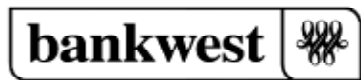


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# UTS: pharmacy **barometer**

October 2014

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## BACKGROUND

### UTS: Pharmacy

UTS: Pharmacy was established in 2011 to address emerging needs of the pharmacy profession. As the first course area within the UTS Graduate School of Health, it provides an innovative, practice-based alternative for pharmacy education and research that integrates scientific rigour with technology and pharmacy practice. UTS: Pharmacy is a leader in various areas of research including the design, evaluation and implementation of community pharmacy business and professional practice models. UTS: Pharmacy is committed to producing career-ready graduates. Integrated research led, problem-based learning, simulated environments and interdisciplinary workshops are used to help students apply the theory they learn and build their considerable skill set. A wide range of interdisciplinary electives give students the choice to specialise or diversify their skills to best suit their career needs. Committed to collaborative research that has a real impact on the pharmacy profession, our focus is on innovative practice-oriented research that improves the quality use of medicine and informs health policy.

### Cegedim Strategic Data

Cegedim Strategic Data (CSD), part of the global Cegedim Group, provides business intelligence and market research to the pharmaceutical and biotech industry. The company offers a comprehensive range of syndicated and proprietary solutions and market research services to meet the needs of their customers. Their main offerings are: promotion audit - continuous audit of marketing investment by the pharmaceutical industry; patient data - longitudinal patient level prescribing data and patient database studies; market research - full service qualitative and quantitative studies via CAWI or CATI with hard to reach healthcare professionals. CSD's core strength is to integrate their secondary, syndicated data sources with proprietary primary market research to give clients a 360 degree view of their market. CSD has over a decade of experience in online research and offer large online panels of general practitioners, pharmacists, specialists, dentists and veterinarians.

### Bankwest

Bankwest Pharmacy Banking Specialists have an in-depth knowledge of the pharmacy industry in Australia and make it their role to be banking experts to the industry. They have built solid, long standing relationships by understanding the specific issues and, in particular, the legislation facing practitioners in the pharmacy industry. Bankwest Pharmacy Banking Specialists working as part of an industry team regularly discuss trends and best practices internally and with industry experts. This enables the team to create genuinely innovative products and services specifically for the pharmacy industry. With the goal of being simple, easy and transparent, Bankwest provides effective, value for money solutions. Building a depth of knowledge takes a lot of dedication which is why Bankwest Pharmacy Banking Specialists often attend the sector's leading industry conferences and meetings. This level of involvement means they can assist pharmacy businesses by leveraging strong knowledge and contacts within the industry. Bankwest products are innovative, yet simple to understand and use, and this structuring expertise delivers flexible financing solutions.

# The growing environment of challenge for Australian pharmacies

In the past few years there has been a number of major changes that have impacted on the delivery, focus and funding of health in Australia. Government-led national health care and PBS reforms have had a significant effect on the distribution, funding and provision of pharmaceutical products and services. Changes included;

- > Expanded and Accelerated Price Disclosure (EAPD) price reductions
- > Generic substitution
- > Discount pharmacy models
- > Medicare local reform (local purchasing)
- > Wholesaler terms and conditions
- > Direct distribution

In addition there are a range of upcoming changes that will further impact the community pharmacy sector. These include;

- > 6th Community Pharmacy Agreement
- > Shift from product based to service based model of business
- > Changing remuneration systems
- > Retail trade trends
- > Patient self-management

- > Ageing population
- > Increased use of medications
- > Move to preventative care

The future impact of all these factors on community pharmacy business and professional practice, and on individual community pharmacists and their supporting infrastructure are generally unclear. What is clear is that community pharmacist employees, community pharmacy owners and managers, and the pharmaceutical industry will find it increasingly difficult to continue with the current business and professional model.

Business models in community pharmacy, driven initially by the retail success of the expert discounters, but now accelerated by the expected decline in dispensary income and the recent appearance of new professional service models, are differentiating their offer to consumers. Concurrently, the business model adopted by many pharmaceutical companies for acquiring loyalty, market share and sales through pure discounting mechanisms alone will be challenged. Pharmaceutical companies and banner groups are becoming involved in developing pharmaceutical service.

Accompanying all these changes there has been much debate, in the scientific literature, professional and trade journals and professional pharmacy and other stakeholder organisations, of the potential impact the changes will have on the pharmacy industry as a whole. An understanding of the perceived and the eventual impact of all these changes and their future effect on the professional and business strategy concerns many players including:

- > Community pharmacy owners and practitioners
- > Pharmaceutical companies and manufacturers (branded and generic)
- > Pharmaceutical wholesalers
- > Professional organisations
- > State and federal governments
- > Finance industry including banks, lending institutions and investors

All these stakeholders will require accurate feedback and information on how this \$15 billion industry is thinking and how it is likely to evolve.

“In the last 18 months we are beginning to see a real change in the community pharmacy business and professional environment. These changes are being stimulated by price discounting, the pharmaceutical industry questioning its strategies and differentiation in community pharmacy business models. The question now is how quickly will the change occur and what types of community pharmacy business models will dominate the industry?”

**Charlie Benrimoj**

# The UTS Community Pharmacy Barometer

With industry challenges and perceived gaps in knowledge by pharmacists on the impact these upcoming changes may have on their business and professional practice, UTS: Pharmacy and Cegedim Strategic Data (CSD) developed the Community Pharmacy Barometer.

The UTS Community Pharmacy Barometer is the first comprehensive research tool available to all the stakeholders in the Australian Pharmacy industry designed to track the confidence, perceptions and opinions of pharmacy owners and employees.

The UTS Community Pharmacy Barometer will annually track the viability of the pharmacy business, the profession, perceptions and opinions of the impact of the coming changes on the current and future value of pharmacies as well as researching in depth a key topic at each wave.

The UTS Community Pharmacy Barometer will measure opinions, perceptions, potential behaviours and ideas with data and verbatim comments from pharmacists and expert commentary from key leaders of Australian Pharmacy. The expert panel includes, Head of the UTS Graduate School of Health and Professor of Pharmacy Practice, Professor Charlie Benrimoj, UTS Adjunct Professor John Montgomery and Warwick Plunkett, Pharmaceutical Society of Australia (PSA) Director. The University of Technology has partnered with Bankwest to furnish financial advice in the report. Sitting on our expert panel from Bankwest is Chief Economist, Alan Langford and Paul Dwyer, Regional Manager to the Business Banking team of pharmacy specialists, who provide a full range of banking services to pharmacy clients.

For the initial benchmark UTS Community Pharmacy Barometer study, the focus topic was "Price Disclosure". In the second wave the topic of "Service Provision" was addressed. This included exploring both successful and unsuccessful services currently or previously offered, as well as services to be offered in the future. Following on from covering services in general in the third wave a specific range of services "Minor Ailment Services", as well as the advertising of Pharmacist Only, schedule 3 medications, were explored. In addition four questions were added to explore the financial management of community pharmacy. In this latest fourth wave of the survey the additional topic explored was pharmacists' opinions on the distribution of funds in the upcoming "sixth Community Pharmacy Agreement (6CPA)".

# Methodology and Analysis

The questions were designed to assess the confidence of pharmacists of their business in the short (one year) and medium-term (three years). The first wave report was completed in April 2012 with the additional topic focussing on Expanded and Accelerated Price Disclosure (EAPD). One of the most interesting findings in the inaugural study was the feedback surrounding a service-based model. The focus of the second wave, completed in October 2012, was therefore decided to be on service provision in community pharmacy. The third wave, completed a year later in October 2013, delved deeper into a specific range of services, focussing on minor ailment services. In this fourth wave the topic of the sixth Community Pharmacy Agreement is addressed. The survey for UTS Community Pharmacy Barometer™ was created in collaboration between Cegedim Strategic Data, University of Technology Sydney pharmacy expert panel and Bankwest financial experts.

Data collection occurred in July/August 2014, with the online questionnaire emailed to the pharmacists on CSD's online panel (a sample from the panel of 1,000 pharmacists that is nationally representative of the general community pharmacy population). Those who identified themselves as working in community pharmacy (majority of the time), and were either an owner (18%), owner-manager (24%), pharmacist-in-charge/pharmacy manager (43%) or employed pharmacist (12%) were eligible to participate. The questionnaire also captured the type of pharmacy the pharmacist spent most of their time in (independent (49%), banner (38%) or buying group (13%)).

The survey was closed when 268 pharmacists had participated. Open-text questions were coded into themes that could communicate the main topics raised by the pharmacists. Tables were produced for all questions with the following groups: Type of pharmacist [Owner (combination of owner & owner-managers) vs. Employed (combination of pharmacist-in-charge & employed pharmacist)]; Age [three age categories] and Type of pharmacy [Independent vs. Group (combination of banner and buying groups)].

Certain questions were only offered to 'decision makers' (owner, owner-managers and pharmacist-in-charge/pharmacy manager n=227). The data were tested for statistically significant differences (z-tests for proportions and t-tests for means; both using a 95% confidence interval). Certain questions were analysed as cross-tabs, to investigate potential relationships and themes.

# UTS Community Pharmacy Barometer

The UTS Community Pharmacy Barometer measure was derived using the following questions:

1. Do you believe the value of your pharmacy will increase, decrease or remain the same in the next year?
2. Do you believe the value of your pharmacy will increase, decrease or remain the same in the next 3 years?
3. On a scale of 1 to 10 where 1 is extremely pessimistic and 10 is extremely optimistic, how confident are you in the future viability of community based pharmacy?

The first two questions were only asked of 'decision makers' (owner, owner-managers and pharmacist-in-charge/ pharmacy manager n=227), while the third was asked of all pharmacists (n=268). For the calculation of the Barometer only those who answered all three questions were included (n=205).

For each of the first two questions above, responses were assigned the following values:

- Increase = 2
- Remain the Same = 1
- Decrease = 0

The sum of the values was calculated for each question and the sum divided by the total number of pharmacists who selected one of the three options for that question (i.e. an option other than 'not sure').

For the third question responses were assigned the following values:

- Optimistic (rating of 8-10) = 2
- Neutral (rating of 4-7) = 1
- Pessimistic (rating of 1-3) = 0

The first two questions provided insights into the 'value' pharmacists foresee for their pharmacy and the third gives an emotional insight into their confidence in the future. We used 'value' + 'emotional insight' = 'Pharmacy Barometer' as the basis for providing a 50% weighting to the two value questions and a 50% weighting to the emotion (pessimism - optimism scale) question. As the first question refers to 'next year' (more immediate) and the second to 'next three years' (further away, shadowed with uncertainty), it was decided to distribute the 50% weighting for 'value' as 35% for next year and 15% for three year timeframes. The UTS Community Pharmacy Barometer incorporates these three weighted scores.

# Financial Management

Four questions were used to evaluate financial management in the community pharmacy:

1. As a result of the PBS price cuts are you maintaining your gross margin in absolute dollars?
  - i. No, I am operating on a reduced gross profit in absolute dollars
  - ii. Yes, I am maintaining my gross margin in absolute dollars by increasing the price of products
  - iii. Yes, I am maintaining my gross margin in absolute dollars by purchasing products with improved terms.
  - iv. Other.....
2. Does your accountant or financial institution provide you with guidance or assist with the production and interpretation of any of the following reports to help you manage your business finances?
  - i. Cash flow projections  
yes / no
  - ii. Integrated management information system  
yes / no
  - iii. 3 way integrated financial accounts  
yes / no
3. What are the key areas of speciality you look for in a financial advisor?
  - i. Specialist understanding of finance and accountancy
  - ii. General understanding of the pharmacy industry along with specialist understanding of finance and accountancy
  - iii. Specialist understanding of the Pharmacy industry along with specialise understanding of finance and accountancy
  - iv. I don't seek advice from a financial advisor
4. As you believe the value of your pharmacy business will decrease over the next three years, what discussions are you having with your financial advisors to maintain your capital structure and viability of your business? (Answered only by those responding with "decrease" to "Do you believe the value of your pharmacy will increase, decrease or remain the same in the next 3 years?" (you can tick more than one)
  - i. I have not discussed this with my financial advisor
  - ii. I have discussed this with my financial advisor, however I was not offered any concrete advice that I could act upon
  - iii. I have discussed this with my financial advisor, and was given advice that has helped me maintain the viability of my business
5. Do you intend to replace the lost revenue (predicted to be approximately \$3/script) from price disclosure adjustments by?
  - i. Cutting staff cost  
yes/no
  - ii. Increasing generic substitution  
yes/no
  - iii. Implementing new services  
yes/no
  - iv. Nothing, but hoping 6CPA will fill the gap  
yes/no
  - v. Other.....



# Sixth Community Pharmacy Agreement (6CPA)

Seven questions were used to evaluate pharmacists' opinions on the matters associated with the sixth community pharmacy agreement:

1. What professional services do you wish to see included in the agreement. If none please tick none.

If yes please list.

2. To what extent do you support the reallocation of CPA funds from dispensing fees to services?

- i. Strongly support
- ii. Support
- iii. Not sure
- iv. Not support
- v. Strongly not support

3. Do you support the use of agreement funds (approximately \$10,000 per pharmacy) to implement the necessary changes to assist community pharmacy to move to a more service based model?

- i. No
- ii. Yes
- iii. Unsure

4. Do you prefer the payments of professional services by government to be via?

- i. The 6th Community Pharmacy Agreement (PBS)
- ii. The Medicare Benefits Schedule (MBS)

5. a) Do you support different levels of fees for dispensing based on the amount of patient interaction?

- i. Yes
- ii. No

b) If responded yes, are you positive towards

i. Two levels of fees for original dispensing  
yes/no

ii. Repeat dispensing fee of 1 to 2 dollars less than the current dispensing fee  
yes/no

iii. Other system.

Please explain \_\_\_\_\_

6. a) The community service obligation is said to make a significant contribution to the current viability of full line Wholesalers. Do you believe that should stay as part of the 6CPA?

- i. Yes
- ii. No
- iii. Do not know

b) If answered yes, should it:

- i. Remain the same
- ii. Be increased
- iii. Be decreased

7. The approximate percentage allocation of funds in the 5th Agreement is as set out below. If you had a choice would that distribution for the 6th CPA stay the same or change.

Element	\$million	%	Stay Same	Change to (state %)	Please comment
Dispensing fee, and mark-up, Plus a number of other fees e.g. DD, extemporaneous preparations etc.)	13,771.6	<b>89.5</b>			
Programs and services AND Additional Programs to support patient services	386.4 277.0	<b>4.3</b>			
Community Services Obligation	949.5	<b>6.2</b>			
Total	15,384.5	<b>100</b>			

- **Programs and services** describe those professional pharmacy programs and services funded under this Agreement, which aim to optimize the effectiveness and value of the health system in general and the PBS in particular. These include Medscheck, Home Medication Reviews, Residential Medication Reviews, Diabetes Medscheck, Rural Pharmacy workforce, Rural maintenance Allowance, Section 100, Aboriginal and Torres strait programs, PPI and accreditation, Research and development and Medication continuance
- **Additional programs to support patient services:** These programs include clinical interventions, dose administration aids, staged supply and funding for accreditation systems and support for roll out of additional programs to support patient services.
- **Community Service Obligation:** The purpose of the CSO is to ensure that All Approved Pharmacists are able to obtain timely supply of the full range of PBS medicines, irrespective of the size or location of the pharmacy, the breadth of the PBS product range, the cost of the PBS medicines, or the cost of their distribution and supply to pharmacy and all Australians have timely access to the PBS medicines they require, regardless of the cost of the medicine, or where they live. Payments from the CSO will be made to eligible wholesale distributors of PBS medicines, who meet the specified service standards. The intention is to remunerate pharmaceutical wholesalers for the additional cost they incur in providing the full range of PBS medicines, available to wholesalers, as compared to those wholesalers who distribute and supply a lesser range of PBS products.

# Members of the UTS Community Pharmacy Barometer Expert Panel



**Professor Shalom (Charlie) Benrimoj**  
**Head, Graduate School of Health and Professor of Pharmacy Practice University of Technology, Sydney**  
**and Emeritus Professor, the University of Sydney**

Professor S.I. (Charlie) Benrimoj B.Pharm (Hons), Ph.D. FPS., FRPSGB, FFIP is Head of the Graduate School of Health University of Technology Sydney 2011 to present). He was the Foundation Professor of Pharmacy Practice, Dean of the Faculty of Pharmacy and Pro-Vice Chancellor (Strategic Planning) University of Sydney. He is a visiting professor at the University of Granada. He graduated with B. Pharm. (Hons) 1976, followed by completion of a Ph.D. 1980, University of Bradford, U.K. His research interests encompass the future of community pharmacy and professional cognitive pharmaceutical services from community pharmacy. These include the provision of drug information to consumers, clinical interventions, patient medication reviews, disease state management systems, Pharmacy and Pharmacist only medications, change management and international pharmacy practice. Research interests involve the clinical, economic and implementation aspects of cognitive pharmaceutical services from community pharmacy in current and emerging health care systems. He has published over 130 papers in refereed journals, 24 major research reports and presented and co-authored 200 conference presentations. He has co-authored a book "Community Pharmacy: Strategic Change Management" (2007). He was the Australian Pharmacist of the year in 2000. He was awarded the Andre Bedat 2010 by International Pharmacy Federation (FIP). He was elected a Fellow of three distinguished international and national societies in 2008 - Pharmaceutical Society of Australia, 2008 - Royal Pharmaceutical Society of Great Britain, 2007 - International Pharmacy Federation.



**UTS Adjunct Professor John Montgomery**

John Montgomery has over 30 years' experience in the pharmaceutical industry including the US, UK and Australia. John was previously CEO of Alphapharm from 1999 to 2010 and Regional Director of Merck Generics, Asia Pacific and then President, Mylan Asia Pacific during the same period. Latterly John was General Manager of Pfizer Established Products for Australia and NZ. Before Alphapharm, he spent 20 years with Warner Lambert in a variety of roles including Regional President Australia and NZ. He was Chairman of the Generic Medicines Industry Association (GMIA) for 5 years. John is an Adjunct Professor of Pharmacy at the University of Technology, Sydney and is Managing Director of STADA Pharmaceuticals Australia, a subsidiary of STADA AG.



**Warwick Plunkett**  
**Director and past-President, Pharmaceutical Society of Australia**

Warwick Plunkett is a director of the PSA, having served as National President for the past three years. He is also proprietor and partner in Newport Pharmacy on Sydney's northern beaches, a director of Plunkett Pharmaceuticals and a consultant to a pharmaceutical company. As a director of PSA, Warwick has a day-to-day involvement in the broad scope of all matters involving pharmacists but on a personal level he lists his three main areas of interest as being community pharmacy, organisational pharmacy and the pharmaceutical industry. His major achievements include the establishment of the Self Care program, and the unification of PSA.



**Alan Langford**  
**Chief Economist, Bankwest**

Alan Langford joined Bankwest in 1989 as an Economic Research Officer, and was appointed Chief Economist in 1990. Alan provides advice to Bankwest on the implications of economic and financial market trends. Alan is actively involved with a number of professional advisory bodies including; State Councilor for the Committee for the Economic Development of Australia (CEDA), WA branch Member, advisory board of the School of Economics and Finance at Curtin University and a Senior Fellow, Financial Services Institute of Australia. Alan holds a Bachelor of Business Degree majoring in Financial Management and Economics from Curtin University, and a Graduate Diploma in Applied Corporate Finance and Investment from the Financial Services Institute of Australia (Finsia).



**Paul Dwyer**

Paul Dwyer has 20 years' experience in Corporate & Commercial Banking. He has undertaken a number of roles within the Banking industry, as well as having run his own distribution business. He has a strong interest in helping small business grow with an emphasis on financial and capital management, as well as the ongoing professional development of business owners. He currently manages a team of Pharmacy Specialists, who provide a full range of banking services to pharmacy clients.

# Executive Summary

The UTS Community Pharmacy Barometer was created by UTS: Pharmacy and Cegecim Strategic Data (CSD). It is an ongoing study that will be conducted periodically to track the confidence and opinions of pharmacy owners and employees as well as investigate a current topic. The focussed topic for this study is on the allocation of funding in the sixth community pharmacy agreement (6CPA).

Data for the fourth wave of the study was conducted in July/August 2014, with pharmacists drawn from the CSD panel comprising 268 respondents.

## Results were:

- > **The UTS Pharmacy Barometer score was 68.9 out of 200** (a score of 100 represents neutral confidence) indicating community pharmacy is currently pessimistic about the future of pharmacy.
- > In April 2012 (wave 1) and again in November (wave 2) the industry appeared more optimistic about its future with scores of 84.8 and 86.0 respectively. After almost a year of continued price-disclosures in October 2013 (wave 3) the score dropped dramatically to 61.2. A year later the Barometer has increased slightly to 68.9, but the negative sentiment remains.
- > The majority of pharmacists (57%) believe their pharmacies will decrease in value in the coming twelve months. Yet, there was a slight move towards a more optimistic view with a 5% shift in those thinking their pharmacy will increase in value (from 6% in wave 3 to 11% in wave 4), and a 6% reduction in those that believe their pharmacies will decrease in value (63% in wave 3 versus 57% in wave 4).
- > The majority of pharmacists (58%) believe their pharmacies' in three years' time will have decreased in value. Only 14% believed their pharmacy would increase in value, a similar figure to previous waves of the survey (22% in wave 1, 15% in wave 2 and 13% in wave 3).
- > Pharmacists' that predicted their pharmacies would increase in value in the coming twelve months believed on average the value increase would be 9.7%. This is a large drop in the predicted increase from wave 3 (17%).
- > In comparison those that believed their pharmacy would decrease in value in the next year, on average predicted the value would be 17.7% less than it is today, a similar but slightly less pessimistic view to wave 3 (20%).
- > It appears only a marginal number of pharmacists are optimistic about their positioning for the future (n=31), who predict on average a 16.8% increase in the value of their pharmacies in three years' time. The majority of responding pharmacists (n=131) predict a reduction in value in three years' time by on average of 23.8%.
- > The opportunity seen in professional pharmacy services continues to stand out significantly as per previous waves. Over 75% of respondents saw professional pharmacy services as the greatest future opportunity.
- > Pharmacies are seeing a reduction in the profitability their businesses with 68% of owners/owner-managers' reporting a reduction in gross-profit in absolute dollars.
- > Pharmacists report seeking little advice from financial institutions across all areas of their businesses. Almost 50% of pharmacy owners, managers and pharmacists-in-charge who believed the value of their pharmacy business would decrease in value over the next three years had not had discussions with a financial advisor.
- > Over 85% of respondents stated they intended to increase generic substitution and implement new services to replace lost revenue.

- > In addition approximately two-thirds of owners, managers and pharmacists-in-charge intend to replace loss revenue by cutting staff costs. This could have serious implications for the employment prospects of pharmacists.
- > There is uncertainty in pharmacists' opinions whether 6CPA funding should be reallocated from dispensing fees to services. In total approximately 30% support, 35% are not sure and 35% do not support reallocation.
- > There appears to be support for agreement funds to be put towards the implementation of professional pharmacy services. However qualitatively in the comments there is concern about the use of a lump sum for this purpose.
- > There was a 50/50 split in support for service funding to come from the sixth Community Pharmacy Agreement (6CPA) or from Medicare Benefits Scheme (MBS). In general pharmacy owners preferred to stay with the current system of the CPA (59%), while employed pharmacists, not surprisingly, were more supportive of moving to MBS payments (58%).
- > Two-thirds of pharmacists supported a extended dispensing fee based on the amount of patient interaction.
- > There was overwhelming endorsement to keep funding for the Community Service Obligation (CSO) to support wholesalers.
- > Approximately one-third of pharmacists would choose to change the current distribution of funds for the upcoming sixth Community Pharmacy Agreement.
- > Pharmacists appeared willing to accept a lower dispensing fee in exchange for an increase in service fees. If such a change was to occur on average the desired change would result in the final proportion of funding for services to increase considerably from the 4.3% allocated in the 5th agreement to 16.9% being allocated in the 6th.

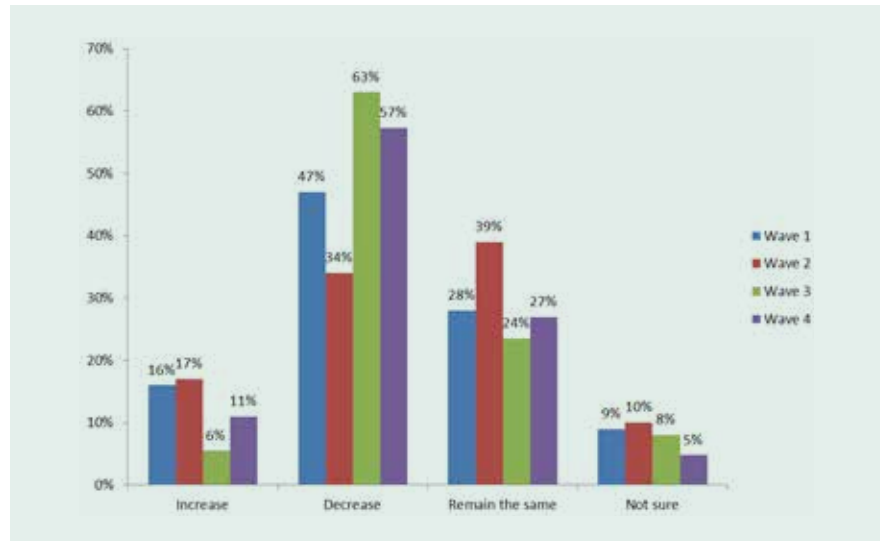
# “Will the value of your pharmacy increase, decrease or remain the same at one year and three years from now?”

## Expert commentary

“This shows that continuous price cuts from Price Disclosure have become the ‘new normal’ and while the impact is still negative, it’s no longer a surprise.”

**John Montgomery**

Figure 1: Expected value of pharmacy in the next year (Wave 1 to Wave 4)



\* Note: Answered only by Owners, Owner managers, Pharmacy managers and Pharmacist-in-charge; n=227

The majority of pharmacists believe their pharmacies will decrease in value in the coming twelve months. There is however a slight move, in wave 4 compared to wave 3, towards a more optimistic view with a 5% shift in those thinking their pharmacy will increase in value (from 6% in wave 3 to 11% in wave 4), and a 6% reduction in those that believe their pharmacies will decrease in value (63% in wave 3 versus 57% in wave 4). The number who believe their pharmacies will remain the same value or are unsure has remained relatively stable in the past year with a 3% increase in those who believe their pharmacies will remain the same and 3% decrease in those who are not sure. Not surprisingly as the market experiences the effects of Price Disclosure, there appears to be a trend over the past three waves for pharmacists to have a greater clarity of the impact of Price Disclosure as the number who responded as ‘not sure’ continues to decrease.

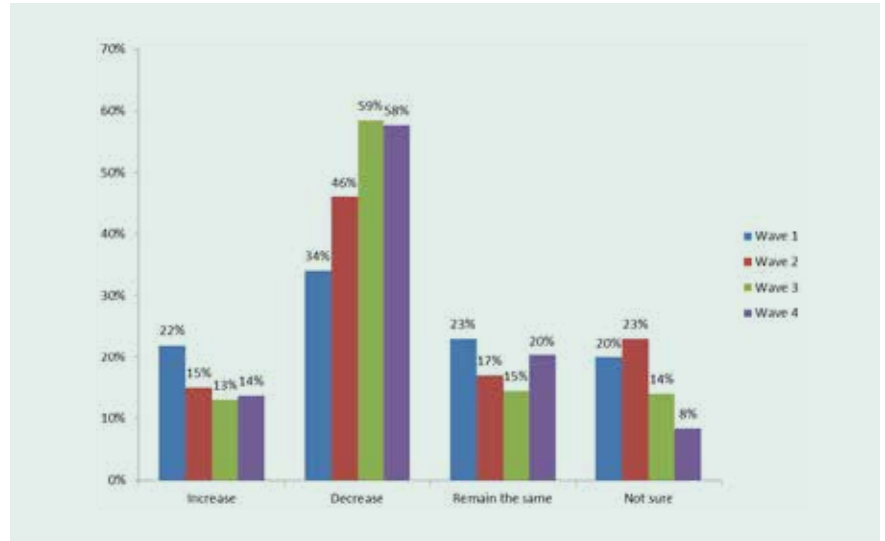
The introduction of Price Disclosure saw a dramatic increase in the number of pharmacists who believed their pharmacies would decrease in value in one year’s time. With further reductions imminent, it can be seen the majority of pharmacists’ still believe they will be unable to maintain the value of their business over the coming twelve months.

## Expert commentary

“Maybe they are coming to terms with the fact they are going to change. And that change will be less positive today versus in three years-time”

**Warwick Plunkett**

**Figure 2: Expected value of pharmacy in the next three years (Wave 1 to Wave 4)**



\* Note: Answered only by Owners, Owner managers, Pharmacy managers and Pharmacist-in-charge; n=227

Pharmacists' predictions of the value of their business in three years' time were very similar to that of wave 3. The majority of pharmacists (58%) believe their pharmacies will have decreased in value and only 14% of respondents believed their pharmacy would increase in value. There was a 5% increase in the number who believed they would be able to maintain the value of their pharmacy (15% in wave 3 versus 20% in wave 4), and correspondingly a 6% decrease in those who were unsure (14% in wave 3 versus 8% in wave 4).

Between April 2012 (wave 1) and October 2013 (wave 3), there was an increase in the percentage of pharmacists who believed their business would decrease in value in three years' time (34% in wave 1, 46% in wave 2 and 59% in wave 3). However between wave 3 and wave 4 there has been very little shift in pharmacists' predictions (59% in wave 3 versus 58% in wave 4). Pharmacists appear to be accustoming to the environment, although they still feel there will be a decrease in the value of their pharmacies. Interestingly they are becoming more aware of the future impact as the "not sure" group has steadily decreased from wave 2 to wave 4 (20% to 8%).

There is a 3% increase in the percentage of pharmacists predicting the value of their pharmacies to increase in three years' time, compared to number predicting an increase in value one year's time (percentage of pharmacists who believe their pharmacy will increase in value at one-year being 11%, while 14% for three-years). The biggest variation in predictions between one and three years is in those who think value will remain the same. Fewer respondents believe that in three years versus one year that values will remain the same (27% v 20%).

## Expert commentary

"It's interesting to see more realism about the extent of the increase in value and a bit less pessimism about the decrease in value - maybe another sign of coming to terms with the environment."

**John Montgomery**

"What it signals to me is that complacency is over. The reflection of our data is that some knew what was coming, others were waiting for the Guild to save them, or things to turn around. Now a few years down the track, they realise they have to do something and most of them are thinking about it. Some have given up (as reflected in some of the answers), but the vast majority are trying to do something about trying to make their businesses more profitable again."

**Warwick Plunkett**

**Figure 3: Average changes in value expected in the next year (Wave 1 to Wave 4)**

		Wave 1	Wave 2	Wave 3	Wave 4 (n=25)
Expected value of pharmacy will <b>INCREASE</b> in the next year	Maximum	30%	30%	50%	50%
	<b>Mean</b>	<b>15%</b>	<b>10%</b>	<b>17%</b>	<b>9.7%</b>
	Minimum	2%	0%	2%	0%

		Wave 1	Wave 2	Wave 3	Wave 4 (n=130)
Expected value of pharmacy will <b>DECREASE</b> in the next year	Maximum	-40%	-50%	-90%	-61%
	<b>Mean</b>	<b>-16%</b>	<b>-17%</b>	<b>-20%</b>	<b>-17.7%</b>
	Minimum	-5%	0%	0%	-1%

Pharmacists' that predicted their pharmacies would increase in value in the coming twelve months believed on average this increase in value would be 9.7%. This is a large drop from wave 3 (17% versus 9.7%). In comparison those that believed their pharmacy would decrease in value in the next year, suggested on average a fall in value of 17.7%, which is slightly less pessimistic than in wave 3 (20%).

It appears the reality of the current pharmacy environment has hit pharmacies. Although the percentages who believe they will be able to maintain or increase the value of their pharmacy in the following year have risen slightly.

**Figure 4: Average changes in value expected in the next 3 years (Wave 1 to Wave 4)**

		Wave 1	Wave 2	Wave 3	Wave 4 (n=31)
Expected value of pharmacy will <b>INCREASE</b> in the next 3 years	Maximum	50%	30%	50%	65%
	<b>Mean</b>	<b>18%</b>	<b>15%</b>	<b>17%</b>	<b>16.8%</b>
	Minimum	5%	7%	3%	2%

		Wave 1	Wave 2	Wave 3	Wave 4 (n=131)
Expected value of pharmacy will <b>DECREASE</b> in the next 3 years	Maximum	-50%	-60%	-90%	-50%
	<b>Mean</b>	<b>-19%</b>	<b>-20%</b>	<b>-24%</b>	<b>-23.8%</b>
	Minimum	-5%	-4%	-1%	-5%

There continues to be a small number of pharmacists positioning themselves for the future, predicting a 16.8% increase in the value of their pharmacies in three years' time. However, the majority of responding pharmacists still predict a reduction by on average 23.8%. The overall sentiment remains that in the medium-term the value of community pharmacies will decline.

There was been little change in pharmacists' predictions of the value of their pharmacies in three years' time throughout all waves.



### **The view from pharmacy**

Pharmacists were asked to indicate the reasons for their predicted change in value of their pharmacy.

#### *Those that predicted a decrease in value*

The most prominent themes for those that predicted a decrease in value were:

- > Price disclosures/PBS cuts
- > Discounters
- > Open ownership pressures (supermarkets)
- > Rising rent

"Price disclosure, this year we increased customers by over 6.5% and Scripts by 7.5% turnover increased by 0.25%. So with bigger cuts to come, growth is the only way to stay the same!"

"Decrease in revenue from medications. Decrease in margins of front of shop items from supermarkets and discounters."

"Decrease in income from PBS - Decrease in margins from discounting - Increased pressure from supermarkets"

"Increasing market share in discount models, reduction in dispensary profitability due to the advanced and accelerated price disclosure policy, supermarket interest (may push [business] prices up in the short term, but devalue the industry)"

"Unless the pharmacy owners change their strategy, there is little value in increasing script numbers. Particularly in light of PBS price reductions"

"There is NO light at the end of the tunnel. The Government will not care about the viability of community pharmacy until the system collapses & it is too late to save."

#### *Those that predicted an increase in value*

The most prominent themes for those that predicted an increase in value were:

- > Location
- > Professional services
- > Increased turnover
- > Increase in customers
- > Improved buying-power

"Professional services should be on track in 3 years' time"

"In the short term plenty of threats to pharmacy i.e PBS reductions, discount competition, large rents, and noise of deregulation/ change to PBS location laws. Within the next few years pharmacy will need to adjust the business plan to account for these threats/changes. Plenty of opportunities along with risks."

"Better utilization of pharmacist knowledge in front of shop. Stronger relationships with customers by increased involvement in their health."

# Confidence in the Future

## Expert commentary

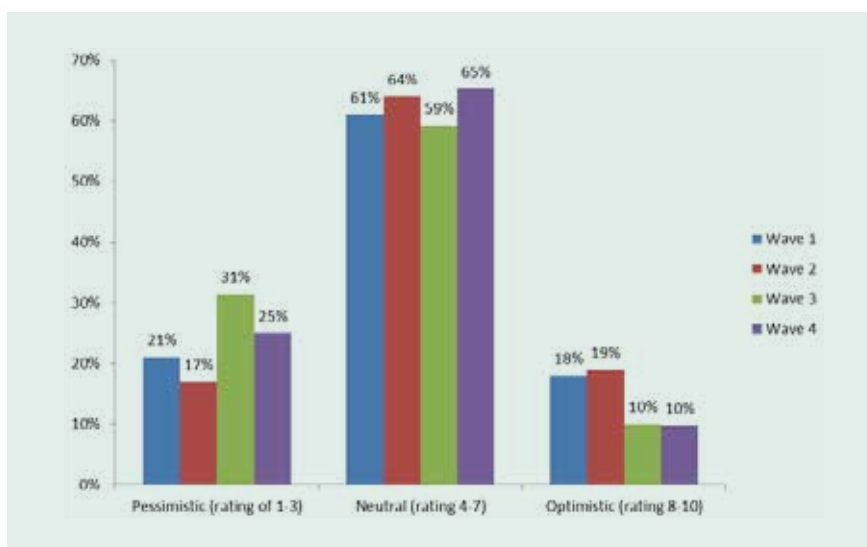
"Owners are becoming fully aware of the impact of price-disclosure and that this is very negative. However the problem is the strategy of cutting labour costs is negatively affecting employee pharmacists through a reduction in wage or a reduction in hours. The owner is now squeezing costs through the salary element as part of their strategy. Short term thinking for short term results!!! There appears to be no strategic or operational move to increase productivity or to increase the capacity of their employees or to develop their business. For the sake of the profession we need to urgently consider employee pharmacists since they are a valuable asset for the present and future of the profession. We wish to attract the best to our profession."

**Charlie Benrimoj**

Pharmacy owners have not moved to employ pharmacists to do other things like provide services rather than just dispense. The penny has not yet dropped as to how to use your employee pharmacists to generate more income."

**Warwick Plunkett**

**Figure 5: Pharmacists confidence in the future viability of community-based pharmacy (Wave 1 to Wave 4) (n=268)**



Since October 2013 there has been a slight reduction in pessimism indicated by a 6% reduction in pessimistic ratings between 1-3 and the correspondingly 6% increase in neutral ratings between 4-7. The number who rated their confidence in the future viability of pharmacy as optimistic (a score between 8-10) remained the same at 10%. On average the overall confidence was 5.05, which is a slight increase from wave 3 (4.8), but remains lower than wave 1 (5.4) and wave 2 (5.7).

A trend was seen towards employee pharmacists appearing a little less optimistic about their future with their average confidence rating being 4.54 compared to pharmacist managers/pharmacists-in-charge at 5.19 and owners at 5.16. This may be due to pharmacy owners' current strategy in trying to cut costs (including staff wages or hours) in an attempt to maintain profit and not realising the opportunity of investing in employee pharmacists. This trend however was not statistically significant due to the sample size. There was no difference in confidence between the different types of pharmacies, indicating no one type of pharmacy has greater confidence in their solutions for the current situation than any other.

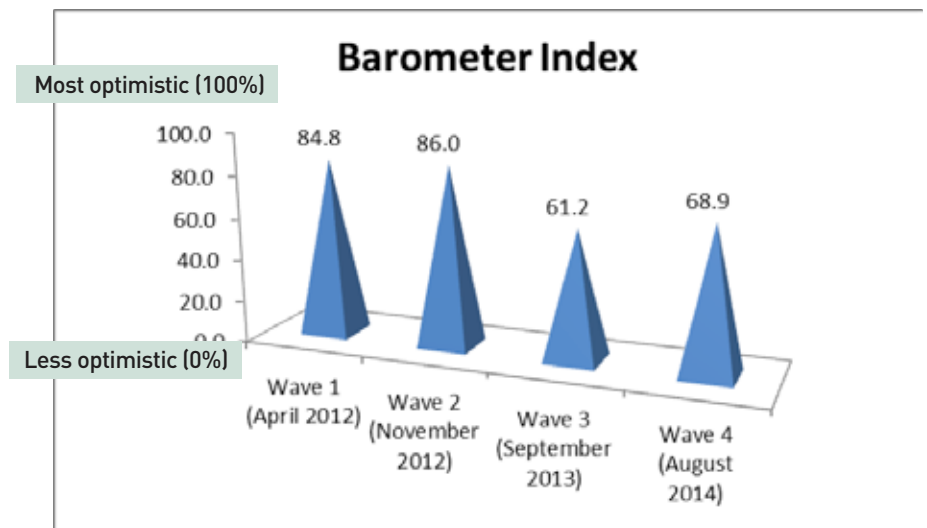
“On a scale of 1 to 10 where 1 is extremely pessimistic and 10 is extremely optimistic, how confident are you in the future viability of community based pharmacy?”

### Expert commentary

“This survey was conducted in July/ August 2014. The next round of Price Disclosure cuts will hit hard in October 14. The small increase in the Confidence Index shows that either pharmacists don't yet fully understand what will occur or they've taken some initiatives in their business to try to insulate themselves”

John Montgomery

Figure 6: UTS Community Pharmacy Barometer Index (Wave 1 to Wave 4) (n=268)



A negative sentiment persists within the Community Pharmacy Sector (score of 68.9 in the UTS Community Pharmacy Barometer). When the barometer began in April 2012 and subsequently in November 2012 the industry appeared more optimistic towards its future viability (84.8 in wave 1 and 86.0 in wave 2). However this optimism was naïve to the significant impact of Price Disclosure. A year after the start of Expanded and Accelerated Price Disclosures, we saw the score drop to 61.2 in wave 3. A year later in 2014 the Barometer has remained low, but increased slightly to 68.9 perhaps reflecting a better understanding of the impact of this policy.

The large impact of Price Disclosure and PBS cuts has hit community pharmacy. In the first year optimism dropped dramatically, however it now seems lower profits may have become the new norm and pharmacies are adjusting to this reality, indicated by the slightly more optimistic view of the future.

# “Where do you see the greatest opportunities for community pharmacy over the next three years?”

## Expert commentary

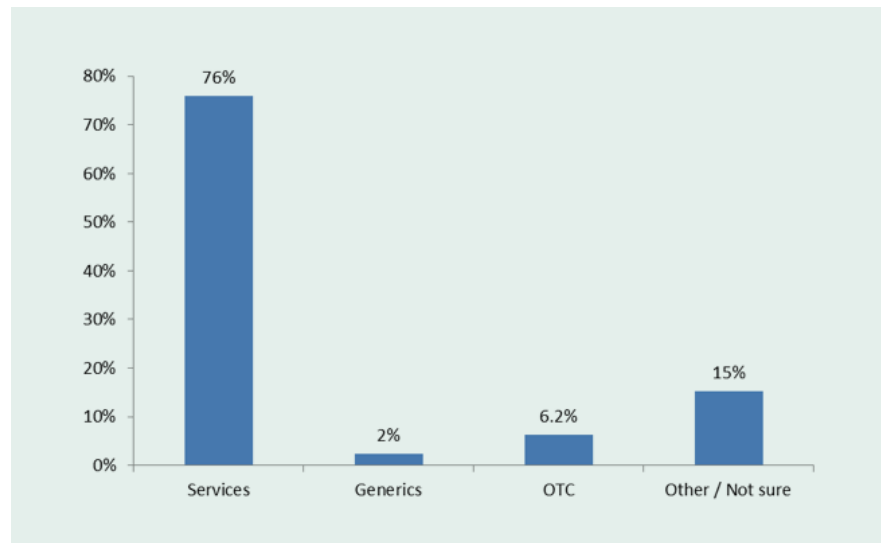
“Currently there is much debate on how to cut costs and at the same time a willingness to develop services but no real implementation is evident.”

**Charlie Benrimoj**

“There certainly seems to be upside potential for the industry in the implementation of the suggestions made to increase revenue. We see a strong focus on cost-cutting, but that can only be one part of the overall strategy, and can only be done for a limited time – costs will still be incurred in running a business, so it is imperative that revenue grows.”

**Paul Dwyer**

Figure 7



The opportunity seen in professional pharmacy services continues to stand out significantly as per previous waves. Over 75% of respondents saw professional pharmacy services as the greatest opportunity. Specific services such as disease state management, medication management, aged-care and fifth community pharmacy agreement services were named by 50% of pharmacists. Another 25% saw the greatest opportunity in primary care services including vaccinations, minor ailments, over-the-counter, screening and prevention. Less than 10% saw other areas of the business to grow, such over-the-counter medications and increasing advice (6.2%), or generic substitution (2%). There remains a further 15% who see no opportunities with the current model or were unsure.

On the whole it appears pharmacists see services as the future, but are waiting for direction and guidance on how to implement these services and move into this new space. They may be waiting for a commercially viable alternative model from that of discounting. Pharmacists are stating they want to make changes, but as yet no major movement appear to have occurred.

# “How do you intend to replace the lost revenue from price-disclosure?”

## Expert commentary

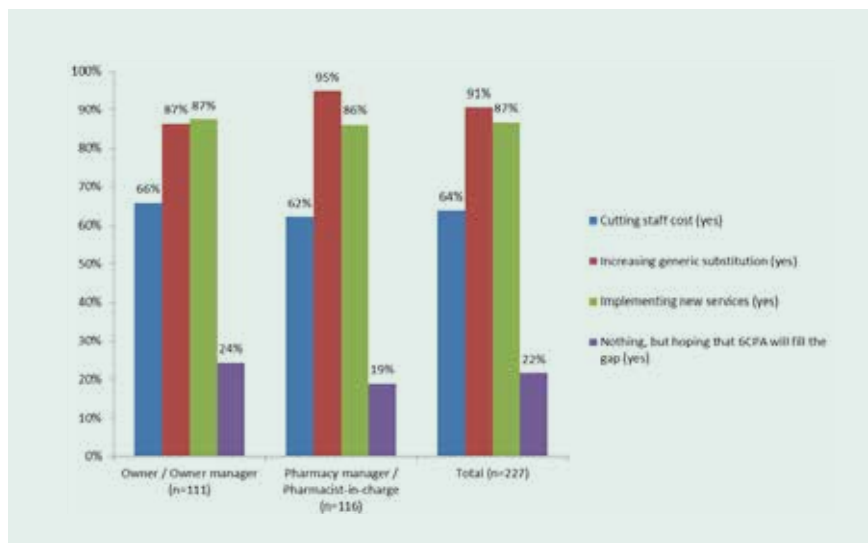
“You need to increase generic volume by much more than the price reduction in order to stand still. So to have the same high score for generic substitution as implementing new services is surprising. Obviously pharmacists still love their generic discounts even if the absolute dollars have decreased.”

**John Montgomery**

“Cutting labour comes across as the main strategy. A major worrying thought for the graduates we are producing. Unless these graduates are seen to be valuable to the industry and add value to the business they will have a bleak future.”

**Charlie Benrimoj**

Figure 8: Strategies to replace revenue lost due to price-disclosure



\* Note: Answered only by Owners, Owner managers, Pharmacy managers and Pharmacist-in-charge; n=227

Price Disclosure has seen a significant loss of revenue for community pharmacy. The question was posed as to how pharmacists intend to replace this lost revenue. Respondents, as in wave 3, are intending to continue to use existing strategies of increasing generic substitution and indicating they will implement new services. However the striking headline is that approximately two-thirds of owners, managers or pharmacists-in-charge intend to replace loss revenue by cutting staff costs. This may be by reducing numbers, paying staff less, or reducing their hours. This behaviour could have widespread implications for the industry. In addition a worrying statistic is that over 20% of pharmacists are planning on doing nothing, but appear to be waiting in hope for the 6CPA to provide additional revenue.

# “As a result of the PBS price cuts are you maintaining your gross margin in absolute dollars?”

## Expert commentary

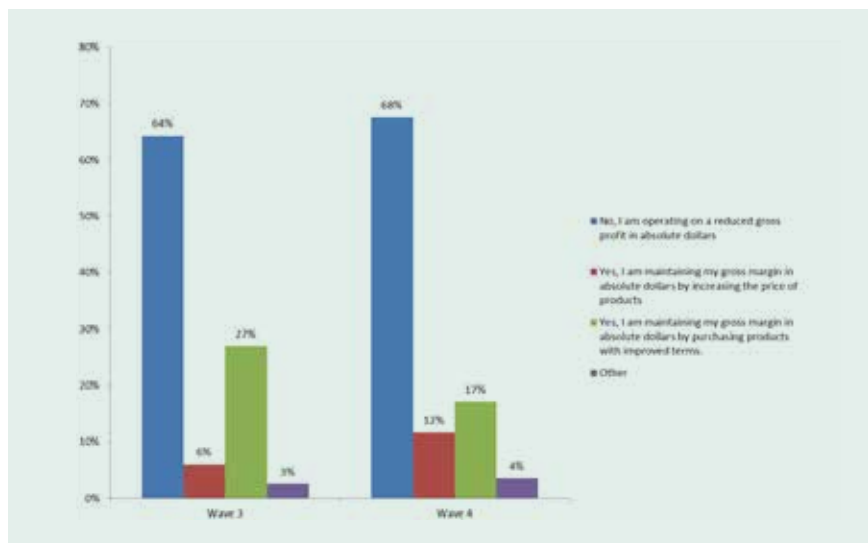
“In the context of a small increase in confidence, maybe this shows that pharmacists are becoming resigned to making less profit but that the pharmacy business is still a good one – again the new normal”

**John Montgomery**

“The slight improvement in optimism seems to stem from an acceptance that while pharmacies are generating lower revenue, the cost reductions are being used to counter-balance performance and potentially seen as a way of insuring the business against industry changes.”

**Paul Dwyer**

Figure 9: Maintenance of gross profit post PBS price cuts



\* Answered only by owner/owner-managers (n= 115 wave 3 & n=111 wave 4)

Pharmacies are seeing a reduction in gross-profit in absolute dollars (68% of owners/owner-managers). This is a slight increase in the number, compared to the 64% of owner/owner-managers that reported a reduction in the last wave. These figures are also echoed by pharmacy managers/pharmacists-in-charge and employee pharmacists. For those pharmacies that are maintaining their gross margin, there has been a shift from maintaining margins by purchasing products with improved terms (27% to 17%), towards maintaining margins by increasing the price of products (6% to 12%). This may indicate these pharmacists are realising they cannot compete with discounters and need to choose an alternative business model. This could also reflect they are no longer able to receive improved terms with wholesalers or manufacturers.

# “Does your accountant or financial institution provide you with guidance or assist with the production and interpretation of any of the following reports to help you manage your business finances?”

## Expert commentary

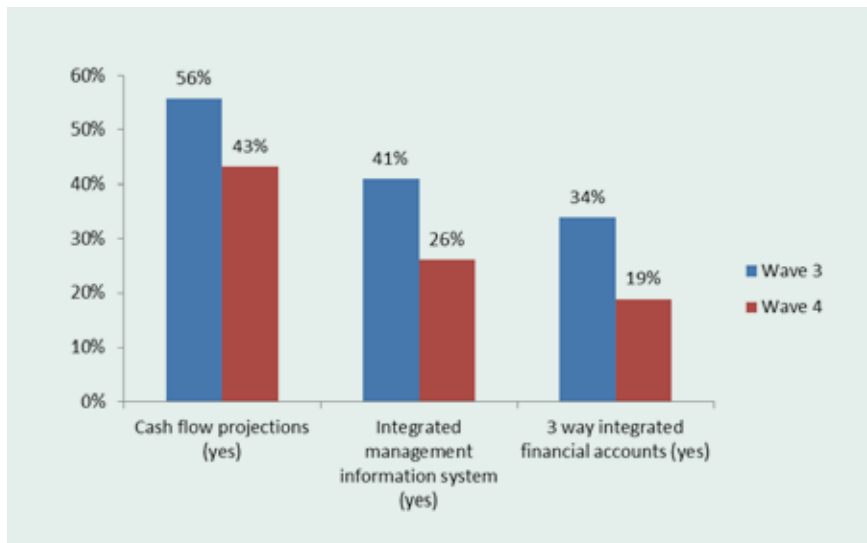
“With falling revenue, and further price disclosure changes, now is the time pharmacy owners should be talking to their accountant, financial advisor or relevant institution. The figures however may indicate that pharmacy owners are unwilling to discuss some of these challenges despite this being a sensible course of action”

**Paul Dwyer**

“It is concerning that an even smaller proportion of community pharmacy owners are seeking financial advice this year compared to a year ago. If anything, you could argue that the need is even greater in the face of the federal government’s determination to repair its budget by making households pay more for a range of health related goods and services. More generally, households remain cautious in the face of a soft labour market and uncertainty about the global economy. So as pharmacies rely ever more on sales of discretionary goods and services, the imperative to keep their financial house in tip-top shape continues to rise. Just for starters, along with the education sector, pharmacies are on the front line of adjustment to the distinct possibility of the GST before too long applying to a range of goods and services that are currently exempt. And that will have cash flow implications at the very least.”

**Alan Langford**

Figure 10: Financial Guidance



\* Answered only by owner/owner-managers (n= 115 wave 3, n=111 wave 4)

Despite the ongoing difficulties and pessimistic views of respondent pharmacists they are seeking less advice from financial institutions across all areas. This is particularly surprising when the majority of pharmacists believed their pharmacies would decrease in value and they are operating at a reduced gross profit.

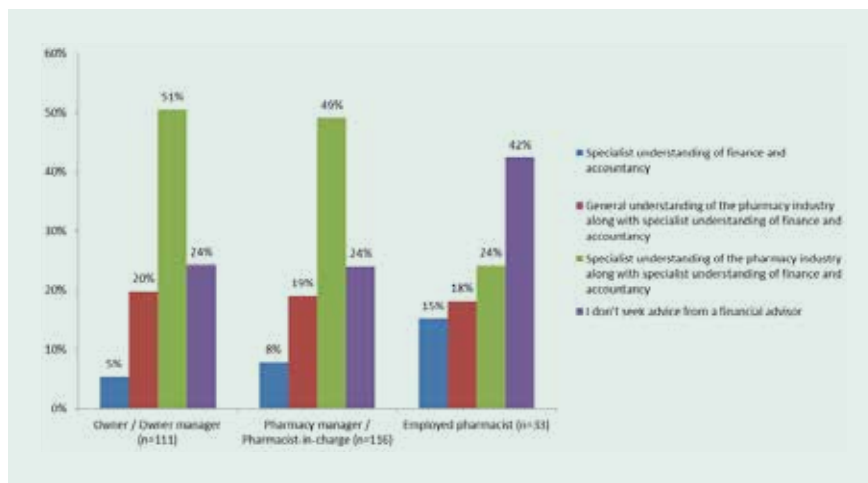
# “What are the key areas of speciality you look for in a financial advisor?”

## Expert commentary

“Given the level of change in the industry experienced in recent times and forthcoming changes, it is very important for pharmacy owners to be speaking with finance experts who also have a strong knowledge of the pharmacy industry.”

Paul Dwyer

Figure 11: Sought Financial Advisor Skills



When pharmacists were asked about the key areas of speciality they look for in a financial advisor the majority of respondents across all pharmacist types sought a financial advisor that had both a specialist understanding of the pharmacy industry along with a specialist understanding of finance and accountancy. There was very little movement from wave 3 in responses. The question is whether these types of experts are available?



# “As you believe the value of your pharmacy business will decrease over the next 3 years, what discussions are you having with your financial advisors to maintain your capital structure and viability of your business?”

## Expert commentary

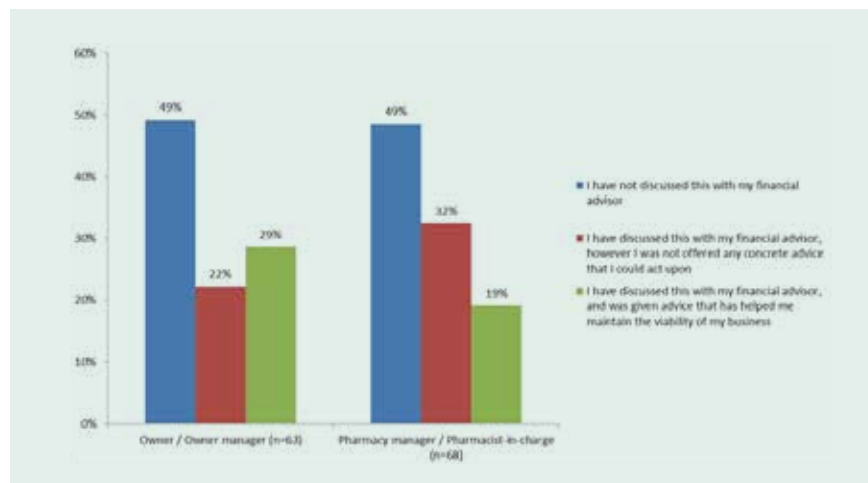
“People are cutting costs rather than seeking financial advice. There appears to be an existing behaviour not to seek financial advice which surprisingly is not changing despite their anticipated negative business trends.”

**Charlie Benrimoj**

“This presents a great opportunity because the earlier owners speak with their advisors, the greater the range of options that can be considered in trying to assist the business.”

**Paul Dwyer**

Figure 12: Pharmacists discussions with their financial advisors



\* Answered only by those responding with “B. decrease” to “Do you believe the value of your pharmacy will increase, decrease or remain the same in the next 3 years?” n=131

Pharmacy owners, managers and pharmacists-in-charge who believed the value of their pharmacy business would decrease over the next three years were questioned on the advice and discussion(s) they have had with a financial advisor. In almost 50% of cases discussions with a financial advisor on how to maintain capital structure and business viability had not occurred.

It is pleasing that for those who have had discussions with a financial advisor “helpful encounters” increased from 24% (wave 3) to 29% (wave 4) and for those not offered concrete advice that they could act upon, reduced for owners from 30% (wave 3) to 22% (wave 4).

# THE FOCUS TOPIC: 6CPA funding

## Expert commentary

“The sixth agreement is critical to the future of the profession. We are in a period of financial stringency and it may be difficult to negotiate an agreement which provides adequate financial benefits to community pharmacy owners and more importantly is fair to the taxpayers of Australia. Another outcome similar to the fifth agreement is obviously not acceptable to the profession. Serious consideration should be given to a fundamental change to the basis of the agreement where the majority of income is product related”

**Charlie Benrimoj**

## Background

Pharmacy continues to be in a state of change, and along with change innovation may come. The key driver for change is economic pressure leading pharmacists to search for new directions. One of the most interesting findings in wave 1 was the overwhelming support and focus on moving to a service-based model. This theme came through strongly in responses when asked about “the greatest opportunities for pharmacy over the next three years”. This trend continued in wave 2 and wave 3 and remains some three years after in Wave 4. While there is considerable optimism about the opportunities presented by the service-based model of pharmacy there are also concerns about how this model will actually work.

The viability of Community Pharmacy relies heavily on the Community Pharmacy Agreements negotiated by the Pharmacy Guild with the Federal Government every five years. These agreements have permitted generous trading terms with pharmaceutical suppliers. Discounts on products have been a major source of revenue for pharmacies. Following the fifth agreement the government introduced a number of policies including Expanded and Accelerated Price Disclosure (EAPD) which had obvious negative impacts on the commercial future of the industry. As part of the fifth agreement dispensing fees were frozen.

It’s a matter of debate whether the fifth community pharmacy agreement was beneficial to owners and the profession. What is clear is that the future viability of community pharmacy during the next five years will be very much dependent on the terms negotiated in the sixth agreement. If the sixth agreement outcomes are similar to those of the fifth agreement one could predict that the industry will be in further turmoil. Therefore it is imperative that we have the views of owners and their pharmacy employees who are directly or indirectly affected by this agreement.

Currently community pharmacy agreements are largely based around dispensing fees and mark-up of pharmaceutical care benefits. However, each agreement has seen a shift of funds being allocated to the remuneration for professional pharmacy services.

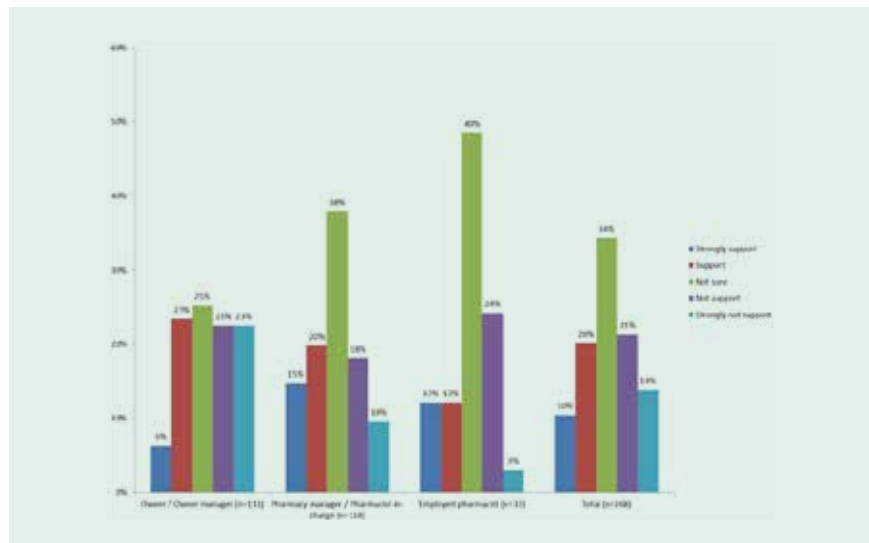
# “To what extent do you support the reallocation of CPA funds from dispensing fees to services?”

## Expert commentary

“Pharmacists’ past experiences with payment for services from CPA has been poor and would not give them confidence that this is the way to go. It shows uncertainty and lack of confidence.”

**Warwick Plunkett**

Figure 13: Support for reallocation of CPA funds from dispensing fees to services



There is wide spread uncertainty by pharmacists for whether CPA funding should be reallocated from dispensing fees to services. Approximately 30% strongly support or support, 34% are not sure and 35% do not support reallocation. It appears that a large proportion of pharmacists wish to have additional funds for services rather than cut any money from dispensing. At the same time there is an underlying assumption (which may or may not be true) that the total existing funds of the Community Pharmacy Agreements will be unchanged and therefore money may only be reallocated within the agreement rather than have an absolute increase in funds.

One point of note is the discrepancy in the views across staff types. Pharmacy owners seemed particularly divided on the issue, although they leaned towards maintaining the current system. Pharmacy managers/pharmacists-in-charge and employed pharmacists moved towards supporting reallocation of funds and those that supported the reallocation did so with greater conviction with 15% and 12% respectively strongly supporting versus 6% of owners. However they also showed greater uncertainty with 38% and 49% being unsure.

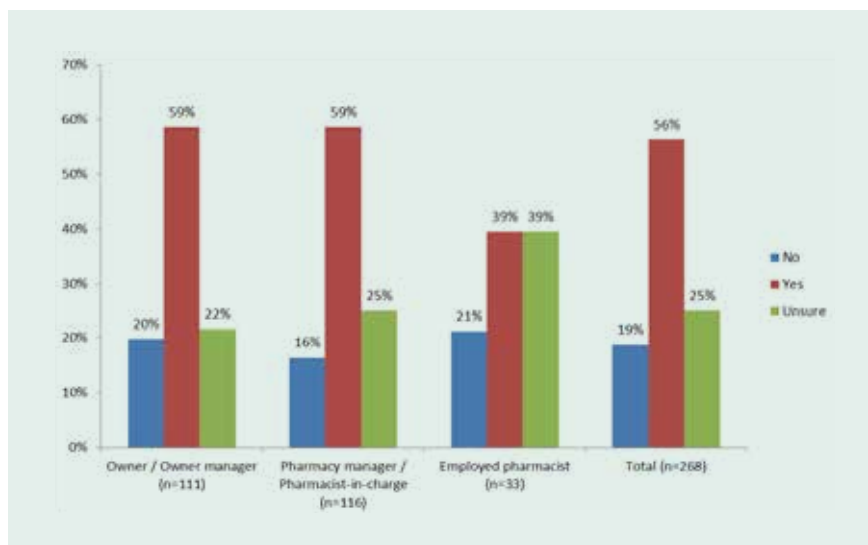
# “Do you support the use of agreement funds to implement the necessary changes to assist community pharmacy to move to a more service based model?”

## Expert commentary

“We need to get into services. We need financial assistance to change our current business model, and the agreement is probably the place where that should come from.”

**Warwick Plunkett**

Figure 14: Support for implementation funding



Pharmacists were asked if they would support agreement funds being put towards the implementation of professional pharmacy services. There appears to be strong support with almost 60% saying they support the concept. However verbatim comments and the previous question show dissonance, particularly there is concern about the use of a lump sum for implementation. Pharmacists have experienced a one off payment for registering for service provision which does give rise to “actual” service provision. Pharmacists are concerned with how the money will be spent as well as how the spend will be audited to ensure it is actually towards implementation of the service.

### **The view from pharmacy**

Pharmacists were asked to comment on whether they support the use of agreement funds to implement the necessary changes to assist community pharmacy to move to a more service based model.

### **Comments from those who did not support funding from the agreement for implementation**

"Not enough to compensate and open to abuse, the greed of many Pharmacists is being coming only too evident and the nepotism in the Guild would only lead to favouritism"

"No - I believe that \$10k per pharmacy for implementation of services is far too great. Would happily give away \$2k for the necessary software and guidelines and the rest should be given back to the individual pharmacy to help offset staffing costs etc."

"The best way to change behaviour is with ongoing funding. Start-up costs are only a minor consideration when completely changing a business model."

"We already provide enough service and this type of money is too corruptible they should pay us when we do the script for all the counselling needed when we give out the script"

### **Comments from those who were unsure**

"Need some kind of audit to prove it is being done rather than pocketed."

"Only if they are very different to what has already been funded. Pharmacies have already been given funding in the past for professional programs etc. Maybe more funding to assist the continuation of what has been done and evidence based assessment to see if this funding is utilized appropriately and staff are trained correctly and also to improve conditions for staff with adequate wages for pharmacists in general. The current award wage is just appalling."

"As long as the money wasn't just given to the pharmacy, but some sort of voucher system"

"It's in our interests to do it anyway, if that funding was to be redirected from the whole pot then defiantly no"

"So long as it does not detract from dispensing fees"

"A one off payment is not enough - instead of just giving everyone 10K - it should be given on the number of times you provide a service. Why is it fair that a pharmacy that sees 100 patients a day get the same 10K that is given to a pharmacy that sees 500 patients a day?"

### **Comment from those who do support funding from the agreement for implementation**

"This would be beneficial for implementation of technology, local area marketing and equipment purchases"

"Pharmacies require a push to get increase services provided."

"Yes, but once again the change needs to be at a government level NOT at the pharmacy level"

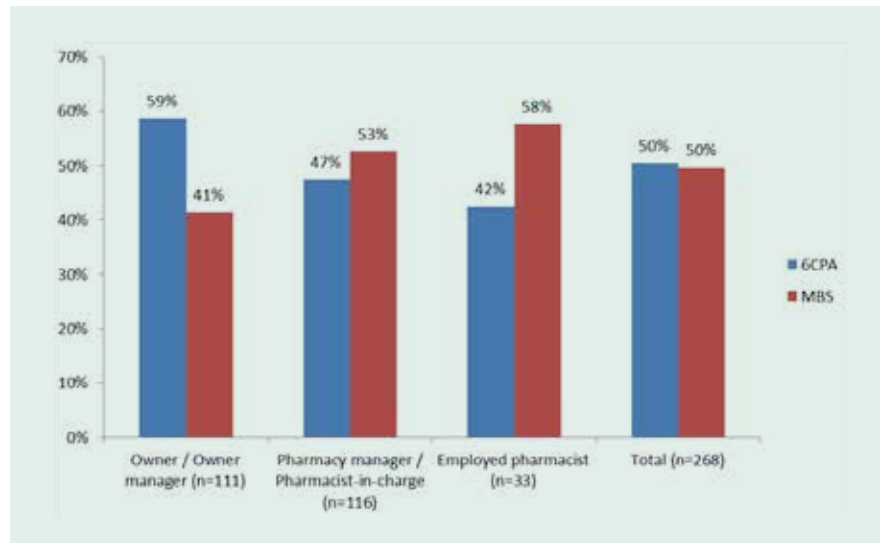
# “Do you prefer the payments of professional services by government to be via CPA or MBS?”

## Expert commentary

“Whilst capping issues for professional services in the current Agreement has many pharmacists looking at the advantages of the MBS payment process, for the rest it remains ‘better the devil you know’ ”

**Warwick Plunkett**

Figure 15: Preferred source for government professional service payments



There was a 50/50 split in support for the source of service funding between the sixth Community Pharmacy Agreement (6CPA) and Medicare Benefits Scheme (MBS). Pharmacy owners (59%) preferred using the 6CPA, whilst 41% would rather have payment via the MBS. This contrasts to the views of employed pharmacists where 58% supported moving to MBS payment versus 42% who preferred 6CPA. Employed pharmacists may see the MBS as an opportunity to receive an individual practitioner number rather than having to be paid through the pharmacy owner. Political pressure by employee pharmacists could lead to further moves to a model of direct payment to service providers. One could also postulate that some pharmacists may be viewing the MBS as an additional source of funding to supplement funds from the CPA.

Analysis of the qualitative comments shows a number of sub-themes. Reasons pharmacists wanted to move away from the current system included lack of auditing of service provision, amount of paper-work, and to be able to provide services outside of a community pharmacy environment. In addition pharmacists thought the MBS, by not being controlled in five year terms, may bring more consistency and sustainability.

### **The view from pharmacy**

Pharmacists were asked to comment on their preferred payment method for professional pharmacy services

#### **Comments from those who preferred payment via the Medicare Benefits Schedule (MBS)**

"The 6th Agreement is good for developing some payments specifically for community pharmacy, and should only be used for this purpose. HMR and RMMR should be moved to MBS, while Medscheck (a completely community pharmacy programme) should still be 6CPA. Each new service should be assessed on this basis, and be 6CPA if it can only be funded through community pharmacy (either by funding requirements of practicality of delivering the service) and via MBS if it can be offered on a broader scale by any pharmacist"

"Especially those done outside of the 4 walls of pharmacy."

"If linked to MBS then I assume it goes on forever and not till end of 6th agreement"

"If items can be "dispensed" for customers and paid via Medicare this would reduce the workload on the pharmacist having to prepare and send off forms. The previous CPA was too far removed from the normal work flow that it was largely ignored or forgotten about"

"The payment processes of the CPA have been appallingly archaic & slow"

"This is probably a more consistent payment"

"It needs to be in place for the future and not change every agreement. Needs to also be easily accountable, paperwork needs to be minimal"

"I think bringing pharmacists into Medicare is a sensible option. It will separate the drug delivery (and costs) from healthcare related service delivery."

"On a long term basis not just for 5 years...need a sustainable model"

#### **Comments from those who preferred payment via the 6th Community Pharmacy Agreement (PBS)**

"I have no preference. I have nothing against payments being made direct to pharmacists but would be concerned that those payments would be diverted by medical centres. Doctors working in medical centres are often paid a % of the fee, between 40-60% I hear is common. Those Doctors can't claim direct but the medical centres claims and them pays the Doctor. I can't expect that these same medical centres will allow Pharmacists to claim directly. And with the over-supply of pharmacists, it would be easy to talk the % paid to the pharmacist down."

If you are willing to work for 40%, I can see another pharmacist taking 30%"

"Medicare has proven to be an inefficient means of distributing funds."

"There will be better monitoring of where money is spent"

"Less hassle the better already time poor"

"As long as it is audited"

# “Do you support different levels of fees for dispensing based on the amount of patient interaction?”

## Expert commentary

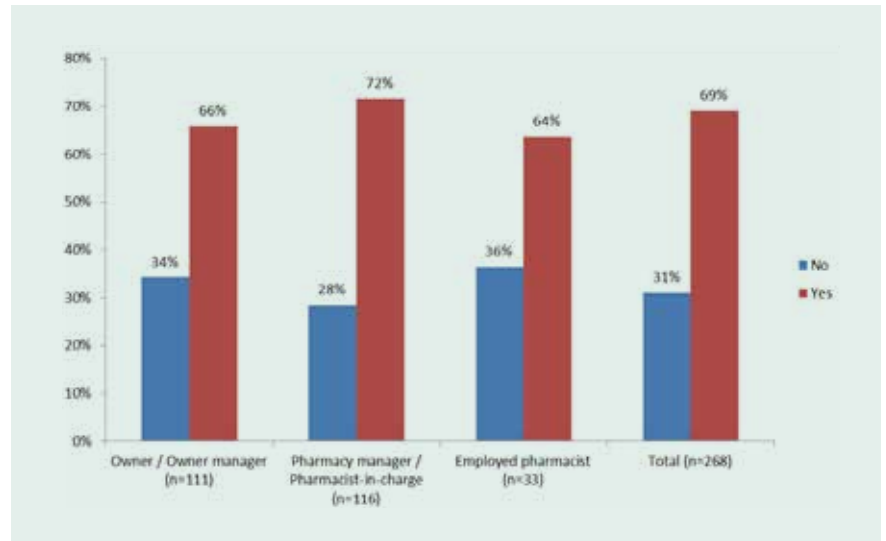
“There appears to be a lack of realisation that most problems are associated with patients who are on chronic medications and can be monitored during the repeat prescription process.”

**Charlie Benrimoj**

“This should be a wake-up call to the Guild who has steadfastly opposed any form of differential fee payment structure in past Agreements. The appreciation by the majority of pharmacists that not everyone delivers the same professional service when dispensing, is leading them to support a higher remuneration than base level supply when they deliver patient counselling, or monitoring or interaction with the dispensed product.”

**Warwick Plunkett**

Figure 16: Support for extended dispensing fees based on amount of patient interaction



Pharmacists showed impressive support for an extended dispensing fee based on the amount of patient interaction. Two-thirds of pharmacists supported the concept irrespective of their status. This may indicate that pharmacists want to be recognised for when they spend more time with patients and be remunerated accordingly. There appears to be recognition by the profession as a whole. The premise is that if we are going to provide clinical services to patients, and these are related to patient interaction and therefore time, they should be properly remunerated. It is conceptually a major move away from current practices and previous agreements.

For those that wanted to see the distribution change the large majority (89%) supported two levels of fees for original dispensing, while only 38% supported reducing the repeat dispensing fee by \$1-2. In other words pharmacists would rather the change was tied to the original prescription than repeat prescriptions.



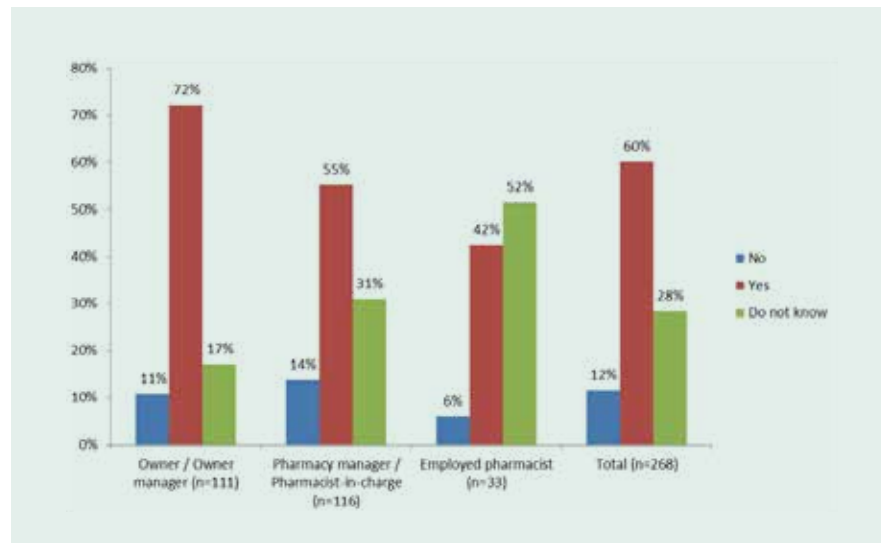
# “The community service obligation is said to make a significant contribution to the current viability of full line Wholesalers. Do you believe that should stay as part of the 6CPA?”

## Expert commentary

“Despite reduced trading terms, pharmacists continue to show great loyalty to wholesalers. Direct distribution has likely galvanised support for wholesalers”

**John Montgomery**

Figure 17a: Support to maintain viability of full line wholesalers



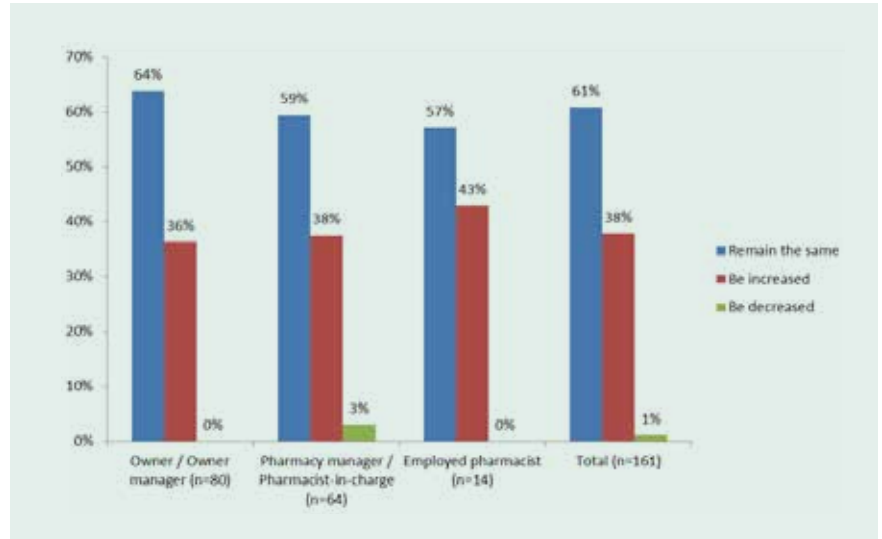
As part of community pharmacy agreement funding is provided for the community pharmacy obligation (CSO). The CSO essentially provides support to wholesalers. There was overwhelming support from pharmacists for keeping this allocation of funding in the agreement. This however was most strong for pharmacy owners (72%), compared to pharmacy managers/pharmacists-in-charge (55%) and employed pharmacists (42%). It appears the support provided in the past by wholesalers continues to resonant. Interestingly this support is despite wholesalers toughening up their trading terms in the last couple of years.

## Expert commentary

“Again strong backings for wholesalers who pharmacists see are also experiencing the cold winds of Price Disclosure. Pharmacists see their and the wholesalers fate as being inextricably bound together”

**John Montgomery**

Figure 17b: Preferred changes to community service obligation



\* Note: Answered only by those who answered "Yes" to supporting the community service obligation to stay part of the 6CPA

Those pharmacists who believed the community service obligation should remain in the community pharmacy agreement were asked about the amount of funding that should be allocated in the upcoming sixth agreement. This group of pharmacists appear to strongly support the wholesalers with over a third thinking the funding for the community service obligation should be increased. The majority, approximately 60%, of pharmacists thought the level of funding for the CSO should remain the same.

### **The view from pharmacy**

#### **Comments from pharmacists who did not believe the community service obligation should remain in the community pharmacy agreement**

"It allows the Wholesalers to extend credit to their larger clients to give them an unfair competitive advantage. They ASX listed companies."

"Wholesalers are continually reducing terms and discounts to pharmacists. What use has the CSO been? Now the wholesalers are pushing for deregulation and will attempt to buy pharmacies themselves if it occurs!"

"The wholesalers can merge to be viable."

#### *Unsure*

"I'm not sure that it's the role of government money to prop up private medicine distributors. BUT rural and regional pharmacies must have their services protected."

#### **Comments from pharmacists who believed the community service obligation should remain in the community pharmacy agreement**

"The ongoing issue of Pfizer's direct supply methods should be ceased and returned to the umbrella of the main suppliers. It's a disgrace that it happened in the first place and continues to affect the viability of our wholesaler network"

"We need the wholesaler to make our order job easier, if we had to order from 100 different suppliers that would complicate or ordering procedures"

"Viability of wholesalers is integral to the survival of community pharmacy."

"The introduction of Pfizer's direct distribution model has had a measurable detrimental effect on the availability of PBS medications by effectively bypassing the CSO obligations. The fact it has been allowed to continue is nothing short of a disgrace and a slap in the face of every Australian who relies on the model to provide timely access to medications as well as the Australian tax payer who funds this service."

"Having the direct supply model currently employed by Pfizer does affect customer's timely access to medications despite what the claim"

"The wholesalers should merge to ensure viability. We don't need 4-5 wholesalers. eg API and Sigma can merge. They carry similar lines."

"Without the wholesalers being viable, community pharmacy is not viable. We cannot sell or dispense what we cannot get."

"To supply 4800 pharmacies and ensure continuity of care and supplier to ALL Australians - this ought to be encouraged, maintained and improved."

"Pharmaceutical wholesalers are an integral part of our business. We need to ensure their sustainability so we can continue to provide the highest level of services."

# “If you had a choice would the distribution of funds for the 6th CPA stay the same or change to that of the 5CPA?”

## Expert commentary

“It’s surprising that given the strong sentiment in favour of services that 2/3 of pharmacists do not want any increased allocation to services”

**John Montgomery**

“This may reflect a view that the Agreement pot is not likely to increase and therefore the majority preference is to have the greater certainty of the core dispensing fee being maintained rather than transferred to the unknown form of service delivery remuneration”.

**Warwick Plunkett**

Figure 18a: Preference for 6CPA funding allocation to change or stay the same

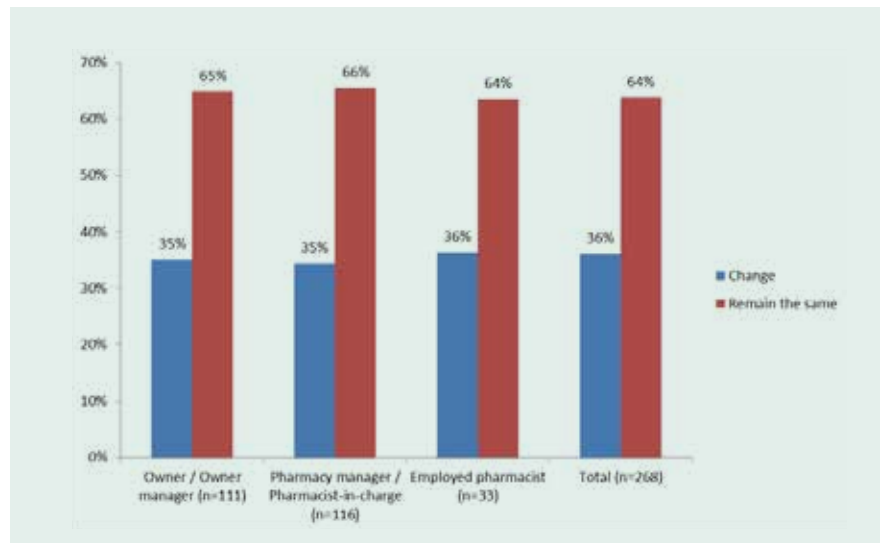


Figure 18b: Pharmacists chosen percentage change for 6CPA funding

(n=97 pharmacist who said 'change')	5CPA	Change for 6CPA (mean)	Final proportion (mean)
Dispensing fee & mark-up	89.5%	-12.8%	76.7%
Programs and services	4.3%	+12.6%	16.9%
CSO	6.2%	+0.2%	6.4%

Two thirds of respondents do not want to change the current distribution of agreement funds. On the other hand approximately one-third of pharmacists would choose to change the current distribution of funds. For these pharmacists that would choose to change the distribution of agreement funds (n=97), on average they would like to see the dispensing fee and mark-up reduced by 12.8% and funding for programs and services to be increased by 12.6%. In other words if the amount of money was to remain the same they are willing to accept a lower dispensing fee in exchange for an increase in service fees. If such a change was to occur it would result in the final proportion of funding for services to considerably increase from 4.3% in the 5th agreement to 16.9% in the 6th. Interestingly these views are mirrored across all pharmacist types, whether owners, managers or employees.

## The view from pharmacy

### Dispensing fee and mark-up

"I think that this reallocation will ensure that those who do pharmacy are in it for the right reasons and shift the focus away from the paperwork to the patient."

"Fees are irrelevant in the cost cutting markets caused by large discounters"

"This is what we do. We should get paid for it."

"increasing cost price of new biological therapies, DMARDs, genetic based drugs, oncology, etc.... will become more prevalent while PD continues - hence, the mark-up and dispense fee needs to be revised based on the cost of pharmacies to manage supply of these products"

"We can't afford to lose more here"

## Professional services and programs

"Increase funding so that the percentage of funds received from fees becomes equal to dispensing fees, without reducing the allocate funds for dispensing"

"Programs are costly and time consuming to operate - little profit for time investment - either make this a lot larger or a lot smaller. Some services are abused as we have seen e.g. Medscheks and also CTG."

"Should be targeted, not the current rortable approach"

"With increased funding to in home care, addition remuneration to support this in pharmacy should be considers"

"Vital area to grow, should not necessarily come at expense of \$ for dispensing which is a professional service in itself which we should forget or discount"

"The re-allocation of hospital costs for discharge support, compliance, GP-pharmacist team care enhancement require a labour cost - noting the ridiculously low award rate for pharmacists relative to other health professionals - these services can provide cost effective results for primary and secondary care (refer many overseas models)"

"This will stop misuse"

"I believe these services are provided at vastly differing levels at different pharmacies and the reporting may be misleading in some cases"

"But needs to be supervised so they are correctly given and outcomes are measured,"

## Community Service Obligation

"This should be maintained to ensure good availability of drugs"

"Increase due to risk for stock holding of expensive emerging pharmaceuticals"

## CONCLUSION

The fourth UTS Pharmacy Barometer of September 2014 shows that;

- > The UTS Pharmacy Barometer was 68.9 indicates slightly more optimism than twelve months ago, but a lingering negative sentiment.
- > As with previous waves the majority of pharmacists believe the value of their pharmacy will decrease in value in the next 12 months and this will persist in three years' time.
- > There was uncertainty about the how the sixth community pharmacy agreement funds should be allocated.

As shown in previous waves, wave 4 of the UTS Pharmacy Community Pharmacy Barometer shows an underlying concern by pharmacists of all types for the future viability of the community pharmacy.

The impact and ongoing effects of Expanded and Accelerated Price Disclosure (EAPD) price reductions as well as the discount model of business are being felt by the industry. Yet, the report indicates an overall lack of strategic positioning of pharmacies to differentiate in order to compete against this evolving discount model and to regain lost funds due to EAPD.

As shown in previous waves pharmacists indicate that they are seeing the greatest opportunity for the future to be professional services, but they appear to not to have a business model that can be adopted. They are opting for short term strategies, such as cutting labour costs, rather than actively developing markets and their staff, to grow their businesses and maintain their profits.

Despite the challenging environment in which pharmacies are now operating, only about a third of the respondent pharmacists would proactively support a change in distribution of funds in the upcoming 6th community pharmacy agreement. There is support for funds to be allocated to the implementation of services and for a two-tier dispensing fee. Over a third of respondents would like to see the percentage of the agreement funds allocated for dispensing fees and mark-up to be reduced, while increased for professional programs and service. There is major support for CSO to be maintained, reflecting a high a level of loyalty to the wholesaler distribution chain.

## Contact:

### **Professor Charlie Benrimoj**

Professor of Pharmacy Practice  
Head, Graduate School of Health  
University of Technology, Sydney  
e: [pharmacy@uts.edu.au](mailto:pharmacy@uts.edu.au)  
[pharmacy.uts.edu.au](http://pharmacy.uts.edu.au)

## Report written by:

### **Joanna C Moullin**

Joanna C Moullin (B.Pharm. AACPA. MPS) is a Ph.D. candidate from the University Of Technology Sydney, Australia. After graduating from Curtin University of Technology in 2006 she practiced as a community pharmacist. In 2008 she moved to the United Kingdom and worked as a medical information officer in the pharmaceutical industry.

Upon her return she was employed by the Pharmaceutical Society of Australia (PSA) where she developed continuing education materials and co-ordinated the Clinical and Practice Expo annual conference. She continues to be actively involved in continuing professional development programs as well as delivering presentations, medical writing

projects and locum pharmacy work. She recently completed her accreditation to be a consultant pharmacist to deliver home medicines reviews and residential medicines management reviews.

In 2012 Joanna commenced research in the emerging disciplines of implementation science and knowledge translation and how they may be applied to and utilised by community pharmacy. She has developed a Framework for the Implementation of Services in Pharmacy (FISpH), which is designed to be used as a base for conducting implementation research or for developing implementation programs for the integration of professional pharmacy services into routine practice.

Her research has been presented at FIP World Congress 2012 and 2013 and Pharmaceutical Care Network Europe Working Conference 2013. She recently published a peer-reviewed article defining professional pharmacy services in the journal *Research and Social Administrative Pharmacy*.

Her research interests include the implementation of programs and services, in both developed and underdeveloped health systems, particularly those involving community pharmacy. A key aim is to enhance pharmacies contribution to health outcomes by the provision of professional pharmacy services.



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