



# CHALLENGES AND OPPORTUNITIES

The challenges and the threats facing the Irish community pharmacy sector are a lot more visible than the opportunities at the moment, according to **Darragh O'Loughlin**, Secretary General of the Irish Pharmacy Union (IPU).

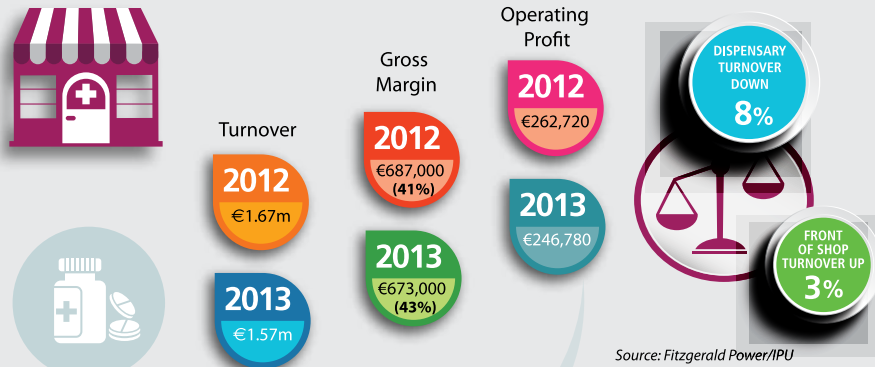
**GOVERNMENT AND HSE CUTBACKS**, ongoing pressure on margins due to reference pricing combined with an onerous regulatory regime, increased competition, reduced consumer spending and rising utility and staff costs, have all conspired to undermine the traditional business model of pharmacies around the country, says Darragh O'Loughlin, General Secretary of the Irish Pharmacy Union which represents 1,640 pharmacy businesses throughout Ireland.

He points to a recent report commissioned by the IPU which noted that the State has extracted €1.73 billion from the community pharmacy sector since 2009 through reduced payments for medicines and cuts to fees and mark-ups. Of this €1.73 billion, the State has saved €1.42 billion in reduced payments to pharmacists for medicines while another €313m has been clawed back in cuts to fees and mark-ups to pharmacists dispensing medicines.

The report, *Review of the Irish Community Pharmacy Sector*

## THE IRISH PHARMACY SECTOR

### AVERAGE TURNOVER AND PROFITS TRENDING DOWNWARDS



### BUYING & SYMBOL GROUPS ASSISTING IN CONTRACTING MARGIN ENVIRONMENT

- Pharma Le Cheile
  - Pharmasave (Total Health)
  - Indepharm (Haven)
  - Link (Life)
  - Axium (CarePlus)
- 44% of IPU Members joined a buying group in 2013

Source: IPU



### STATE SAVINGS HAVE INCREASED WHILST PHARMACY DISPENSING VOLUMES & WORKLOAD HAVE ALSO INCREASED

#### STATE SAVINGS

- 2011 – €237.6m
- 2012 – €260.4m
- 2013 – €406.6m (e)
- 2014 – €406.6m (e)

#### ITEMS DISPENSED

- 2011 – 72m
- 2012 – 75.7m
- 2013 – 76m (e)
- 2014 – 76m (e)



### CUSTOMERS WHOSE REGULAR PHARMACY IS OWNER MANAGED

Age	% Using Owner-Run Pharmacy
<25	54%
25-34	53%
35-49	72%
50-64	80%
65+	79%

Owner-run pharmacies are more popular than large chain stores



Source: Behaviour & Attitudes Pharmacy Usage & Attitudes, May 2014

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2013/14: *Sustainability in a Changing Environment*, written by consultants Fitzgerald Power, also pointed out that the financial vulnerability of up to 200 pharmacies around the country may be at risk of closure once reference pricing is fully implemented.

"The solvency issue arises, because during the bubble, that we all thought was a boom, there was a growing generation of young, ambitious and entrepreneurial pharmacists who wanted their own business and there was also a generation of older pharmacists who were looking to cash out," says O'Loughlin.

"A huge number of pharmacy business changed hands and the younger pharmacists bought them with debt. While the debt may have been perfectly serviceable, based on the margins and the revenues that were being achieved ten years ago, in many cases it was no longer sustainable as fees were cut, margins compressed and revenues eroded. So, as a result, debt servicing has become a big problem for a number of pharmacies and this will continue for as long as the Government continues to implement reference pricing," he says.

This has also had a knock-on effect on the ability of older pharmacists to exit the business and on younger ones making the

first move to acquire their first business.

"A lot of older pharmacists sold during the boom," says O'Loughlin. "But many older pharmacists who are still in the business now and who are thinking of retiring have seen the value of their businesses collapse over the past few years. While many of them have probably got good businesses with little or no debt, in some cases their personal balance sheet may not be in such good shape, as personal investments in property or other areas made during the boom, went wrong for them. So these pharmacists are now looking at the prospect of retirement and whether or not they will actually be able to retire. Certainly, in the last couple of years we've seen very few transactions taking place and a lot of older pharmacists, who wanted to retire, are still working because there wasn't an exit strategy. Younger pharmacists, meanwhile, have been very reluctant in the last couple of years to buy a pharmacy, because the future was so uncertain. In addition, some of these younger pharmacists are taking advantage of things like rent-free periods and cheap fit-outs to open new pharmacies rather than buying existing pharmacy businesses. Thus the number of pharmacy outlets is expanding, even though the overall size and value of the market is shrinking."

The financial pressures faced by the sector has also triggered a consolidation in the marketplace, according to O'Loughlin, with large pharmacy multiples and other chains expanding their footprint while independent pharmacists have responded with the creation of branded symbol groups and collective purchasing through buyer groups like CarePlus, Haven, Life



and totalhealth.

"Pharmacists are recognising that they need to be buying as efficiently as possible. It's very time consuming to spend your time trying to find out where you can get medicines or other products at the best price. Pharmacists are in a very competitive environment and they're conscious that in the front of the shop they are not competing just with other pharmacies, they're also competing with supermarkets and convenience stores, who have very much expanded their health and beauty sections. In order to compete and to deliver value to their own customers they know they need to buy better and they can only do that by buying in bulk. I think, that in the next couple of years a pharmacist who's not a part of a buying group will struggle to procure competitively and achieve the margins necessary to sustain their business."

With a membership base that equates to approximately 95% of all pharmacies, the IPU would like to see an extended role for community pharmacies in the delivery of healthcare services to the public.

"While it may never be a serious revenue driver, we do see it as a significant opportunity for pharmacies and indeed the wider health service. The Government talks a lot about expanding accessible, convenient and efficient

health care in communities which obviously makes sense. Indeed there is compelling evidence from other countries that suggests that an expansion in the scope of the services provided by pharmacies does take the pressure off the health service, which has been acknowledged by the policymakers. Despite our efforts and favourable sentiment from Government and the HSE, however, we haven't yet seen any huge changes on this front by the Government and no resources have been allocated for it. As long as it is dealing with shrinking budgets, the Government will find it incredibly difficult to reform the delivery of an efficient health service," he says.

The reality is that we are seeing a gradual shift from the pharmacist being perceived as a supplier of medicines and other products to a professional who also delivers other health services. The most obvious change in recent years is the availability of vaccinations. Five years ago, you went to a doctor for a flu vaccination because there was nowhere else to go; now you can get it in the local pharmacy. We want to see the Government pushing more non-complex medical and health care services out into pharmacies, which they'll need to do if they are serious about freeing up capacity in an already over stretched GP network," he concludes.

## THE FUTURE FOR THE IRISH PHARMACY SECTOR



Simon Healy is the Retail Sector Specialist with AIB.

### THE RETAIL CONVENIENCE SECTOR IN IRELAND

has undergone a transformation over the last 10 years where large discounters have entered the market and have taken a substantial share of spend while at the same time filling a niche that the Irish consumer required – to be able to shop across many retail outlets for great value.

To be fair to the indigenous Irish retailers, they have fought back through a combination of unique product offering and price and have managed to stay at the top table as a result. Retailers who didn't adapt simply had to close down their businesses.

The Irish Retail Pharmacy sector has also reached a point of inflection. With over 1,800

Similar to the Retail business, the Irish Pharmaceutical sector has reached a point of inflection and pharmacists will need to look to new business models and develop a range of customer-focused services, writes **Simon Healy**.

pharmacies in Ireland, the majority operate on a similar business model with very few standing out from the crowd in the way they run their business.

The current business model deployed by the majority of pharmacies is under pressure from the barrage of Government cuts to medicine prices, a factor that is outside of the control of pharmacists. The recent experience of recurring cuts, and their subsequent impact on dispensary margins, means that the traditional high margin dispensary income cannot be relied upon as we move forward.

The role of the pharmacist is changing from medicine dispensing to providing healthcare services. This will no doubt require a change in attitude towards customers. As the population grows older, the

demand for these services will increase and pharmacists will need to adapt to new revenue models to grow their business in the future. As the retail model changes, so too will the requirement for customer facing pharmacists to interact more with their customers. This is a significant mind-shift for some pharmacists. The reality is that if they fail to meet the demands of customers, those very same customers will drift to where they can easily obtain that type of service.

Because of the change in the market dynamics and consumer sentiment and expectations, the retail pharmacy market has started to sub-divide and organise itself through buying groups and alliances. The market is now dominated by domestic or national multiples, symbol groups or franchise pharmacists and independent pharmacists. Much has been written on the advantages and disadvantages of participating in a group. In the grocery sector, membership of a group has meant that individual retailers have not only survived but thrived as a result.

Pharmacists joining branded

symbols need to weigh up the benefits across a wide range of activities and not because of a colour scheme or bright lights! Careful consideration should be given to:

**Information Technology:** Ordering platform and management reporting.

**Category Management:** Using information to de-clutter the store and put in place best practice planograms to drive footfall and sales.

**Learning & Development:** Look to participate in training programmes that up-skill both the pharmacist and other staff members in interacting with customers.

**Business Plans:** Uniquely tailored to the pharmacist's business taking into consideration competitors and the relative strengths and weaknesses of the business.

**Financial Information:** Any IT or business intelligence system must allow for distilling information easily to allow for effective sales and margin analysis which will aid in the decision making process.

Over the next five years the trend will be for pharmacists to head for the "umbrella symbol" and as thinking matures, there will be movement between groups as competition intensifies in cities and towns around the country. Ultimately, any brand is only as strong as its weakest member. The likelihood of success will be borne out by a qualitative led approach, both in store and/or as a member of a group in the battle for market share in the sector.

## THE IRISH PHARMACY SECTOR

### PHARMACY OWNERSHIP IN IRELAND

#### SINGLE OUTLET



2012  
902

2013  
833

#### CHAIN OWNERSHIP



##### CORPORATE

2012  
136

2013  
149

##### OTHER

2012  
663

2013  
755

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ANDREW BUCKLEY

## Three pharmacists, who are backed by AIB, share their views on the future and what it holds for the pharmacy sector.

Andrew Buckley is typical of the younger generation of entrepreneurial pharmacists who have braved the recent economic downturn to strike out on their own.

The owner of the Bourke's Totalhealth Pharmacy in the Dublin suburb of Rathfarnham, he has chalked up over 12 years as a pharmacist since graduating in 2003 from Liverpool John Moores University with a Masters in Pharmacy.

Initially starting out as a locum, he then went on to work in the Unicare Pharmacy Group for four years. Then an opportunity arose to go and work in Bourke's, a long established community pharmacy on St Enda's Road in Rathfarnham.

After seven years as manager, he started to look at all his options and ultimately made a decision to set up his own business. "I did have a good look around to see what was out there but the option arose to buy Bourke's and I seized it," he says.

With the backing of AIB, he was able to finance the purchase and now enjoys a good relationship with the bank. "I've been with the bank for over a year now and we stay in regular contact. The bank understands the pharmacy sector and the changes

that are taking place, so that's a plus. More importantly they understand my business and have been very supportive of it," he says.

Since graduating a lot has changed in the Irish pharmacy sector, not all of which is good, says Buckley.

"Reference pricing is probably the single biggest challenge pharmacists face at the moment and it's putting considerable pressure on pharmacies across the country. The reality is that with substantial cutbacks being made across the board, we are being asked to do a lot more for a lot less and it's a constant struggle for many pharmacists," he says.

"I think most pharmacists would like to be able to provide a lot more services to the community but it all goes back to the HSE not having enough money. However pharmacists can be part of the solution to some of the problems in the health care system if only they were allowed and there is compelling evidence from other countries that suggests that this might be the way forward."

Being allowed to provide additional services to the community, while welcome, could also pose challenges, says Eoghan Hanly, owner of Killian's Pharmacy in Loughrea, Co. Galway, which has been an AIB customer for



EOGHAN HANLY

the past 20 years.

"Providing extra services comes at a cost," he says. "Pharmacists have been advising customers for a long time but have never charged for this while customers aren't used to being charged either. If pharmacists are to offer additional services, and take pressure off GPs, then we need a suitable payment structure that works for the pharmacist and the customer. At the moment, I can't see the HSE or Department of Health thinking along these lines."

A former president of the Irish Pharmaceutical Society, Hanly graduated from the Robert Gordon University in Aberdeen in 1995 with a degree in pharmacy and since 1996 he has practised as a pharmacist in his family's business which goes back several generations to the 1940s, when it was set up by his grandfather, PJ Killian.

Killian's Pharmacy is part of CarePlus, the retail brand for independent pharmacies which was set up in 2014.

"There's definitely savings to be made by being part of a bigger group, particularly in terms of purchasing and marketing, all of which helps keep margins relatively strong. Given what's going on in the market, I don't think independent pharmacies can manage it on their own," he says.

"I've been feeling positive about the pharmacy sector for a number of years, but there is a lot of potential that needs to be fulfilled," says Dr Mark Ledwidge, co-founder of the H&L Pharmacies which owns three independent pharmacies in Cork.

"The sector fundamentals remain robust and opportunities are emerging. Demographic factors, such as the ageing population and continuing poor



DR. MARK LEDWIDGE

control of disease risk factors will drive demand for pharmacy services. In chronic disease, no single health professional has greater contact with patients, yet the pharmacist resource continues to be under-utilised. More integration between primary and secondary care will emerge because of information technology and this will ultimately be an enabler for the role of pharmacy. Recently, we have seen pressure points in the primary care structure with the debate over free GP care to defined populations, and again, I think pharmacies will be able to step up and support the workload once the reimbursement models are identified."

According to Ledwidge, the company's relationship with AIB has been an important factor to date. "We have recently begun to work with AIB and in my view it has been ahead of the curve in supporting Irish business, not just pharmacy, out of an unprecedented recession. This may well turn out to be a critical part of the emerging recovery, because the SME sector cannot function without the support of banks. While the lending is more traditional, based on the fundamentals of earnings, the business understanding and the underlying shared business relationship seems to be a priority for AIB and that's important to me," he concludes.

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