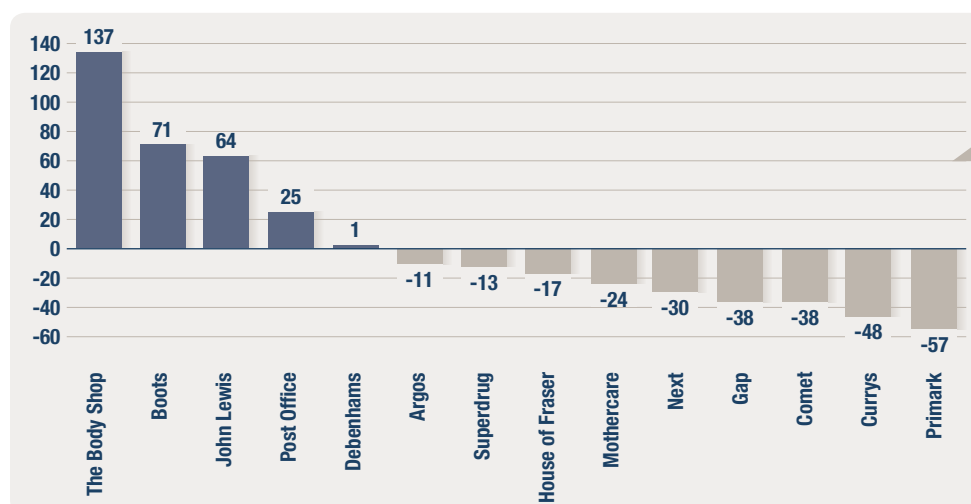
Boots  
Global Empire

John Boot's son Jesse had the retail vision and a century ago had expanded the firm to over 550 stores, before its subsequent sale to United Drug in 1920. The firm came back into UK hands in 1933, still with Boot family directorship, eventually becoming a public company in 1982, until merging with pharmacy wholesaler and retailer Alliance Unichem in 2006 to form Alliance Boots. The Alliance Boots group now numbers over 3,280 stores, of which about 2,500 are in the UK.

**Core Brand Values: Trust and Value for Money**

To UK consumers the firm is still synonymous with the business values that the Boot family instilled over 100 years ago: trust and value for money. These core brand values are underpinned by what is regarded as one of the most successful loyalty programmes around. The Boots 'Advantage Card' scheme, introduced in 1997, claims the second largest loyalty scheme membership in the UK, with a reported 16.4m members, just behind the 17m strong 'Nectar' scheme (a 'coalition' loyalty card, primarily Sainsbury's and BP) and ahead of Tesco Clubcard with around 15m members. Its well-received own brand products such as no7 Protect and Perfect anti-ageing cream and Boots Pharmaceuticals reinforce brand values which are based on real expertise over many years – Boots as the trusted chemist.

Trusted  
Brand



SOCIAL EQUITY  
PERFORMANCE – HIGH  
STREET RETAILER CHAINS  
(VS. CATEGORY AVERAGE)

Further evidence of this value is seen in Boots' performance on the Goodbrand Social Equity Index, a measure of the overall value consumers place in a brand or company. Boots is rated significantly above average, relative to other high street retailers in the UK, and second only to The Body Shop.

And, in fact, the Boots brand sits comfortably within the UK's overall top 10 commercial brands for social equity.

In comparison this score is only surpassed in European pharmacy retail by Sweden's Apoteket chain with a score of 195.

Rank		GBSEI score
1	The Body Shop	251
2	Marks & Spencer	238
3	Co-op	237
4	Sainsbury	215
5	Co-operative Bank	209
6	Waitrose	205
7	Asda	189
<b>8</b>	<b>Boots</b>	<b>185</b>
9	Ecover	184
10	John Lewis	178

UK average GBSEI score = 100

GBSI-TOP-10  
UK COMMERCIAL  
BRANDS

### Origins of the current entity

By the early 2000s Boots Group PLC had come to be regarded as something of a UK 'legacy' business – solid, with very high customer loyalty levels, but relatively unexciting performance and increasingly threatened on the high street by supermarkets and drug-stores like Superdrug.

In 2006 the UK's Office of Fair Trading allowed the merger of leading wholesaler Alliance Unichem plc and Boots plc to go ahead, without referral to the Competition Commission. This paved the way in July 2007 for the 10th biggest leveraged buyout in history – at £11bn the Europe's largest public to private deal ever – backed by equity from NYSE listed private equity firm KKR and executive chairman Stefano Pessina, and leveraged by around £9bn of loans from a consortium of banks.

In comparison, European competitor Celesio's origins were in pharmaceutical production and wholesale as Gehe AG, a firm with an even longer founding history than Boots. Gehe expanded into the UK through its 1995 acquisition of leading wholesaler AAH. In 1999, the group added retail pharmacy through the acquisition of the UK's second largest chain of pharmacies, Lloyds Pharmacy with 900 stores, then combined with the 400 strong chain of Hills Pharmacies.

### Scale and Power:

Both Celesio and Alliance Boots now report group sales of over £20bn, with Alliance Boots showing greater profitability, primarily as a result of the contribution from a larger proportion of 'pharmacy-led health & beauty' retail income. A key advantage Boots' retail division has over others pharmacies in the UK is the proportion of non-dispensing 'retail' sales income such as OTC/non-prescription income and sales of beauty products & toiletries – at over 60% this provides scale and contribution that many smaller or independent pharmacies do not begin to reach. For independent pharmacies 10-20% such income is often the norm.

The two businesses are the two largest pharmaceutical retail/wholesale groups in Europe. Along with privately-held Phoenix Pharmahandel, Germany's largest drug wholesaler and the second largest in Europe, they are Europe's 'big three' wholesalers. Together these three account for over 90% of sales in UK, Norway and Denmark, and over 60% in Germany and France, for example.

Alliance Boots took on a large share of the German market with its takeover of Germany's third largest wholesaler ANZAG. Its pharmaceutical wholesale revenue grew 24.4 per cent in the quarter following the acquisitions of ANZAG and of Turkey's Hedef Alliance,

Pharmacy business  
increases profit

Strategic market entry  
in Germany

making the group the largest pharmaceutical wholesaler in Europe. ANZAG is reported to account for around 17% of drug wholesale in Germany and Hedef around a third of Turkey, the 15th largest country market.

The ANZAG merger can also be seen as a clever strategic move to expand geographically as well as position the group in a market where retail chains are not currently allowed. Should regulations ever be relaxed, Alliance Boots would have an established foundation and position of strength in the German retail pharmacy market.

Although the majority of retail sales are in the UK, Alliance Boots Health & Beauty division ranks as the second largest European retailer in the sector, behind AS Watson (Superdrug). This power is also fuelled by an impressive, broad private label offering ranging from prescription and OTC medicines to cosmetics and medical devices.

### Implications for the pharmaceutical industry

- 1.) The group has strong positions in both retail and wholesale distribution: potentially resulting in increased pressure on industry in general and specifically on trade-terms with manufacturers.
- 2.) ANZAG runs the pharmacy co-operative of 1,100 Vivesco pharmacies in Germany – its acquisition is a bold strategic move into Germany and the foundation for a possible move into retail pharmacy, if deregulated. As a result manufacturers must consider the Vivesco Group as a crucial future partner in Germany.
- 3.) The group is powerful with both manufacturers and consumers – accounting for high shares of manufacturer sales. In the UK, for example, successful product launches depend on a listing with Boots. In the future this might also be the case in other European markets.
- 4.) Boots online pharmacy and advice service (WebMD) and the boots loyalty card allow Boots to gain valuable consumer insights that can be translated into tailor-made marketing activities.
- 5.) Manufacturers should review their portfolios in respect of possible private label threats from Boots.

**Strong pressure  
on industry**

Building a sound key account strategy with respect to Boots with a view to establishing a preferred partnership will become increasingly important in securing the future success of a pharmaceutical brand. With further acquisitions expected by Alliance Boots this approach becomes even more pressing.

<b>£20.2bn</b>	group revenue ( <i>not including share of associates and joint ventures</i> ), of which
<b>£7.6bn</b>	health & beauty retail
<b>£13.9m</b>	pharmaceutical wholesale ( <i>difference to total due to intra-group and contract manufacture</i> )
<b>£1.1bn</b>	group trading profit
<b>115,500+</b>	employees
<b>3,280</b>	retail stores
<b>370+</b>	wholesale distribution centres, delivering to
<b>160,000+</b>	customers, dispensing more than
<b>250m</b>	items a year

**ALLIANCE BOOTS  
AT A GLANCE**

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