

UTS: pharmacy **barometer**

CEGEDIM STRATEGIC DATA

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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. The Graduate School is a leader in various areas of research including the design, evaluation and implementation of community pharmacy business and professional practice models.

Cegedim Strategic Data

Cegedim Strategic Data (CSD) is a leading global market research company with over 36 years experience in the healthcare industry and operates in more than 60 countries. CSD's unique product portfolio provides truly integrated healthcare research, including monitoring pharmaceutical company promotion activity and healthcare professionals prescribing and stocking behaviour. In addition CSD conducts proprietary market research studies for clients throughout the product lifecycle, including pre-launch activities.

The growing environment of challenge for Australian pharmacies

In the next few years, there will be a number of major changes that will have an impact on the delivery, focus and funding of health in Australia. These will include government-led national health care and PBS reforms that have the potential to significantly affect the distribution, funding and provision of pharmaceutical products and services.

These changes will include:

- > The establishment of Medicare locals
- > Increased emphasis on the management of patients with chronic conditions, prevention and primary health care and the use of generics
- > Price Reductions and Disclosure with the combined effect of significantly reducing prices & margins
- > Direct distribution
- > Community Pharmacy Agreements

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.

There is also an apparent evolving greater differentiation in the business models of 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. The depth of knowledge of these coming changes by individual pharmacy owners and employees is unknown. Concurrently, the business model adopted by many pharmaceutical companies for acquiring loyalty, market share and sales through pure discounting mechanisms alone will be challenged.

Accompanying all these changes, there has been much debate in the scientific literature, professional and trade journals, professional pharmacy and other stakeholder organisations of the potential impact 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.

“The evolution of new community pharmacy business models will be dependant and driven not only by professional aspirations but by financial income and the ‘dollar’. Currently there is not a clear understanding on where pharmacy owners will source the financial information to make a decision to adopt a professional orientated model.”

Warwick Plunkett PSA Director and immediate past president

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

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

Every six months, the UTS/Cegedim Community Pharmacy Barometer™ will 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 looking in depth at a key topic at each milestone of the ongoing study.

The UTS/Cegedim Community Pharmacy Barometer™ will measure opinions, perceptions, potential behaviours and ideas with data, verbatim comments from pharmacists and expert commentary from key leaders of Australian Pharmacy including 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.

For this initial benchmark UTS/Cegedim Community Pharmacy Barometer™ study, the important topic of Price Disclosure was addressed. This included understanding pharmacists' knowledge of Price Disclosure, their perceptions of the impact on their business and what actions they plan to implement in the short and medium-term to address the changes. These results of the Price Disclosure study lead this first UTS/Cegedim Community Pharmacy Barometer™ report.

Methodology & Analysis

The survey for the UTS/Cegedim Community Pharmacy Barometer™ was created in collaboration between CSD and UTS: Pharmacy. The questions were designed to assess the confidence of pharmacists about their business in the short (one year) and medium-term (three year). As the current hot topic was the 1st April price reductions, the Expanded and Accelerated Price Disclosure (EAPD), questions around the understanding and management of the impact were included.

Data collection occurred in February 2012, 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, owner-manager, pharmacist-in-charge/pharmacy manager or employed pharmacist were eligible to participate. The questionnaire also captured the type of pharmacy the pharmacist spent most of their time in (independent, banner or buying group).

The survey was closed when 201 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=186). 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.

The UTS/Cegedim Community Pharmacy Barometer™ 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=186), while the third was asked of all pharmacists (n=201). For the calculation of the Barometer only those who answered all three questions were included (n=142).

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/Cegedim Community Pharmacy Barometer incorporates these three weighted scores.

Understanding Price Disclosure

Two questions were used to evaluate the level of understanding pharmacists had on Price Disclosure:

1. How would you describe your current level of understanding of Price Disclosure?
2. Which of the following molecules will have price reductions, as a result of Price Disclosure, on 1st April 2012?

Ten molecules were shown, with six being the correct molecules (covered under the 1st April price reductions as a result of Price Disclosure) and four incorrect. Two were subject to price reduction due to first generic, i.e. patent expiration and the other two had no price reduction at this time but had been through previous rounds of price reduction. For each correctly selected molecule, the 'yes' was scored as a 1, and 'no' scored as a 0. For the four that should not have been selected, the 'no' was scored as a 1, and 'yes' scored as a 0.

The sum of the scores for each pharmacist was calculated and the mean and standard deviation determined for the entire sample, as well as comparisons for those who had stated they had none/ some understanding of Price Disclosure vs. those who claimed to have good/ thorough understanding.

Members of the UTS/Cegedim Community Pharmacy Barometer™ Expert Panel



Professor Shalom (Charlie) Benrimoj

Head, Graduate School of Health & 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. F.P.S., FRPSGB, FFIP is Head of the Graduate School of Health, University of Technology Sydney. Previously, 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. His research interests encompass the future of community pharmacy and professional cognitive pharmaceutical services including the clinical, economic and implementation aspects of cognitive pharmaceutical services from community pharmacy in current and emerging health care systems. He has published over 110 papers in refereed journals, 20 major research reports and co-authored 200 conference presentations as well as a book "Community Pharmacy: Strategic Change Management" (2007). He was the Australian Pharmacist of the year in 2000 and awarded the Andre Bedat 2010 by the International Pharmacy Federation. He has been elected a Fellow of the Pharmaceutical Society of Australia, Royal Pharmaceutical Society of Great Britain and International Pharmacy Federation.



John Montgomery

UTS Adjunct Professor

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 has been appointed Adjunct Professor of Pharmacy at the University of Technology, Sydney and has recently been appointed Managing Director of STADA Pharmaceuticals Australia, the new local subsidiary of the German pharmaceutical company, 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.



Laurie Axford

**General Manager,
Cegedim Strategic Data Australia**

Laurie Axford has worked in healthcare for 30 years. Initially he was a director of Australia's first private cardiac rehabilitation centre, providing lifestyle modification education and support within a multi disciplinary healthcare team for those with, or at high risk of, cardiovascular disease. He was a NSW representative on the National Executive of the Australian Cardiac Rehabilitation Association.

Laurie has worked for the past 15 years in healthcare market research, initially as a Project Manager, then Business Development Manager and now as General Manager of Cegedim Strategic Data (previously Decisions Research in Australia), global healthcare market research specialists. During this time he has worked with more than 30 different multinational and local pharmaceutical, medical device, nutrition and animal health manufacturers, involving research with doctors, pharmacists, veterinarians, patients, consumers and a range of allied health professionals.



Mark Bradley

**Manager, Syndicated Research,
Cegedim Strategic Data Australia**

Mark Bradley has 40 years of experience in the health industry, firstly as a Registered General and Psychiatric Nurse together with six years managing the Central Coast Area Health Service as Night Supervisor, and then Assistant Director of Nursing, Night Duty. Mark then spent 23 years in the pharmaceutical industry working across Sales, Marketing, Training, Business Unit Management, Strategic Planning, Market Information, New Product Planning and Data Management. Mark has worked across most therapeutic areas in his time in nursing and the pharmaceutical industry. At Cegedim Strategic Data Mark is responsible for Syndicated Research including the Longitudinal Patient Database and Promotion Monitors.



Naheen Brennan

**Research Manager,
Cegedim Strategic Data Australia**

Naheen Brennan has 5 years experience in market research. She holds a BSc in Psychology. Her areas of interest include customer satisfaction, brand tracking, KOL mapping and consumer behaviour. She has had exposure in various therapeutic areas – hypertension, diabetes, cardiovascular, oncology, constipation and anti-psychotics.

Executive Summary

The UTS/Cegedim Community Pharmacy Barometer™ was created in collaboration between UTS: Pharmacy and Cegedim Strategic Data. It is an ongoing study that will be conducted twice per year to track the confidence and opinions of pharmacy owners and employees as well as investigate in depth a current focus topic.

- > The first wave of the study was conducted in February 2012, with pharmacists drawn from the CSD panel comprising the 201 respondents
- > The focus topic for this initial study was Price Disclosure

Results were:

- > Many pharmacists are bracing for a decrease in revenue at the time of the 1st April price cuts
- > Stock management immediately before and after 1st April 2012 was crucial to minimise losses from this first major round of the PBS Expanded and Accelerated Price Disclosure cycle
- > Pharmacists are likely to continue to adjust downwards stocking levels to deal with ongoing pressures on revenue caused by the PBS changes
- > The major issues for pharmacy now and in the future are seen as increased competition, government related/ industry changes and finance
- > Overall, younger pharmacists seemed most concerned about the over-supply of pharmacists, the availability of jobs and downward pressure on wages, the middle age band (35-44 years) about PBS reform and the older age group about competition from large discount pharmacies.
- > Pharmacists see a reduction in the value of pharmacies over the next year
- > However, in 3 years time, even after further price reductions, there is an increase in uncertainty, but some believe that the situation will improve
- > Some see the opportunity in greater generic substitution/discounts
- > Others have a strong view that professional services are the future of pharmacy
- > The move to a services-based model will be a major challenge and needs an implementation strategy that produces positive business outcomes for pharmacies
- > **The UTS/Cegedim Pharmacy Barometer™ was 84.8 out of 200** (a score of 100 represents neutral confidence) indicating uncertainty with a level of pessimism in pharmacy at February 2012
- > The next wave of the study will continue to monitor the UTS/Cegedim Pharmacy Barometer™ as well as investigate pharmacy service based models in detail.

The Focus Topic: Price Disclosure

Price Disclosure is a key component of the Pharmaceutical Benefits Scheme reform package, which commenced in August 2007. The aim is to progressively decrease the price of Pharmaceutical Benefits Scheme medicines where competition exists to ensure better value for money for the Australian community.

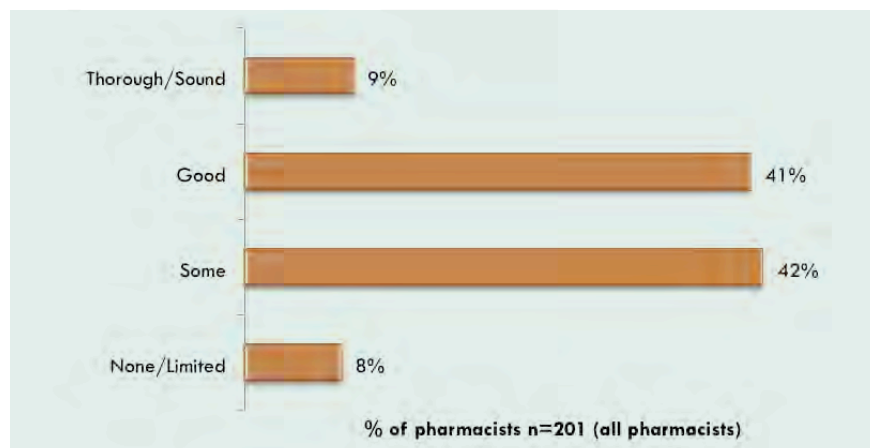
An extension to this process was commenced in December 2010 and is defined as the Expanded and Accelerated Price Disclosure (EAPD). The first major round of EAPD reductions come into effect on the 1st April 2012. These are some of the most significant price reductions for pharmaceuticals seen in the Australian system. The next rounds of reductions will be on the 1st August 2012 and the 1st December 2012.

Collectively these systems have generated concern from pharmacists and manufacturers alike. Pharmacy concerns can be narrowly related to ongoing profitability of the community pharmacy segment in Australia and stocking issues during the first implementation phase.

Along with the Pharmacy Barometer, pharmacists were questioned on their understanding of Price Disclosure and asked a range of questions to examine how they would handle this first round of the Expanded and Accelerated Price Disclosure mechanism.

“How would you describe your current level of understanding of Price Disclosure?”

Figure 1: Understanding Price Disclosure (stated)



Only a small proportion (9%) described their understanding of Price Disclosure as thorough or sound and a similar proportion admitted to limited or no understanding. The majority of the pharmacists were in the middle range with 41% claiming to have a good understanding and 42% to having some understanding. Employed pharmacists reported lower understanding of Price Disclosure, being more likely than owners and managers of pharmacies to indicate they had some or no understanding on the subject.

“Which molecules are going to be subject to price reductions as a result of the 1st April Price Disclosure changes?”

As one way of testing actual understanding of Price Disclosure, as distinct from a self-rated score, pharmacists were given the task of choosing which molecules from a list of ten were going to be subject to price reductions as a result of the 1st April Price Disclosure. The list included six products which were about to undergo price reduction as a result of EAPD on the 1st April 2012, two (atorvastatin and olanzapine) which were subject to price reductions due to first generics being launched into the market, and two which were not subject to any price reduction at this time. Pharmacists received one point per correct answer for a final score with a maximum of ten points. The order of the list was randomised per pharmacist.

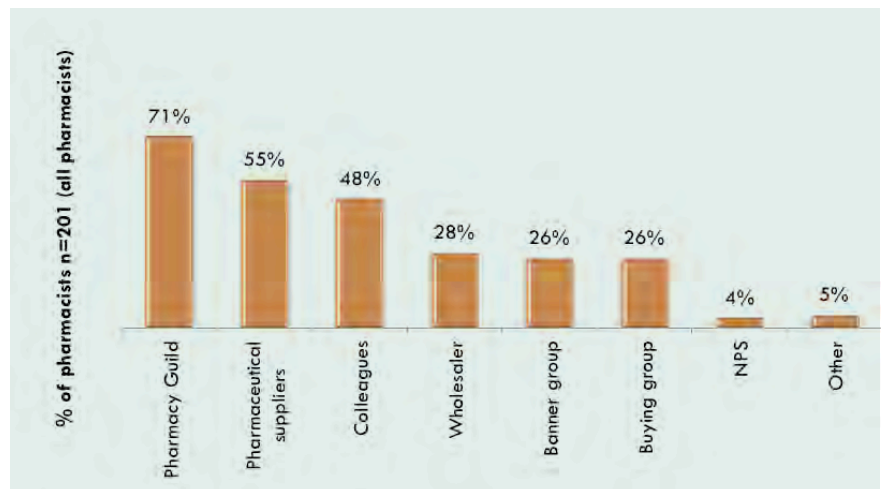
Figure 2: Understanding Price Disclosure (calculated)



Self-reported understanding of Price Disclosure matched well with scores in the 'test' component of naming which molecules were subject to Price Disclosure with pharmacists claiming they had a thorough or good understanding of Price Disclosure scoring an average of 7.2 points from a possible score of 10. By comparison those who admitted to 'some' or 'no' understanding of price disclosure scored 5.8. Those who had 'some' or 'no' understanding of Price Disclosure were more likely to select olanzapine and atorvastatin as molecules that will have price reductions due to EAPD on 1st April. As stated above they are subject to a price reduction but this is due to first generics appearing in the market. Interestingly, those who claimed they had 'thorough' or 'good' understanding of Price Disclosure were more likely to select oxazepam (another molecule not affected by the April 1 price reductions) as a molecule that will experience price changes on 1st April.

“Who has provided you with advice/assistance regarding Price Disclosure?”

Figure 3: Sources used for advice/assistance on Price Disclosure

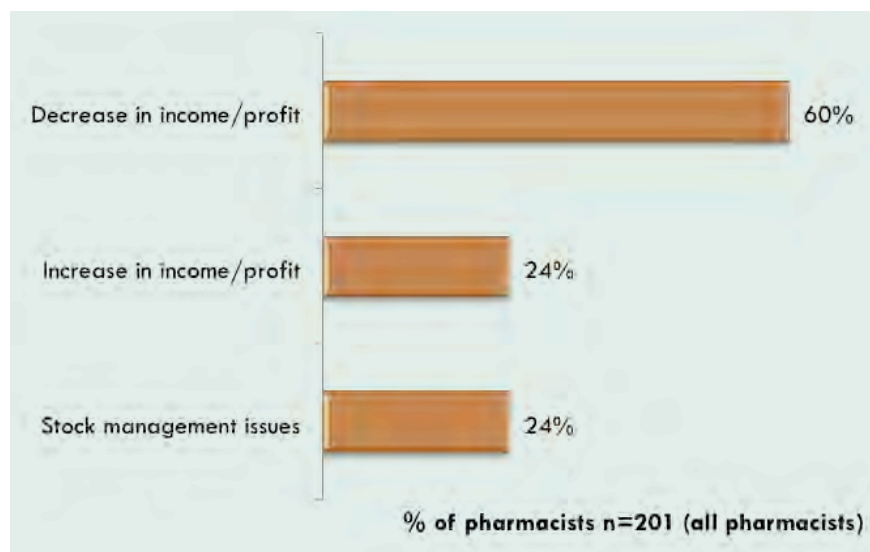


Pharmacists were asked who they had received advice or assistance from in preparation for the forthcoming Price Disclosure changes and were provided with a list of options (multiple options could be selected). The Pharmacy Guild was clearly the most common source of information with almost three quarters (71%) naming the Guild as a source for advice or assistance. More than half (55%) stated they received advice from pharmaceutical suppliers and just under half (48%) from colleagues.

Owner pharmacists were more likely to get advice or assistance from the Pharmacy Guild than employed pharmacists. Those who stated having 'thorough' or 'good' understanding of Price Disclosure were receiving advice or assistance from a wider range of sources including Buying Groups, Pharmaceutical suppliers, the Pharmacy Guild and Wholesalers than those with 'some' or 'none'. Overall, pharmacists appeared to be reasonably well informed of the forthcoming changes in prices and therefore one would have presumed that they would be prepared for the impact on their business.

“What do you believe the impact will be on your pharmacy when the price reductions occur on 1 April?”

Figure 4: Top 3 ways pharmacists believe they will be impacted by Price Disclosure



When asked what they believed the impact would be on their pharmacy when the price reductions occurred on 1st April, the majority of pharmacists (60%) mentioned a loss of income or profit. Price Disclosure was certainly expected to reduce margins on a range of medications. Conversely, one quarter of pharmacists (24%) expected an increase in income or profit. This may indicate that these pharmacists believe that they will have an increased negotiating ability through the availability of discounts on new, large volume generics which would offset the impact of reduction in prices.

“Why do 60% of pharmacy owners anticipate reduced income and profit while only 24% see future profit?”

Two owners who described themselves as having a ‘thorough’ understanding of Price Disclosure articulated these threats and opportunities. “A great loss instantly, stock levels will be low to minimise price falls, but Lipitor and Zyprexa off patent presents a massive chance to be successful in increasing profit if substituted in high amounts as quickly as possible”.

The opportunity for pharmacists to increase their income predominantly comes from the introduction of the first generics of Lipitor, Zyprexa and Seroquel – these 3 products alone had sales of approx. \$800 million in 2010. Another owner described the immediate loss and a slower claw back of profits. “Turnover will drop while net profit will slowly come back up after increase in substitution”.

Informing customers about price changes

We sought information from Pharmacists about advice they have been giving their regular customers regarding re-filling prescriptions prior to the 1st April price changes. Responses were quite varied from reluctance to pro-activity.

A difficult discussion with customers

Reluctance to discuss the topic with customers was explained by one owner-manager who said, “Nothing. I’m hoping that - as a small pharmacy - there will be few people who have to suffer any issues. By broadcasting the 1st April changes myself and the resulting stock shortages I risk forcing customers elsewhere to bigger pharmacies, as I am a new owner in a small pharmacy. I will deal with individual issues as they happen and hope that the stock shortages aren’t across the board”.

Some pharmacists had not discussed the topic as yet with patients, but were planning to do so, such as an employed pharmacist who said “I haven’t started talking to them about it yet, but will warn them that we might run low on stocks. I will also explain how the pharmacy will lose a lot of money overnight if they keep the stock levels at normal levels. I think it is also important that they do not allow themselves to run out of medication, as there might be out of stocks from the wholesalers. This will be difficult for those who are affected by the 20 day rule”.

The pro-active option

Others had been more pro-active. For example, a pharmacist in charge who described this process as, “...requesting leaving their repeats with us so we enter into our database to make more accurate future stock usage prediction. Call us one day before so we can arrange free delivery to the customers. If possible, we don’t do ‘script owing’ anymore and make sure you have enough appointments with the doctors to arrange for script”. This approach included planning with the patient and offering additional service of home delivery, although it is not known whether this was part of the standard practice at that pharmacy.

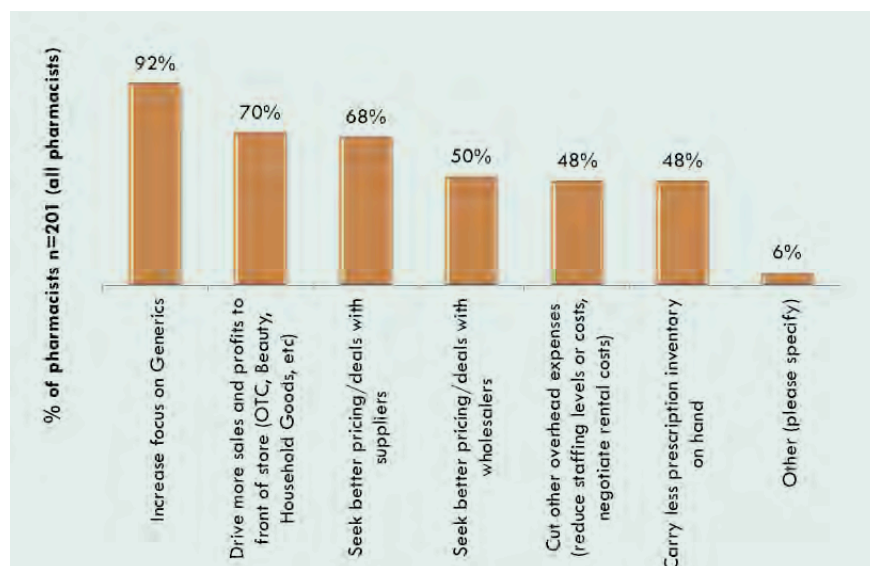
Concern

The findings overall show a reducing proportion of pharmacists anticipating loss as time progresses; 60% immediately post introduction of Price Disclosure, 47% after one year and 34% after three years. This indicates that the initial high concern with price reductions on 1st April and that the negative sentiment around the ongoing value of pharmacy is mitigated and seen to reduce with time as the opportunity to implement new strategies and business models materialises.

“Strategies to offset negative impact can most likely be best achieved by repositioning a pharmacist out of the dispensary into the front of shop along with addressing which product categories can achieve improved profitability.”

Warwick Plunkett

Figure 5: Pharmacy strategies to offset negative impact on profits



Increased focus on generics

To address the negative impacts on profits due to the PBS changes, almost all pharmacists (92%) indicated that they will increase their focus on generics. Increased discounts from generic suppliers and increased levels of substitution remain the best short-term solutions to increasing revenue. To put this response in perspective, the participants were provided with a list of alternatives to choose from and this question was asked towards the end of the section of the survey. Although care needs to be taken as we believe the pharmacists' mindset was heavily focused around medication dispensing at this point in time in the survey administration process. However, many of the open-ended responses throughout the study confirmed the approach that generic substitution would be a key to ongoing profitability. One pharmacist-in-charge put it simply; "Only pharmacies that convert heaps of patients to generic medications will profit".

Other associated strategies

Carrying less stock (48%), decreasing overheads (48%) and seeking better pricing /deals with wholesalers (50%) were methods of addressing negative impacts of PBS changes by around half the pharmacists. A higher proportion indicated they will seek better pricing / deals with suppliers (68%) and drive more sales and profit to the front of the shop, such as OTC, beauty, household goods etc (70%). One owner/manager emphasised a plan away from the dispensary with "Middle of shop and front of shop will become increasingly important to maintain same level of turnover and profit".

The challenge of stock management

One in four pharmacists had cited stock management issues as an impact of price reductions on 1st April and almost half indicated carrying less stock as a strategy to accommodate PBS changes. For stock management, pharmacists were generally trying to run down stocks at the 'old' price prior to 1st April and then immediately buy in at the new price thus minimising potential losses of dispensing product at a higher price and avoiding out of stock issues. Out of stock issues can directly affect a patient and have longer-term negative business impact as patients either start to go to a different pharmacist out of necessity and then switch and/or have negative sentiments towards a pharmacy that did not have what they needed when they needed it.

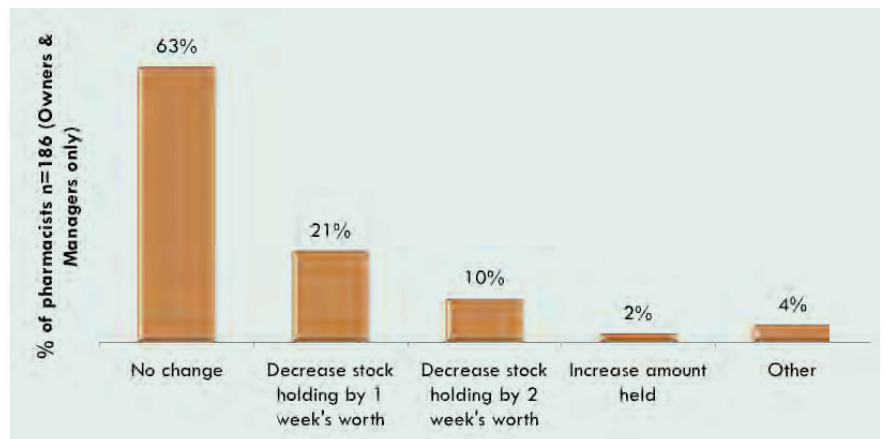
Will price reductions lead to stock reductions?

The survey directly examined how pharmacists would respond in terms of stocking levels both before and after the 1st April round of Price Disclosure. Interestingly, over half of the pharmacists surveyed stated they didn't expect any changes in their stock management in the three months after Price Disclosure changes on 1st April and this increased to 63% stating 'no change' in stock management in 2013.

“We were surprised at the relatively high understanding of price disclosure, however it is not clear that the price reductions resulting from continuous price disclosure are fully understood.”

John Montgomery

Figure 6: How stock management will change in 2013



However, many pharmacists expressed intent to not only decrease stock levels immediately, but also in the longer-term. The reduction in the longer-term was not just limited to those products that were subject to the EAPD but had a flow on effect to all products.

As one owner/manager stated, “We will have reduced stock to combat price reductions initially and this will lead to customer dissatisfaction if we cannot fulfil their prescriptions at the time. This may lead to them going to bigger pharmacies that can absorb the price reductions better than the smaller pharmacies, and more stress on staff trying to come to terms with these reductions and reduced profit if we are stuck with higher priced goods after 1st April.”

The longer-term effect for those reducing stock levels was indicated as a decrease of one week, but of course this may be influenced by various deals offered by wholesalers and manufacturers.

How will pharmacists react?

A concern for both research based and generic companies is how pharmacists will react to the coming two rounds of price reductions in August and December 2012. Will they continue to be conservative in overall stock management? Or will they manage through this first round, the most impactful this year, and then gain more confidence and only look at reducing stock levels of those products affected in subsequent rounds?

The UTS/Cegedim Community Pharmacy Barometer™ was developed to enable stakeholders in the Australian Pharmacy Industry to track the perceptions of pharmacists' business confidence. It will be conducted twice a year and utilises internationally recognised methodology¹ to provide a numerical score (or index), based on pharmacists' perceptions of the future value of their pharmacies and emotional insights into their optimism or pessimism related to their business.

The weighted score will be in the range 0 to 200, where 200 represents maximum confidence and 100 a neutral score. The February 2012 UTS/Cegedim Community Pharmacy Barometer score was 84.8, indicating some lack of confidence by pharmacists currently. The study was conducted at a time of high uncertainty immediately prior to 1st April 2012, the first major Expanded and Accelerated Price Disclosure (EAPD) cycle.

The score of 84.8 reflects the overall tone of the comments throughout the study, i.e. some negativity, with more pharmacists predicting a reduction in future value of their pharmacy than those predicting an increase and considerable uncertainty.

As we will see throughout the report this score can be expected to change as we are going through a difficult time in the industry. There is a greater uncertainty with the three year forecast but the remaining group are more optimistic about the medium-term future than they are of the short-term. Therefore it appears that there may be a level of returning confidence and optimism about the value of pharmacy over the next three years, driven by perceived opportunities in generic substitution and alternative service based business models. However, this needs to be tempered with the reality of continuous price reductions as a result of future rounds of the EAPD.

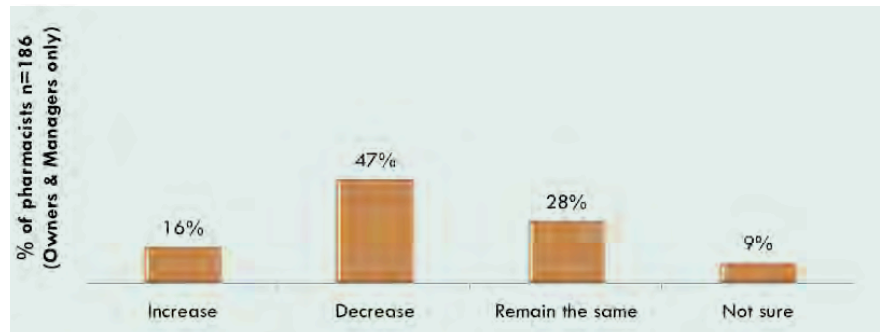
Will the value of your pharmacy increase, decrease or remain the same at one year and three years from now?

What do pharmacists believe about the viability of their pharmacy business, the profession, and perceptions of the impact of the coming changes on the current and future value of pharmacies?

The primary findings of the the first UTS/Cegedim Community Pharmacy Barometer™ are reported overleaf.

¹ Ece D., Hamsici T., Oral E. (2005), "Building up a Real Sector Business Confidence Index for Turkey", *Joint European Commission – OECD Workshop on International Development of Business and Consumer Tendency Surveys*, Brussels, November.

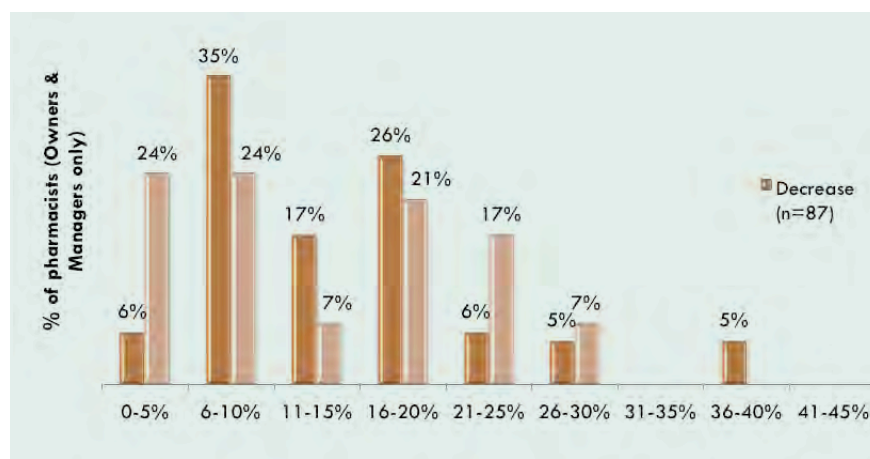
Figure 7: Expected value of pharmacy in the next year



The top line response was that almost half of pharmacy owners and managers considered the value of their pharmacy will decrease in the next year. The range of responses for reduction in value was considerable, from 5% to 40% with one extreme response of a 90% decrease. This is a strong indication that there is a major concern that there will be a reduction in value as a result of the price reductions on 1st April. In contrast to the negative sentiment around the short-term changes to the value of their pharmacies, 16% of owners and managers considered the value will increase and on average by 15%. Around one in four pharmacy owners and managers thought the value of their pharmacy would remain the same after one year and approximately one in ten were unsure.

The timing of this benchmark study conducted in February 2012. It is important to consider when interpreting the confidence in the value of pharmacy that the study was undertaken immediately prior to the 1st April price reductions on a large number of high value products. We would expect the pending impact of the price reductions to enhance negative sentiments at the time of the study.

Figure 8: Expected increase/decrease in pharmacy value for the next year



*Note there was one pharmacist who said the value of their pharmacy would decrease by 90% - they are not included in the above chart.

Approximately one third of the pharmacists (35%) predicted a decrease in value indicating that the value of the pharmacy would drop by between 6 and 10% with a quarter (26%) believing this drop would be more drastic: between 16 to 20%. By contrast about half of the pharmacists (48%) predicting an increase thought it to be up to 10% with a further 17% believing that they would experience a 21 to 25% increase.

Pharmacists who were <35 years of age (22%) were more likely to feel the value of their pharmacy would 'increase' in the next year compared to pharmacists aged 35-44 (9%).

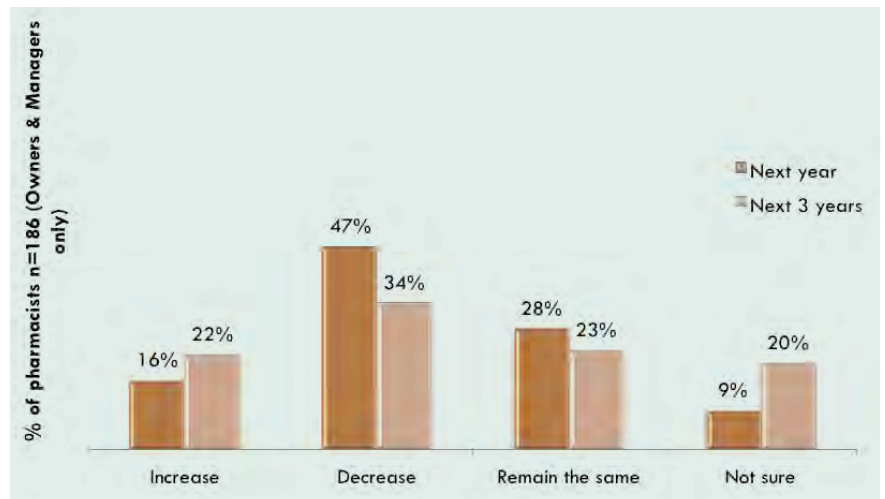
This may mean younger pharmacists can see new business opportunities more readily and are more amenable to changing their business model or alternatively the more experienced are making more realistic decisions.

Pharmacists who had independent pharmacies (13%) were more likely to feel 'unsure' about the value of their pharmacy in the next year compared to pharmacists belonging to a group (5%). This may be due to a greater feeling of isolation and having less support than pharmacists belonging to a banner or buying group.

“There is obviously a clear understanding that prescription revenue will drop from 1st April and most see greater generic discounts as redressing this to some degree over the next one to three years.”

Warwick Plunkett

Figure 9: Expected value of pharmacy in the next year and next 3 years

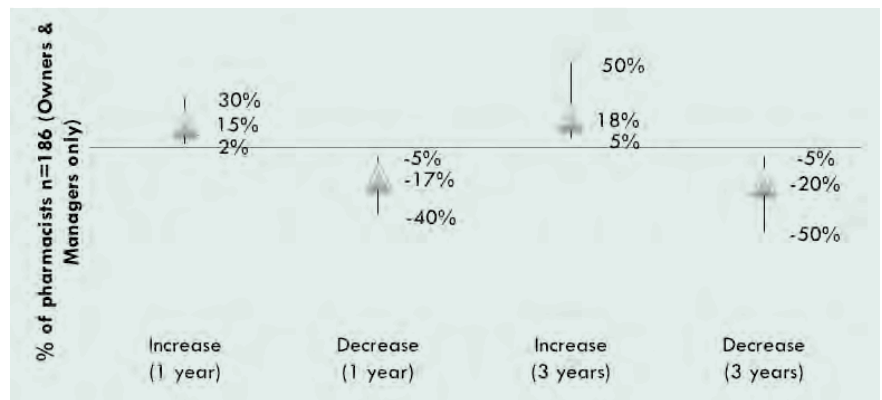


Sentiment about the value of pharmacy in three years time was considerably different to the one year outcome. The number of pharmacists being “unsure” doubled from 10 to 20% reflecting considerable uncertainty in the market. However, of the remaining pharmacists, there was a more positive view than for the one-year period, with the proportion considering the value of their pharmacy will increase improving from 16% to 22% and a reduction in those who anticipate a drop in pharmacy value from 47% to 34%.

“This overall negative sentiment may have a variety of implications for pharmacies, but at this stage we cannot be sure of the impact. Will it result in a reduction of investment in new business models, which could limit success of such developments?, or will they be tougher for suppliers to deal with?. Ultimately will it actually lower the price of pharmacies or make it harder to obtain finance or to sell the business?”

Professor Charlie Benrimoj

Figure 10: Average changes in value expected in the next year and next 3 years



*Note: there was one pharmacist who said the value of their pharmacy would decrease by 90% for both 1 and 3 years - these are not included in the above chart.

Average anticipated increases and decreases remained at similar levels for the one year and three year periods.

The view from pharmacy

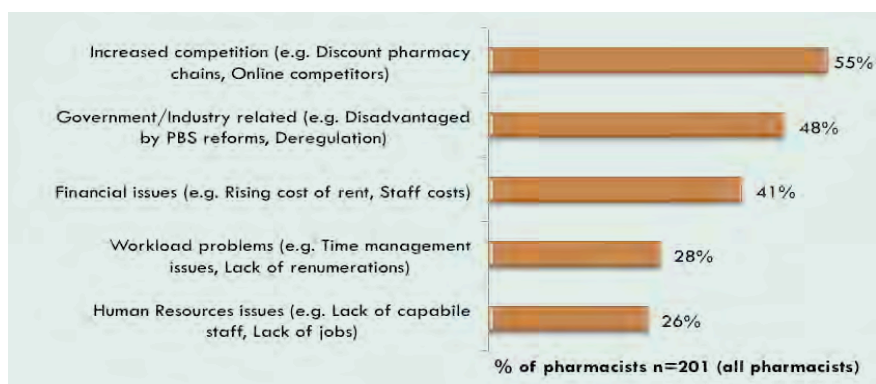
One pharmacy manager described his reasoning for an 8% reduction in value. “I have worked out that I will lose around \$55-60,000 annually as a result of the 1st April price reductions. Our before tax profit was around \$200,000, so that’s a 27.5-30% loss. I will regain some money from substitution to generics, but that is a slow process as it takes a while to convince customers, so I can’t see myself regaining \$50,000+ worth of generic substitution of a handful of drugs by the time the year is out”.

Another pharmacist sees, “a bleak view of the future, opportunities will be few. The only definite growth is in the population growth and ageing sector, which will require more prescriptions. So the opportunities are related to increased turnover at lower margins given the April PBS changes. I believe even more pharmacy retailers will go into compounding, hence diluting the margins for those already involved in compounding”.

“What are the major issues facing pharmacy today?”

Pharmacists were asked what they believed to be the major issues facing them today. When responses were coded into themes, ‘increased competition’, ‘government related issues’ and ‘financial issues’ came through as their 3 key concerns.

Figure 11: Top 5 issues pharmacists currently face



Increased competition was the major issue named by 55% of pharmacists, surprisingly a greater proportion than those naming the impact of government policy changes (48%), given the high level of focus on PBS changes by pharmacists. The responses were consistent with reasons given by pharmacists for their perceptions that the value of their pharmacy will decrease in the future. Increased competition included the threat of high volume discount pharmacies and to a much lesser extent by number of mentions, online competitors. Owners of independent pharmacies were more concerned than those in group pharmacies (buying chains and banner groups combined about the competition from discount pharmacies.

Financial issues were also prominent in pharmacist’s concerns, including rising rents, staff costs and overheads generally.

As one pharmacy owner put it, “Wages, wages, wages! More documentation means greater cost as I will need more pharmacists to develop them and drive the professional programs... reduced profits, increase in operational costs, increase in time needed to uphold professional standards.”

Over-supply of pharmacists

Over-supply of pharmacists was creating downward pressure on wages and was a concern, predominantly for employed pharmacists. Employed pharmacists were more likely to see human resources issues (specifically around oversupply of pharmacists/graduates/lack of jobs) as a major issue than owner pharmacists. One employed pharmacist describes the issue as “Workload, price competitiveness, wages for pharmacists reducing, having a lot of pressure to meet generic substitution targets, not many jobs available”

A senior male pharmacist in charge said “Over-supply of pharmacists leading to lower wages and a devaluing of the skills of the profession as a whole. Nationalisation of pharmacy registration causing a ‘dumbing down’ of the requirements to registration”.

Summary

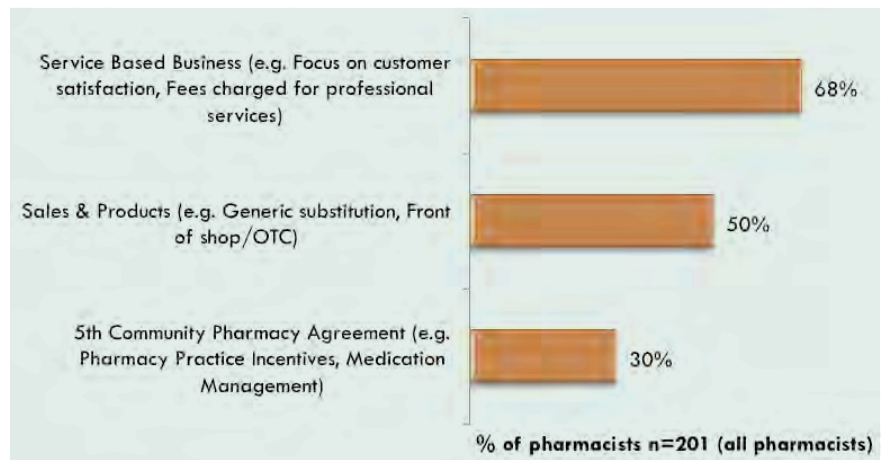
Overall, younger pharmacists seemed most concerned about the over-supply of pharmacists, the availability of jobs and downward pressure on wages, the middle age band (35-44 years) about PBS reform and the older age group about competition from large discount pharmacies.

“What are the top three opportunities for your pharmacy?”

“We would expect this concern about the impact on their business to lead to them being more open to change and looking for types of programs/products that will increase the value of the pharmacy.”

Professor Charlie Benrimoj

Figure 12: Top 3 opportunities identified by the pharmacists



A number of pharmacists were optimistic about the future value of pharmacy based on prescription medicines, OTC products and front of shop products, i.e. a product orientation. This is not surprising as many pharmacies currently rely on 70% of their income from the dispensary/back of shop and the timing of the study with the pending price disclosure impact.

A typical comment was, “I see the greatest opportunities in the generic market for drugs. Current substitution rates in Australia are low when compared to other western countries like Germany and the UK. I also see the role of the pharmacist as an independent prescriber and more focus on clinical aspects of pharmacy”.

Owners were more likely to cite generic substitution compared to employed pharmacists who saw fees for professional services as the greatest opportunities.

On the other hand younger pharmacists and those optimistic about the future of pharmacy were more likely to comment on the 5th Community Pharmacy Agreement (5CPA) as the greatest opportunity for community pharmacy over the next three years.

Professional services

One of the most interesting findings in the study was the focus on a service-based model. This theme came through strongly in responses to “why they believed their pharmacy value will increase” and when asked about “the greatest opportunities for pharmacy over the next three years”. 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.

As an owner says, “With the emphasis moving to service provision by pharmacists, the drag on my time in a single pharmacist pharmacy is ever increasing. The theory is wonderful, but until the services are well established, there is a real difficulty in affording set-up and staff training and implementation costs without sufficient start-up funds”.

Another pharmacy owner reflecting on the state of pharmacy today says, “Very competitive retail environment, from both bricks and mortar stores and online.

Customers are more price wary than ever and usually are armed with information (and sometimes misinformation) from online sources, friends and family. As a pharmacist, it is more difficult to provide advice and service in an environment of declining margins in many core areas of community pharmacy. Many areas of traditional high margin, such as generics, have cross-subsided areas of low or no profit, for example, walk-in medical advice where no or little product sales are involved. The Pharmacy Guild has made some ground with the 5CPA to offset some margin loss in these traditional areas with direct payment for service programs, such as Clinical Intervention monitoring”.

An owner indicated the importance of making sure “we take advantage of all the programs that are out there, especially the ones that will pay us for the service that we are giving. We must not be afraid of charging for services and make sure that competitors are not destroying the pharmacy name by undercutting at every level”.

A pharmacist-manager stated, “We need to move away from price and head towards service, especially fee for service where we stop being dependant on the government for revenue. This will also make the industry more professional and less retail orientated”.

An experienced pharmacy owner who had already implemented a change in focus in the business to derive higher profits stated, “The net profitability of the pharmacy will increase because of extra paid services being provided without incurring extra costs. We have been focusing on niche markets in the retail area of the pharmacy and have shown substantial growth in these areas, e.g. comfort shoes, skin care and salon services”.

Another owner said she considered success will come from “providing a more clinical approach to medications. This includes providing Home Medicines Reviews, having more one-on-one counselling and more pharmacist/ patient time rather than pharmacy assistant/ patient time. The pharmacist needs to spend more time in the pharmacy itself rather than the dispensary”.

“The research shows that community pharmacists want to move towards service, especially fee for service. These views are not new either at a national and international basis. The challenge has been and continues to be to have a working business model that can demonstrate financial outcomes. This evolution will challenge not only community pharmacy but also the business model adopted by many pharmaceutical companies for acquiring loyalty, market share and sales through pure discounting mechanisms alone.”

“These pharmacists’ views open up the opportunity for the industry to better engage pharmacists in providing medication management services to the patients using their products, to ensure better compliance and patient outcomes. The implementation of support programs could be linked to 5CPA service payments together with some incentive payments direct from industry.”

Professor Charlie Benrimoj

“This is not the first time the desire to pursue a service strategy has been reported, although it seems there is a lack of knowledge in how to implement the strategy. The issue of how to move to a service oriented pharmacy and the financial outcomes that would accrue, is an area for further focus and certainly offers a new opportunity for differentiation in the industry.”

“The increasing willingness by pharmacists to move to a service-based business model in the increasingly difficult financial situation posed by discounters and price disclosure is an opportunity for stakeholders to increase their influence by leading and facilitating this move.”

“While there has been interest in the provision of more professional services in the past there have not been the financial drivers to deliver implementation. The negative impact of discounters and Price Disclosure on revenue streams is more likely to now encourage pharmacists to seek additional revenue from services, particularly if facilitated by outside stakeholders.”

Warwick Plunkett

The real challenge

The challenge will not necessarily be in the development of new services but in ensuring that programs are driven to implementation with clear business outcomes where the actual delivery of the service will make a return of investment and add to the value of the pharmacy business. Current programs may not be delivering this outcome. In addition there will be a need to find a diverse range of payers including not only government, but also health insurers and patients themselves.

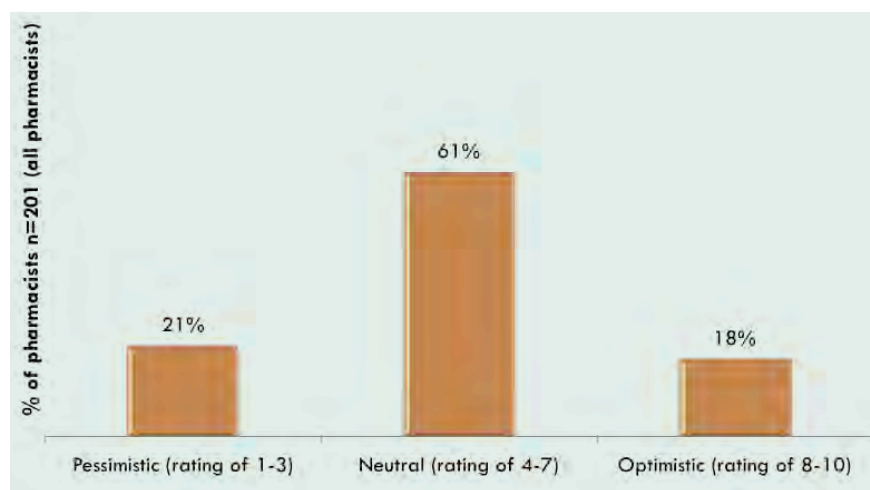
Importantly this service model will need to be promulgated in a commercial environment where the industry itself is believed to be losing value and could be starved of investment. It should be noted that the availability of “finance” was one of the three critical concerns for community pharmacy. Clearly there are major challenges to owners as moving to a service-based model represents a dramatic change in how they conduct their business.

“Apart from a number of anecdotal examples of successful “professional” entrepreneurs, there has not been sufficient evidence provided to pharmacists of the likely financial return from switching to a more serviced-based model within the current remuneration model. Such evidence will do much to encourage a change.”

John Montgomery

Confidence in the future

Figure 13: Pharmacists confidence in the future viability of community-based pharmacy



Pharmacists were asked to rate how confident they are in the future viability of community-based pharmacy on a 10-point scale. The mean of 5.4 and the distribution of responses, as outlined in figure 13, highlight and confirm the diversity of opinion of pharmacists as to their perceptions of the future value of their pharmacy. Some are very pessimistic, with one fifth of pharmacists (21%) providing a rating of one to three, yet a similar proportion (18%) were optimistic, providing ratings of eight to ten. Once again the timing of the study is an important consideration as it closely preceded the 1st April price disclosure changes. These changes were perceived to be about to have an immediate 'short-term' negative impact on pharmacy profits.

The confidence of pharmacists has obviously been affected by PBS reform in the short-term and there are concerns and uncertainty about the long-term viability of pharmacists relying on prescription medicines as their main source of profit in years to come. Some still see a focus on profit from generics as the way forward but equally, optimism arises from the opportunity of changing to a more serviced-based model. As an example there were seventeen pharmacists (8% of the entire sample and almost 50% of the optimistic pharmacists) who were optimistic about the future viability of community pharmacy (rating their confidence in the future viability of pharmacy as eight or above) and who indicated they saw great opportunities in the 5CPA.

No statistically significant differences were found in the average rating given by owners vs. employed pharmacists, independent vs. group or by the various age categories.

Summary: A challenge to all stakeholders

There is a major challenge to be faced by a range of stakeholders in the pharmacy environment, including pharmacy industry bodies, academia and pharmaceutical manufacturers, and of course pharmacy owners and pharmacists themselves.

The score in the Pharmacy Barometer of 84.8 reflects the overall tone of the comments throughout the study, i.e. some negativity, with more pharmacists predicting a reduction in future value of their pharmacy than those predicting an increase and considerable uncertainty. In addition the implications, for the future of the business of having approximately one in five owners being "uncertain" of business value in a relatively short time of three years are challenging. It is clear that there is a need to address this uncertainty through policy and practical changes.

Conclusion

The first UTS/Cegedim Pharmacy Barometer of February 2012 shows the following:

- > Many pharmacists are bracing for a decrease in profits and pharmacy value in the year after 1st April price cuts
- > However in 3 years time, even after further price reductions, there is an increase in uncertainty, but some believe that the situation will improve
- > Some see the opportunity in greater generic substitution/discounts
- > Other have a strong view that professional services are the future
- > **The UTS/Cegedim Pharmacy Barometer was 84.8** indicating a current lack of confidence in pharmacy

Despite all of the uncertainties in the market including Price Disclosure and competition within pharmacy, the UTS/Cegedim Community Pharmacy Barometer shows an underlying concern amongst pharmacists, particularly in the short-term.

Pharmacists believe that in the year following April 2012, there will be a significant financial impact but this negative impact will reduce in 3 years time. This does not appear to take into account that the first Price Disclosure price reductions on Lipitor, Zyprexa and Seroquel, will occur in Dec 2013 and this will likely drive prices down significantly on these large value/volume products.

The hunger for Professional Services as a potential source of replacement revenue is a highlight of the Pharmacy Barometer. This is likely fuelled by the Pharmacy Practice Initiatives (PPIs) component of the 5CPA, in which many pharmacists have enrolled. However, the roadmap to move from a product based to a services based model seems to need much great attention taking a business model and implementation strategy and program perspective.

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