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# The European Pharmacy Models at Stakes: Which Future ?

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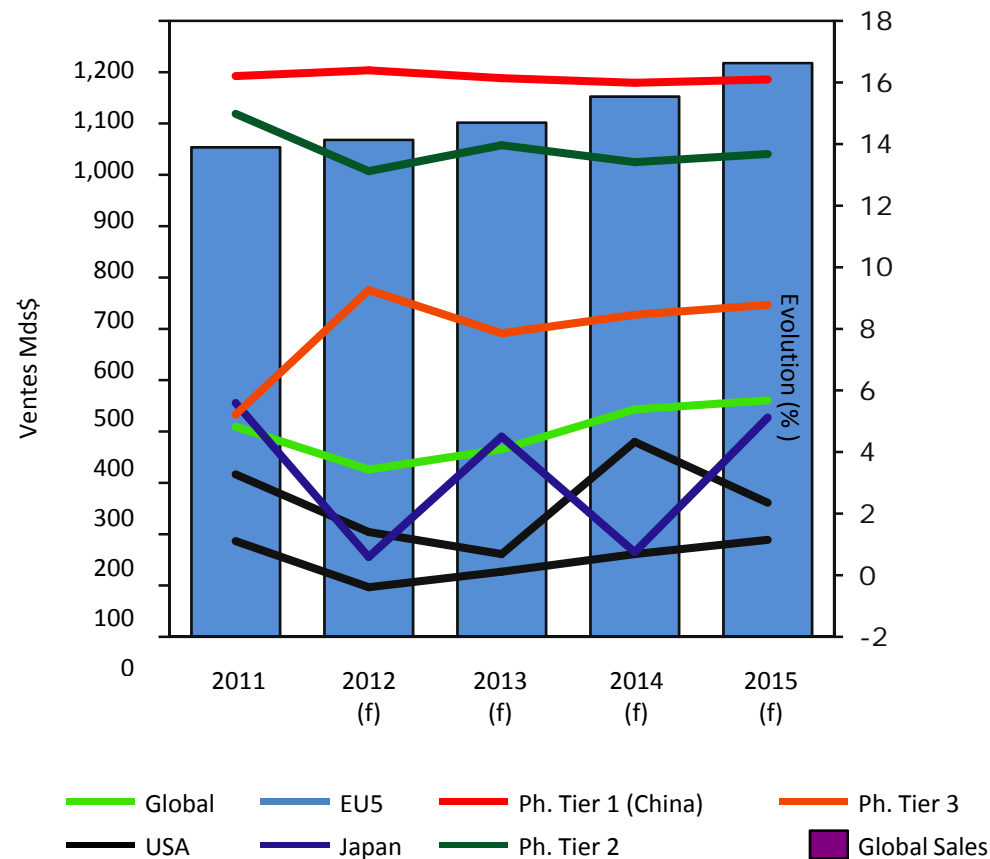
# Summary

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- The Pharmaceutical Economy is experiencing dramatic changes in Europe both on a quantitative (slow growth) and qualitative standpoints (changes in innovation patterns)
- Although there is a plurality of models, European community pharmacists must adapt to this “New Deal”
- To survive, the pharmacy sector is engaged in two main strategic directions
  - Diversification => expanding the market by offering new goods and services
  - Integration (vertical and horizontal) => rising net revenue by increasing productivity
- The solution mainly lies in the hands of the profession...

# Pharmaceutical Markets in Western Countries : An Era of Slow Growth

2011-2015: Global Market and Growth



Ex-factory prices, discounts included

Source: IMS Health Market Prognosis, Avril 2012

Mature Markets CAGR 2012-2015	
USA	1 - 4%
Japan	1 - 4%
Germany	0 - 3%
France	(2) - 1%
Italy	0 - 3%
Canada	0 - 3%
Spain	(4) - (1)%
United-Kingdom	0 - 3%
S. Korea	2 - 5%
<b>Mature Markets</b>	<b>1 - 4%</b>

Emerging Markets CAGR 2012-15	
China	15-18%
Brazil	12-15%
Russia	10-13%
India	14-17%
<b>Emerging Markets</b>	<b>12-15%</b>

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# Pharmaceutical Markets in Western Countries

## Growth rates for retail are going to be negative in many markets

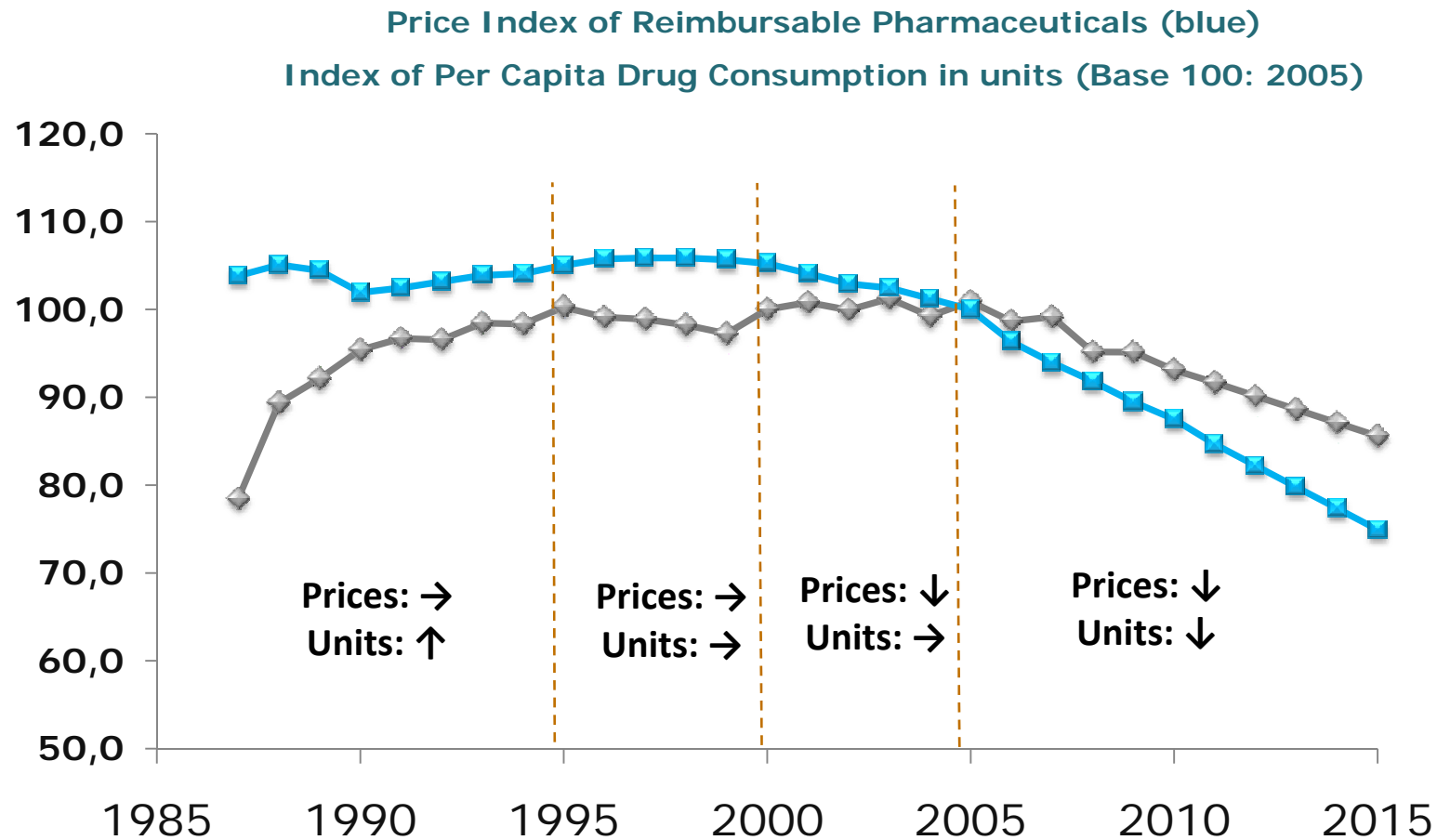
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	Retail 2011 in US \$ Bill.	CAGR* 06-11	CAGR* 12-16
Germany	37,4	3,4%	1,3%
France	28,3	0,3%	-1,3%
Italy	15,9	0,3%	-0,9%
UK	13,9	0,6%	0,0%
Spain	13,7	0,3%	-2,0%
Poland	5,5	5,0%	1,6%
Greece	4,9	0,0%	-2,1%
Netherlands	4,8	-0,6%	-0,7%
Belgium	4,3	2,2%	0,7%
Switzerland	4,2	1,2%	0,2%
Portugal	2,9	-3,2%	-5,6%
Romania	2,6	12,3%	6,3%
Hungary	2,2	4,1%	-1,4%
Finland	1,9	1,0%	0,0%
Czech Rep.	1,9	2,1%	0,1%
Norway	1,4	0,4%	-1,2%

Source: IMS Health, Market Prognosis, April 2012

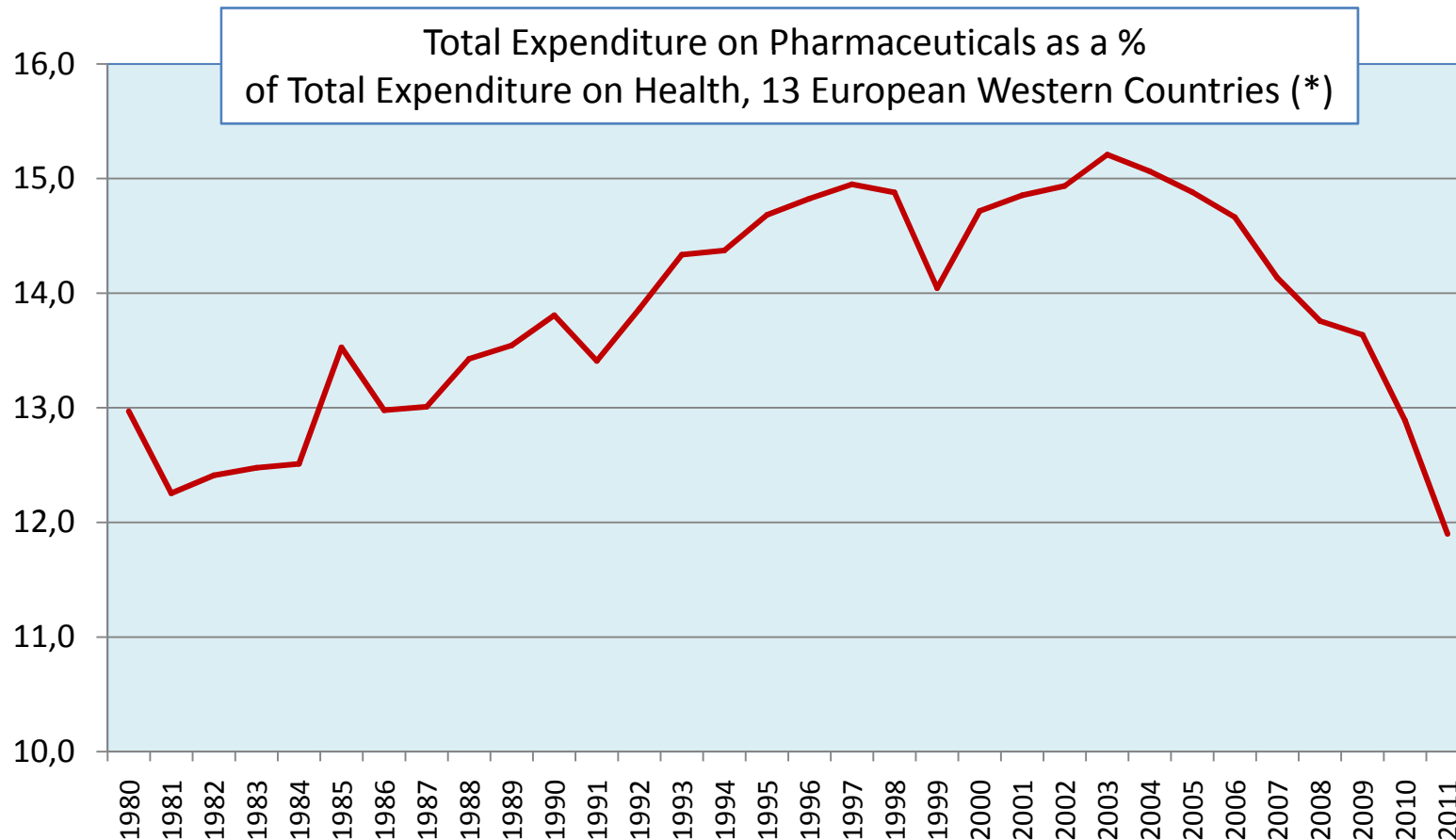
\* CAGR: Compound Annual Growth Rate

# French Pharmaceutical Markets: An Historical Decline in Both Prices and Quantity



Source: Ecosanté, 2012

# The Slow Growth of Pharmaceutical Expenditures: A Declining Share of Total Health Expenditures

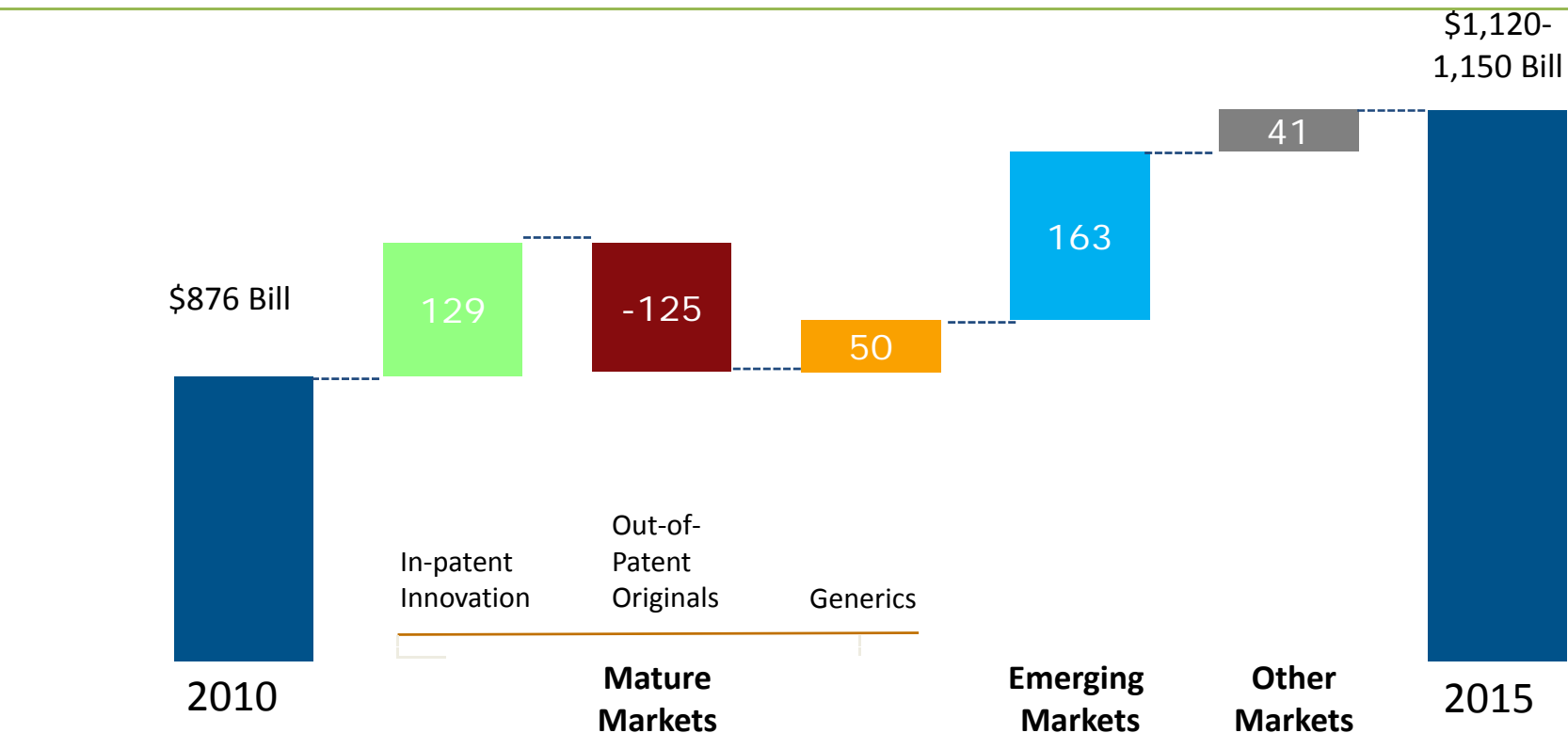


(\*) Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, Sweden Switzerland, United Kingdom

# Why a Slow Growth ?

## Patent Losses Offset Innovation Gains in Western Countries

### Factors of Change in the Global Pharmaceutical Market 2010-2015



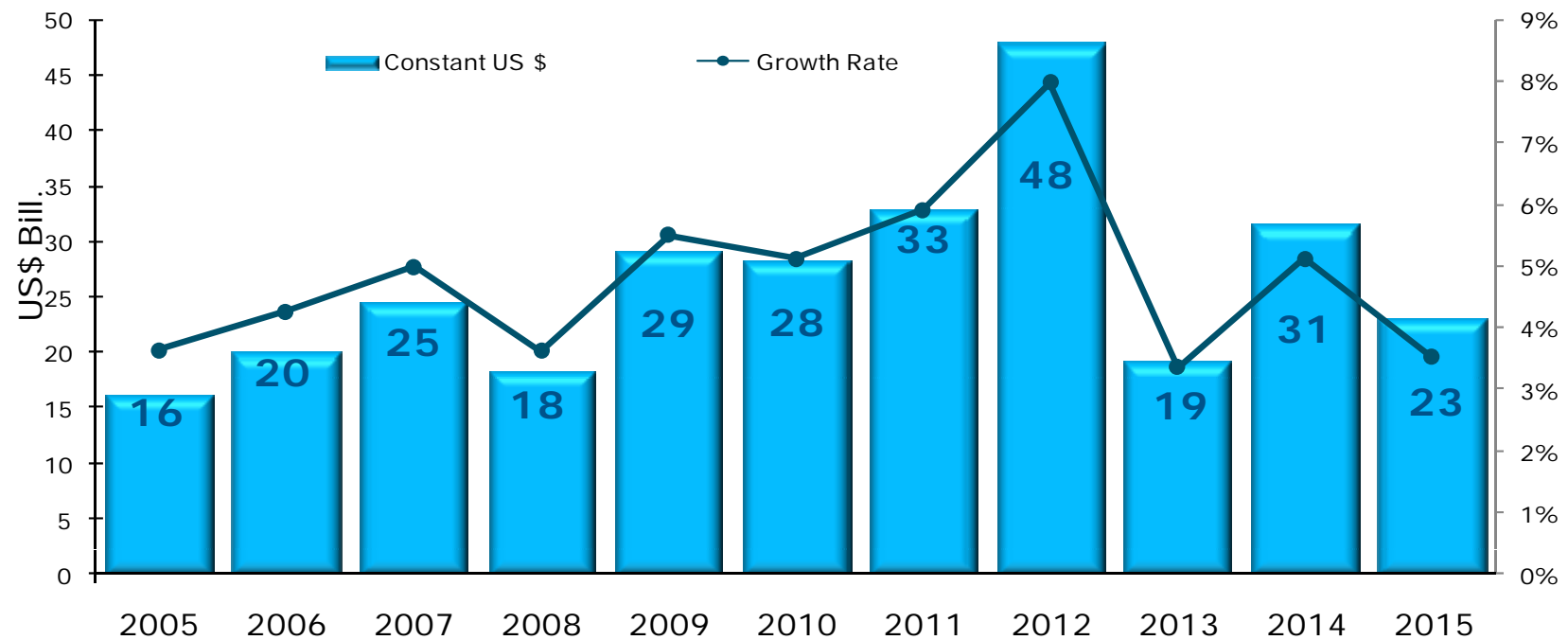
\*Other Markets include the Rest of the World (ROW) : US \$ 26 Bill. and the other mature markets (US \$ 15 Bill.)

Source: IMS Institute for Healthcare Informatics; Market Prognosis, September 2011

# Why a Slow Growth ?

## The Generic Revolution Coming to an End ?

Patent Loss Exposition in the 8 Major Markets\* (2005-2015)



\* US, Top 5 Europe, Japan, China

Source: MIDAS, IMS

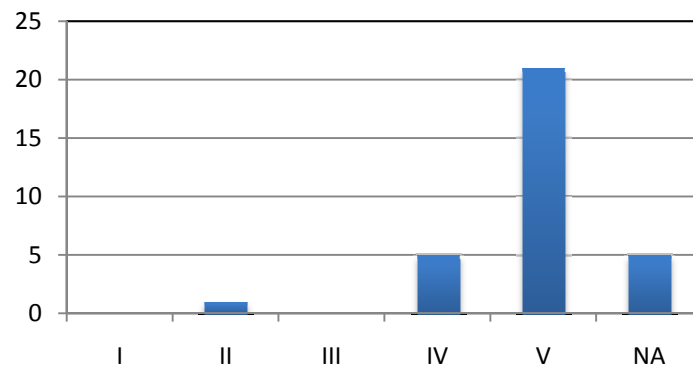


# Why a Slow Growth ?

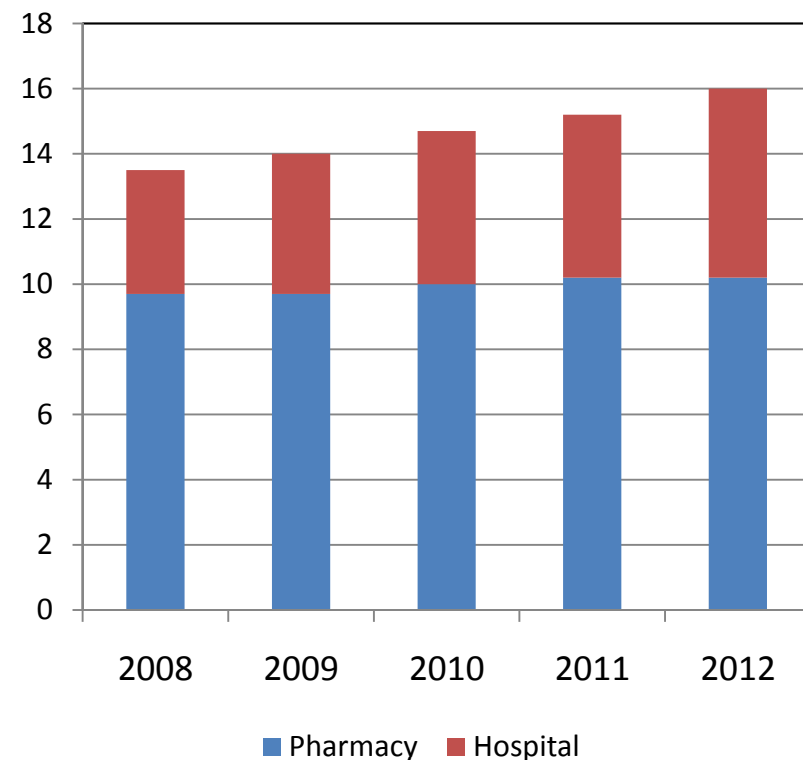
Innovation limited to small indications and to hospital products

## Innovation in « niche » indications: **The Example of the French Transparency Commission**

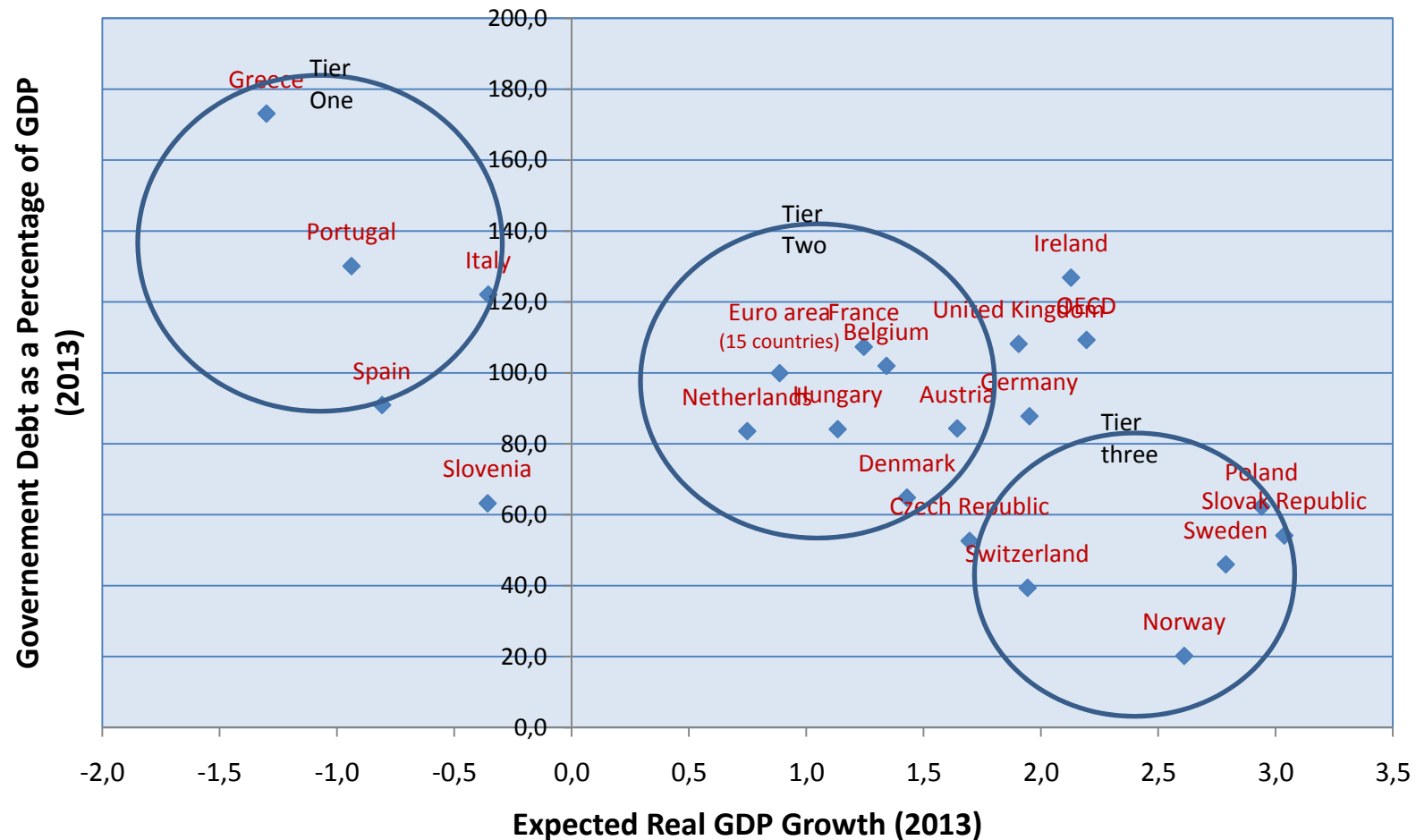
- A public Agency in charge of the evaluation of new products for reimbursement and pricing
- Ranking of innovations on a 5 degree scale from ASMR I (major innovation) to V (no innovation)
- 1<sup>st</sup> semester 2012 : out of 32 new applications
  - Only one got ASMR II (Votubia®, an orphan drug with a target population of about 100 in France)
  - 21 got ASMR V (no improvement over existing drugs)



## Dynamic Hospital Markets: **The Example of UK Market**



# The Slow Growth of Pharmaceutical Expenditures: The Effect of the World Financial Crisis



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# The Slow Growth of Pharmaceutical Expenditures: The Effect of the World Financial Crisis

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## Traditionally the Health Care Sector was seen as a contra-cyclic sector

- Public funding as a shield vs depression
- Demand side oriented economic policies (Keynesian)
- Smooth and continuous long term growth of Health Care Expenditures
- Mechanical raise of the share of GDP devoted to health during crisis periods
- Pharmaceutical companies shares as “safe haven” for investors

## The financial European crisis fully affects the Health Care Sector

- Large public deficits and public debts
- “Austerity Plans” in a number of countries (Greece, Spain, Italy, France, Germany, UK, etc.)
- Welfare programs – including health care – main targets of austerity programs
- Slow economic growth mid- and long term perspectives
- “Big pharma” in search of new Business Models

# The Slow Growth of Pharmaceutical Expenditures: The Effect of the World Financial Crisis

Figure 1. Average OECD health expenditure growth rates in real terms, 2000 to 2010, public and total

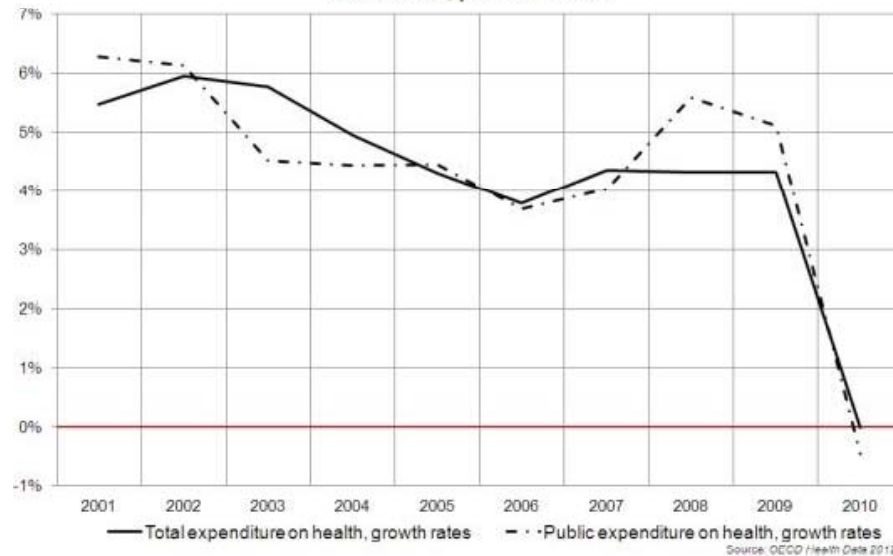
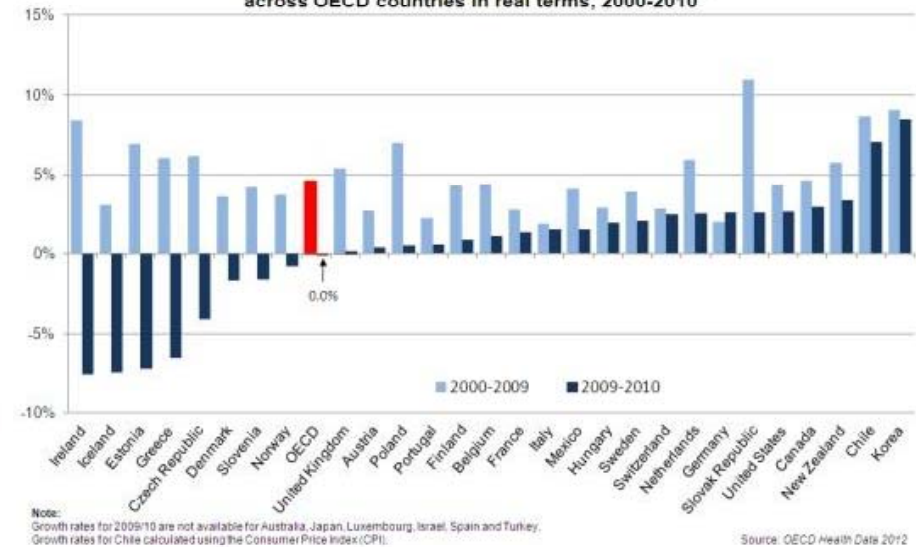


Figure 2. Average annual growth in health spending across OECD countries in real terms, 2000-2010



# The Slow Growth of Pharmaceutical Expenditures: Tougher Economic Policies

- Mandatory drugs price cuts in several countries
  - Greece, Italy, Spain, Portugal, France
  - Mandatory discounts up to 16% for 3 years in Germany
  - Extension of reference pricing
  - 7 bill€ sales lost in 2010-2011 (EFPIA)
- Pro Generics Policies
  - INN Prescribing + obligation to offer the cheapest medicine (Greece, Portugal)
  - Public tenders in the Netherlands and in Germany (AOK)
  - Generic price cuts (France)

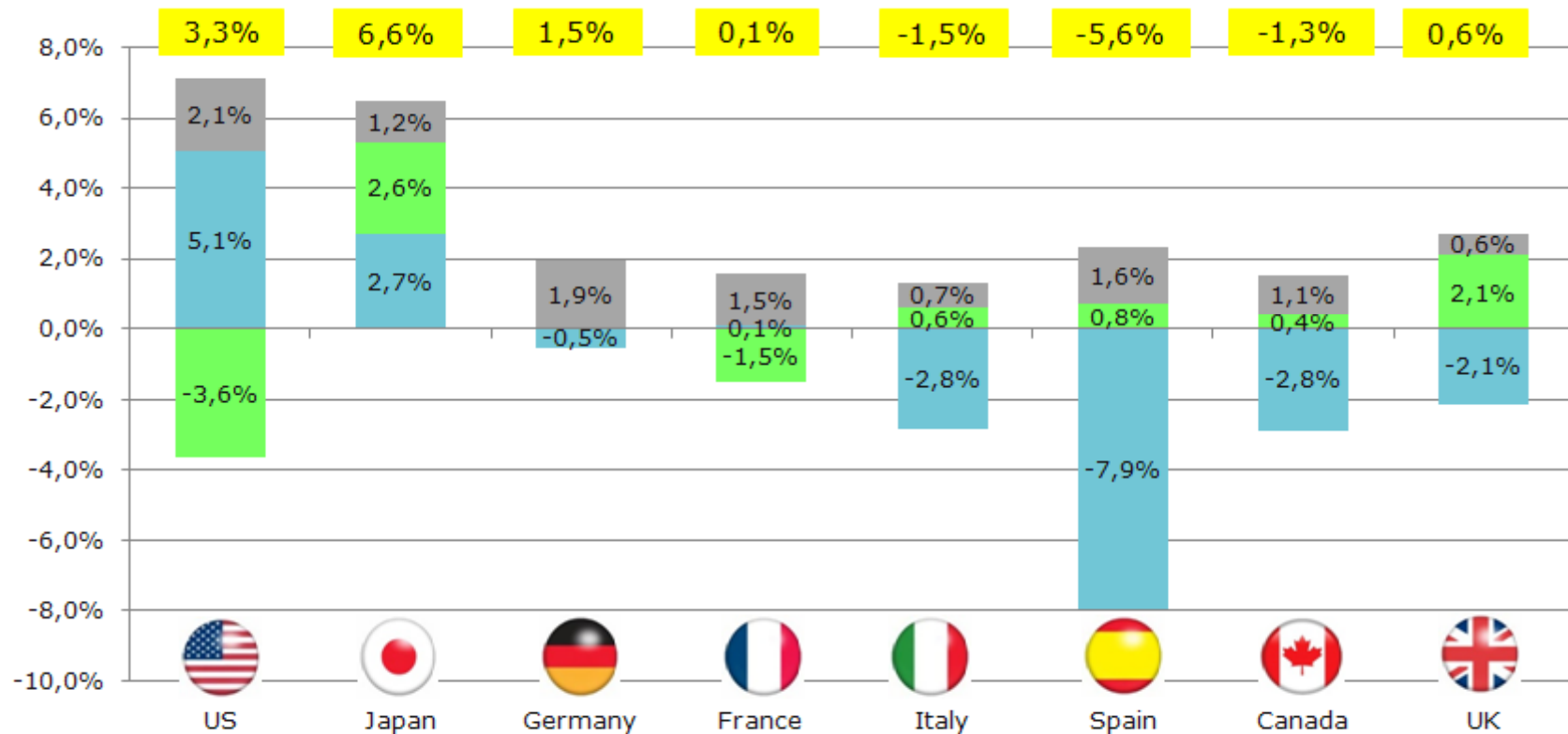
Effect of Payers Tendering on Prices:  
the Example of The Netherlands

Product	Preferred supplier	Price in May	Price in June	Change
Omeprazol tablets/capsules 20 mg	Ratiopharm	€ 0.36	€ 0.05	-88%
Alendroninezuur tablets 70 mg	Centrafarm	€ 4.99	€ 0.36	-93%
Omeprazol tablets/capsules 40 mg	Centrafarm	€ 0.65	€ 0.09	-86%
Paroxetine tablets 20 mg	Ratiopharm	€ 0.37	€ 0.07	-82%
Simvastatine tablets 40 mg	Actavis	€ 0.27	€ 0.04	-84%
Pravastatine tablets 40 mg	Focus Pharma	€ 0.54	€ 0.13	-76%

- New Market Access Hurdles
  - AMNOG in Germany
  - Cost-Effectiveness Studies
  - Real World Evidences Post-Marketing Studies
- Raise of Patients Out-of-Pocket (OoP) Payments

# The Slow Growth of Pharmaceutical Expenditures:

## Price cuts are driving the pharmaceutical expenditures in Europe

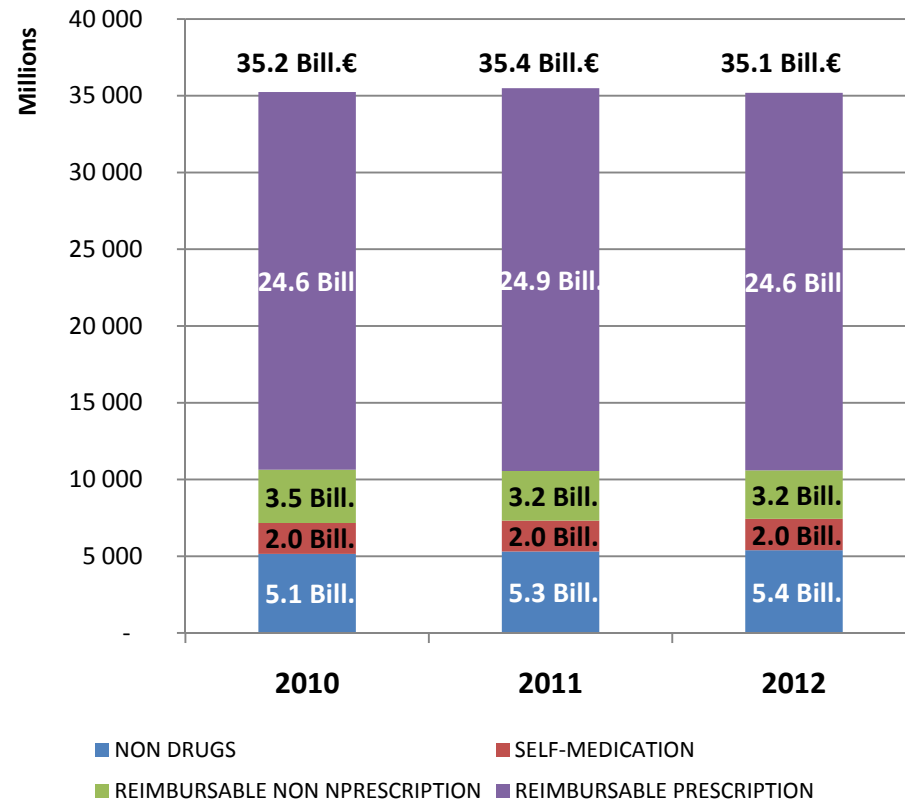


■ New products ■ Volumes ■ Price

# French Pharmacies Gross Income

## From Stagnation to Decline ?

- 0% Growth since 2009 of both
  - Total turnover: 35 Bill.€
  - Gross Income: 7,5 Bill.€
- Negative Progression expected in 2012 as result of:
  - A declining turnover
  - A stable margin
  - Institutionnal effects



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# Crisis of a Model ?

## Four Basic Models for Community Pharmacies in Europe

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Scandinavian Model	Southern Europe Model	Anglo-Saxon Model	Central Europe Model
<ul style="list-style-type: none"><li>• Scandinavian countries</li><li>• Serving 10,000 to 20,000 people</li><li>• Mainly medicines</li></ul>	<ul style="list-style-type: none"><li>• France, Belgium, Italy, Spain, Greece</li><li>• Serving 2,000 to 3,000 clients</li><li>• Medicines but also cosmetics and parapharmacy</li></ul>	<ul style="list-style-type: none"><li>• UK and Ireland</li><li>• Serving app. 4,000 people</li><li>• Sell many non-medical items in addition to medicines</li></ul>	<ul style="list-style-type: none"><li>• Germany, Austria, Switzerland, etc</li><li>• Serving 4,000-5,000 people</li><li>• All kinds of healthcare provision</li></ul>

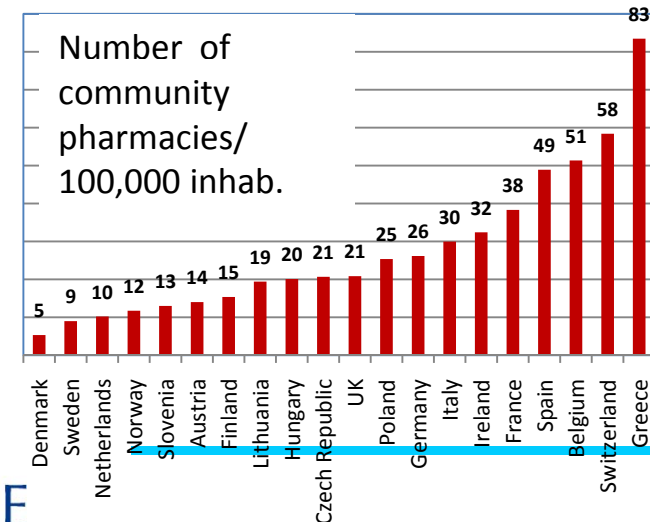
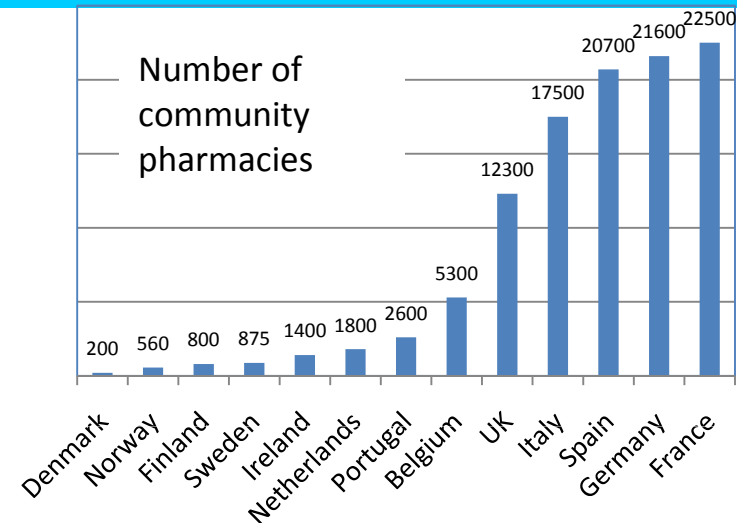
Foppe van Mil JW and Schulz M, A Review of Pharmaceutical Care in Community Pharmacy in Europe, *Harvard Health Policy Review*, vol. 7, No. 1, Spring 2006, pp 155-168



# Crisis of a Model ?

## Different Regulations in Europe

- Monopoly for the distribution of pharmaceuticals
- Distribution restricted to a list of authorized items
- Entry submitted to quantitative criteria
- Restricted ownership
  - Pharmacists only
  - One licence per owner
- Regulated public prices, margins and discount rates



# Crisis of a Model ?

## Community Pharmacies: France vs. UK

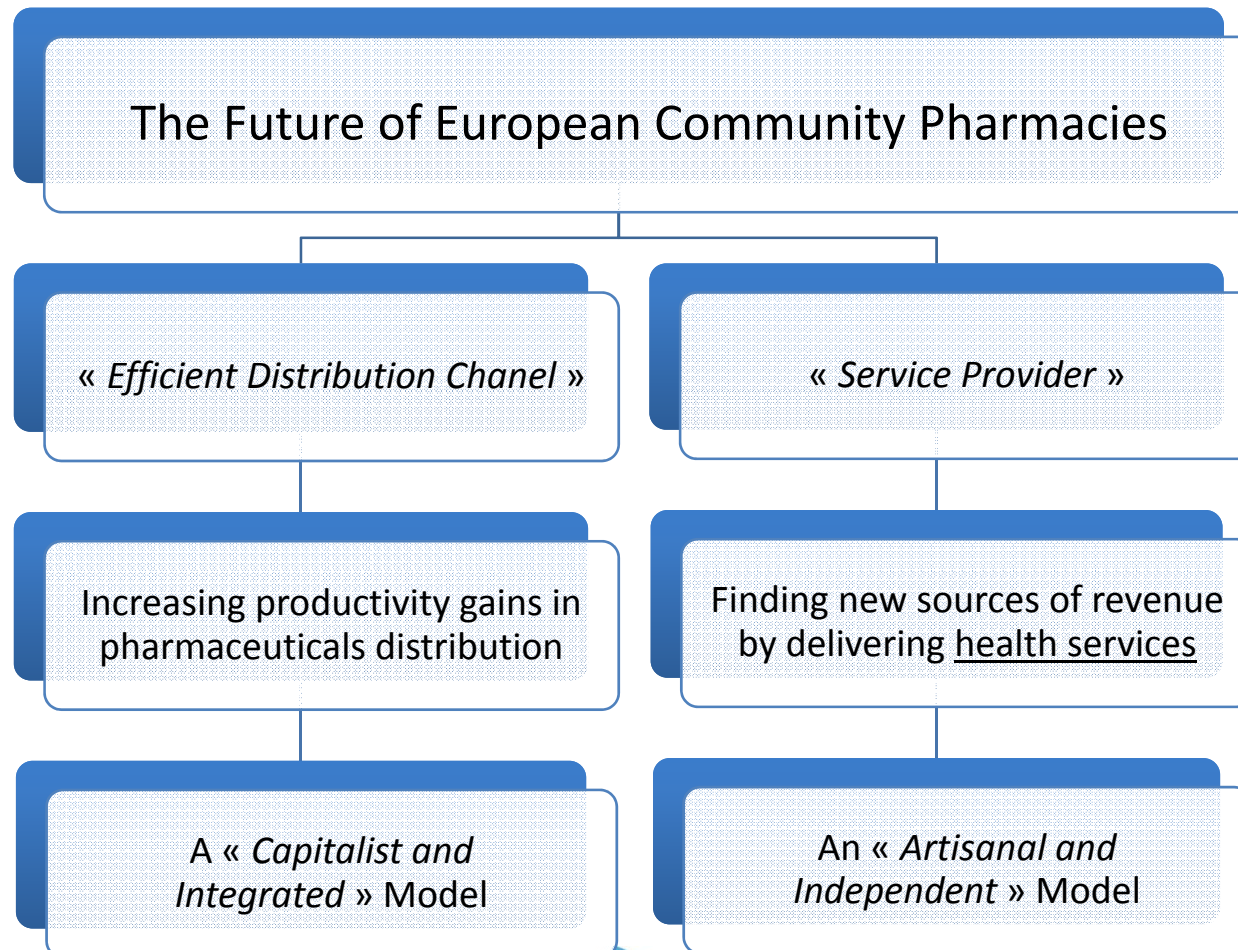
	France	UK
Capital Ownership	Pharmacists only	Pharmacists or Companies
Multi-Ownership (chains)	No	Yes
Monopoly for drug distribution	Yes	Only for prescription and pharmacists' drugs - GSL products can be sold outside pharmacies
Payment for prescription drugs	Regulated commercial regressive margin	<ul style="list-style-type: none"> <li>Pharmacists paid by the NHS.</li> <li>Monthly payments = difference between the reported sales (evaluated at the prices of the National Tariff) and the purchases from wholesalers</li> <li>Deduction of a "clawback" in order to meet a national objective for pharmacists compensation.</li> </ul>
Items restricted to drugs and medical products	Yes	No
Restriction to entry	Yes (more severe)	Yes but relaxed for some pharmacies in 2008
Number of community pharmacies (2010)	22,500	12,500
Pharmaceutical market value	30 Bill.€ (2010)	20 Bill.€ (2010)
Average TO	1,3 M.	1,6 M.

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# In Search a Model ?

## The Strategic Choices in Europe

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# In Search a Model ?

## The Pressures for the “Industrial” Model

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- Chains in a growing number of countries
  - OTC outside pharmacies in a growing number of countries
  - Deregulation of entry in some countries
  - Competition from other distribution channels
  - Development of Internet sales and mail order delivery
- UK (2008)
    - Creating exemptions to entry regulation for four types of pharmacies :
      - Pharmacies undertaking to open for more than 100 hours a week
      - Pharmacies in large shopping developments (excluding town centre developments)
      - Pharmacies within a consortium to establish one-stop primary care centres
      - Wholly internet/mail order based pharmacies



- Italy (2011)
  - Non reimbursed prescription drugs to be distributed by non pharmacists (para-pharmacy and GMS)
    - 3.800 products – 3 bill. € (anxyolitics, contraceptive pills)
    - 35% of drugs distributed outside the pharmacy network

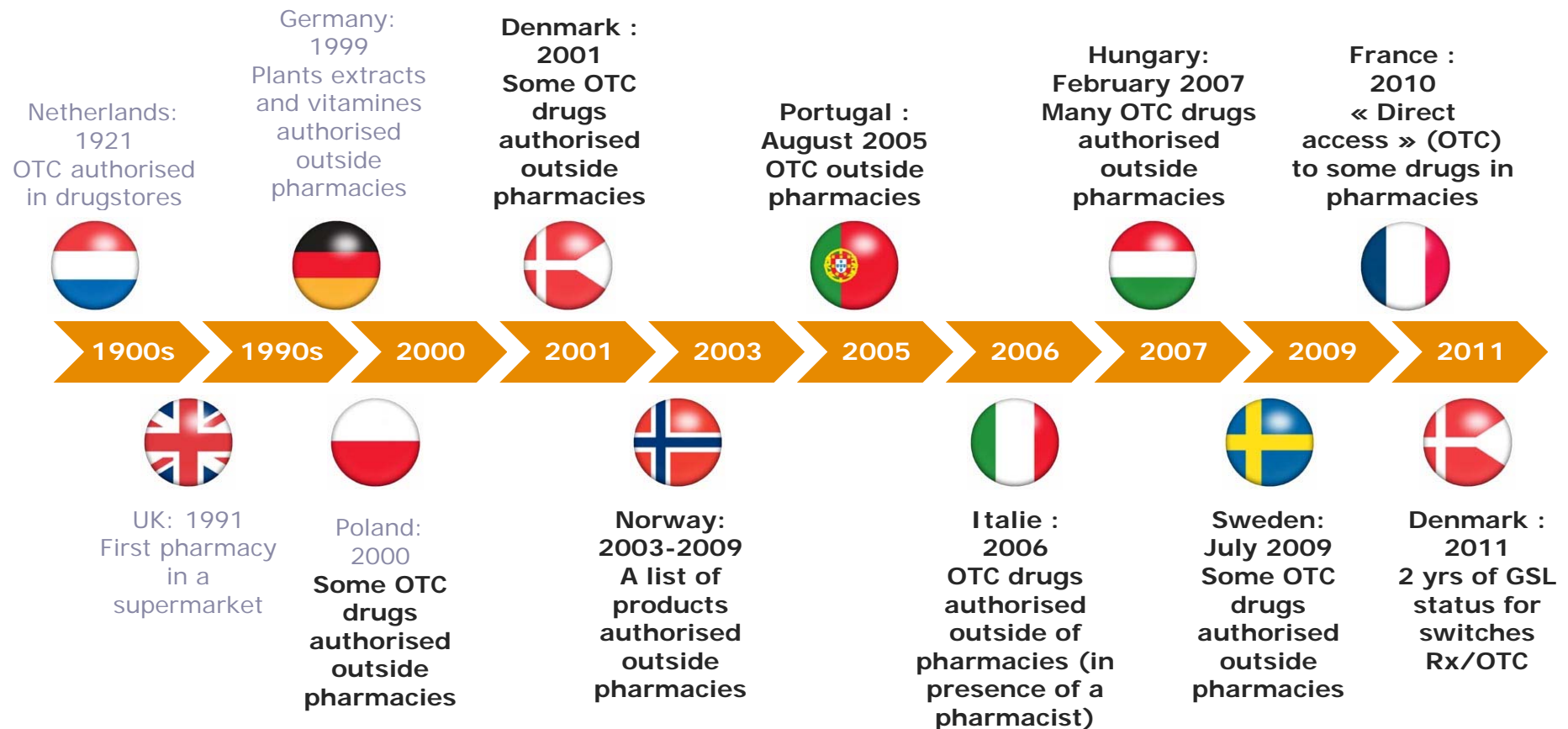
# In Search a Model ?

## Competition of Alternate Distribution Channels for OTC Drugs

	Pharmacy	Drugstore	Super-market	Convenience /Gas	Mail-Order
Germany	✓	✓	✓	x	✓
France	✓	x	x	x	x
Russia	✓	x	x	x	x
Italy	✓	✓	✓	x	x
UK	✓	✓	✓	✓	✓
Poland	✓	✓	✓	✓	✓
Spain	✓	x	x	x	✓
Austria	✓	✓	✓	x	x
Belgium	✓	x	x	x	✓
Switzerland	✓	✓	x	x	✓
Czech Rep	✓	✓	✓	✓	x
Greece	✓	x	x	x	x
Netherlands	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓	✓
Sweden	✓	x	✓	✓	✓
Portugal	✓	x	✓	✓	x
Denmark	✓	x	*	x	✓
Norway	✓	x	✓	✓	x

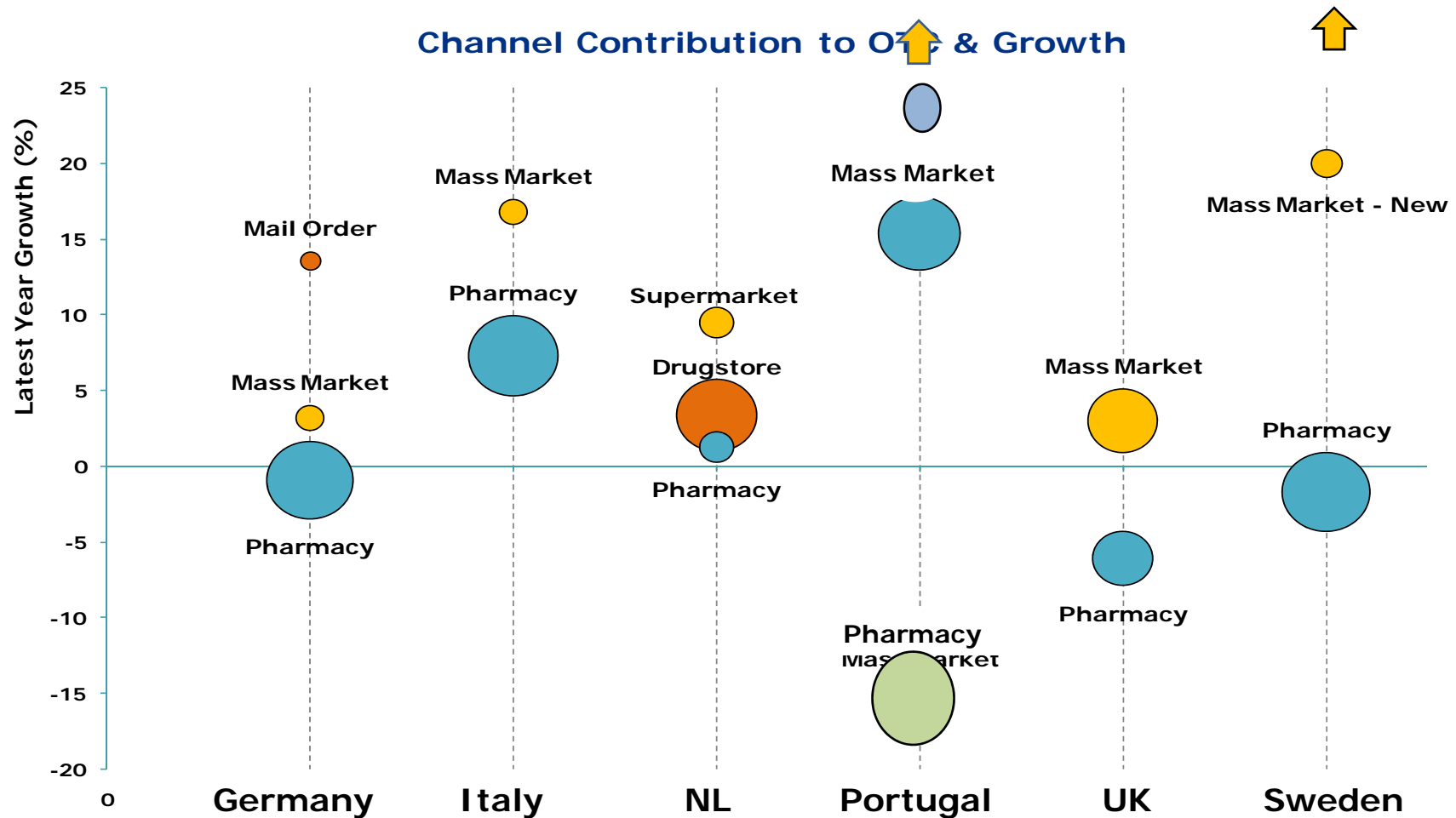
# In Search a Model ?

## Consumer is gaining direct access to an large number of drugs



# In Search a Model ?

Where they are authorised, alternate channels are more dynamic

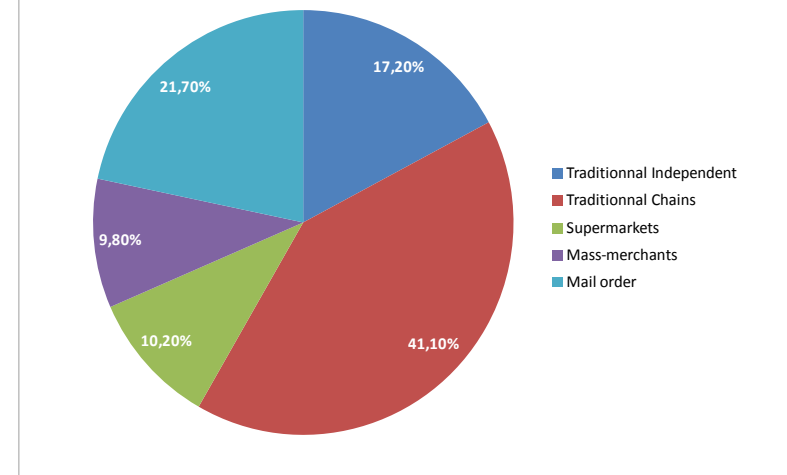


# Online Pharmacies in the US :

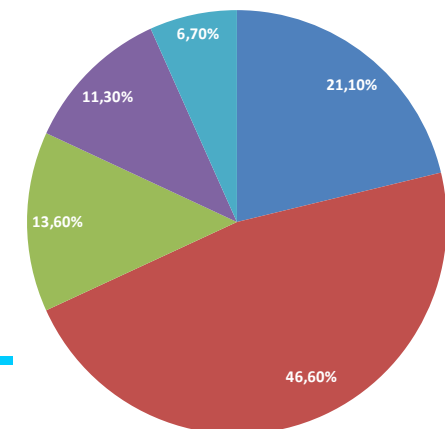
## Skimming the market but serious quality problems

- A high-volume, low-margin business, with cutthroat competition
- 54,000 drugstore outlets (2008)
- 38,000 traditional drugstores
  - 21,000 part of chains (Top-three : CVS, Walgreen's and Rite Aid)
    - Revenue more than \$5 million
  - 17,000 independent Drugstores
    - \$2 million in revenue,
- Fast growing Online Pharmacies and Mail Order Suppliers (20 to 25% of the market)
  - About 3,000 online pharmacies (Caremark, Express Scripts, Medco, etc.)
  - Serious quality problems
    - 10% required no prescription
    - 41% located abroad
  - Verified Internet Pharmacy Practice Sites (VIPPS)

Sales Repartition in %



Prescriptions Repartition in %



Online Pharmacies  
in the US :

- 6.7% of prescription sheets
- 21.7% of sales



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# In Search a Model ?

## The Pressures for the “Artisanal” Model

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### A Change in the European Policy

- On Nov. 23rd 2011, EU commission decided to **close all pending infringement proceedings** against the community pharmacy sector.
- European CJ found that restrictions on the ownership and establishment of pharmacies are justified in the interests of public health
  - Monopoly: Saarland, May 19<sup>th</sup> 2009
  - Restriction to entry: Jose Manuel Blanco Perez, June 1<sup>st</sup> 2010
- Failure of the Celesio-DocMorris merger...
  - Long legal battle
  - Strong opposition and controversies

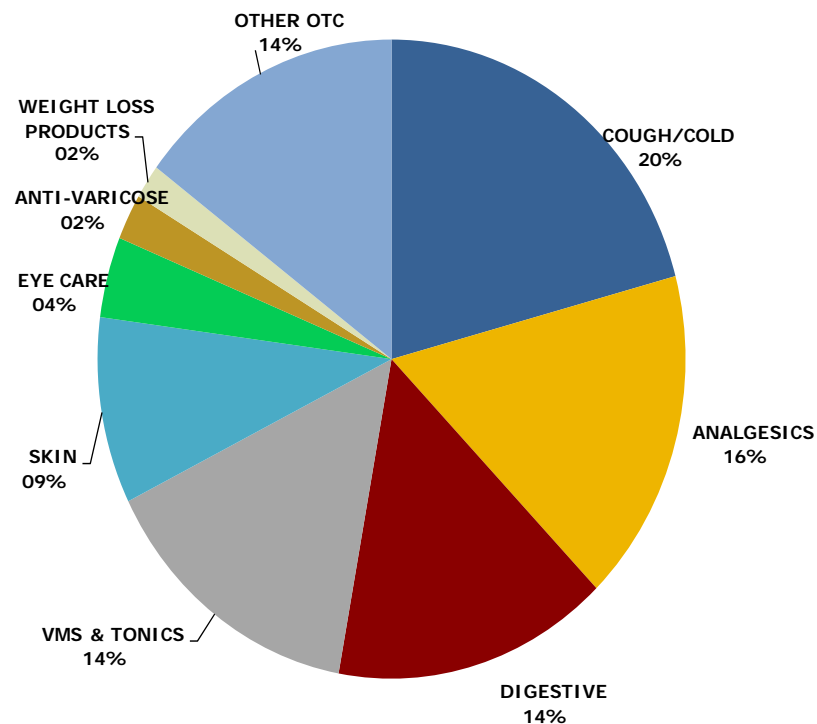
### A Search for Quality

- Pharmaco-vigilance
- Counterfeit medicines
- Prevention
- Management of polymedicated older people
- Improvement in compliance
- Health Promotion and Health Education
- Quality improvement as a cost-containment strategy

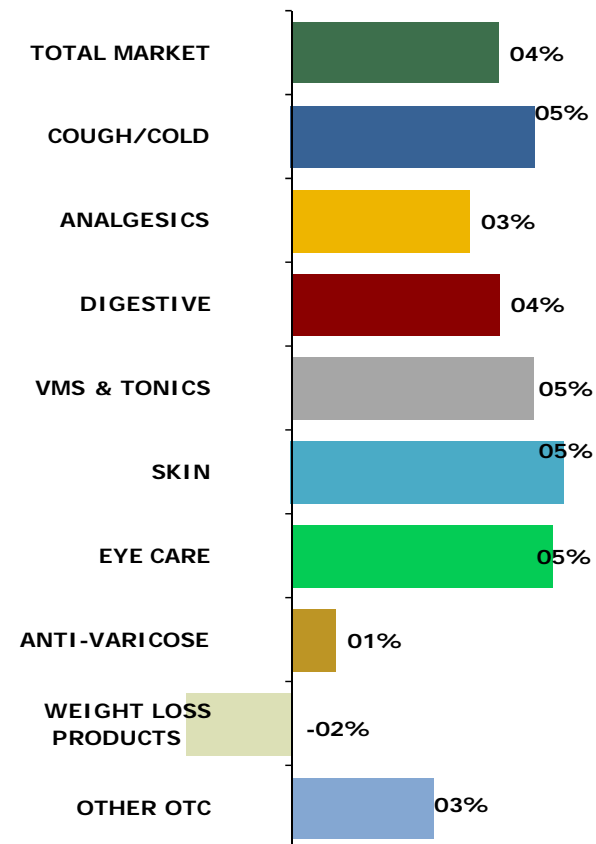
# In Search a Model ?

## Non Prescription Drugs Remain a Dynamic Market Segment

2011 Market Shares (%)



2011 Growth (%)



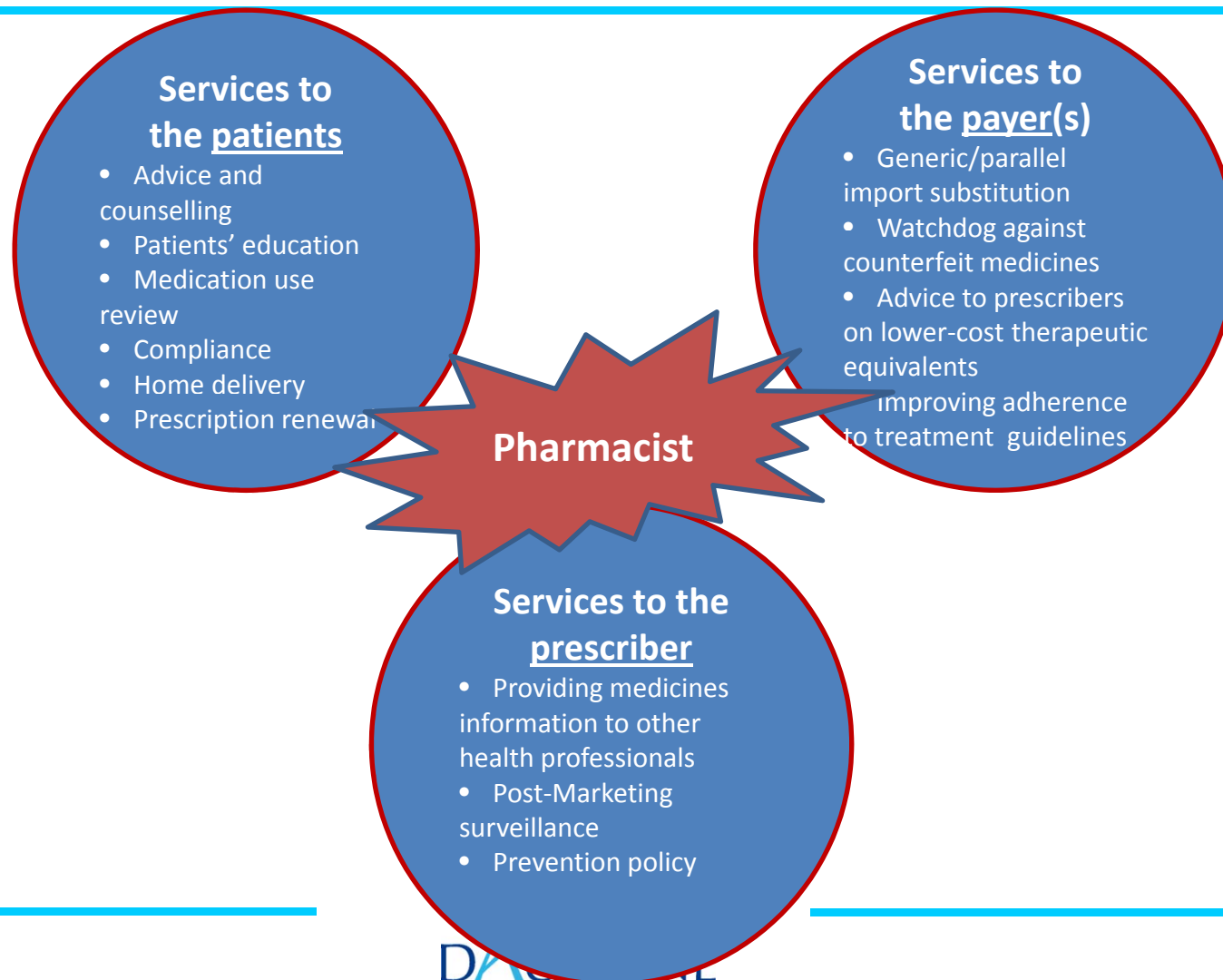
Source : IMS OTC Review Plus Q4 2011

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# In Search a Model ?

## From Drugs Sellers to Services Providers ?

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# In Search a Model ?

## French Pharmacists: New Rules of Game with the Public Payer

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- « **Convention** » signed on March 29th 2012
- Alignment on Physicians' regulation procedures
- A Collective Contract
  - Introduction of a fixed fee payment
    - *Fixed fee of 70 c/prescription sheet*
    - *+ Supp. fee if patient <3 y.o. or > 75 y.o.*
    - *+Supp. fee if more than 5 lines of prescription*
    - *+Supp. fee if more than 10 lines*
    - *Regressive commercial margin above*
  - Definition of «New *missions*» for the pharmacists likely to be rewarded
  - Creation of a procedure : «*Entretien pharmaceutique*» for the elderly and chronic diseases (40€/patient/year)
  - P4P with bonuses in case objectives are fulfilled (each pharmacy to be followed-up individually)

### P4P : Three Categories of Objectives

- **Modernisation of pharmacies**
  - Electronic data transfers
  - Scanning prescriptions and documents
- **Quality of the practice**
  - Stability of generic brand
  - “*Entretien pharmaceutique*” for patients
    - With asthma
    - Tacking oral anticoagulants (VKA)
- **Efficiency**
  - Generic substitution rates form 70% to 85 % (for 31 molecules)
  - Delivery of 55% of “Big Boxes” (3-month) where they are allowed.

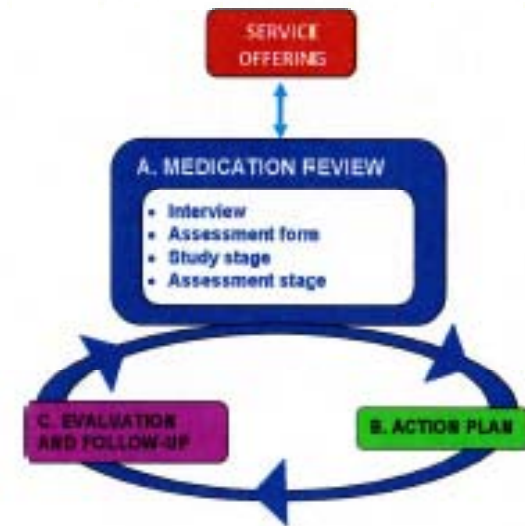
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## In Search a Model ?

### Medication Review with Follow-up (MRFup)

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- Pharmacists in charge of monitoring the treatment especially of the elderly
  - Interconnected Patients Databases France
  - ConSIGUE program in Spain for polymedicated older patients
    - Improving treatments health outcome and patients' quality of life
    - Reducing health care costs
    - Devellopping the role of pharmacists as a MRFup povider



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# Conclusion

## The Future : Conciliating Efficiency and Services ?

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- European community pharmacies are facing an unprecedented economic challenge
  - Tougher economic regulation
  - Limitation of pharmaceutical expenditures especially for prescribed drugs
  - Expensive and innovative drugs restricted to small population and/or to hospital use
  - Competition of other distribution channels
- They have nevertheless solid arguments to support their development
  - Good image in most countries
  - An acknowledged role as public health agents
    - Prevention
    - Medical education
    - Medication review
- The profession needs to “*walk on two legs*”
  - Increase efficiency as products providers through integration and diversification
  - Develop a service provider activity towards patients, payers and other health care professionals

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Thank you for your attention

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