

French retail pharmacies

INSIGHTS

2019 – 2023 perspectives

The Smart Pharma Business Papers

Position Paper

JANUARY 2020

1, rue Houdart de Lamotte – 75015 Paris – France
Tel. +33 6 11 96 33 78

Email: jmpeny@smart-pharma.com – Website: www.smart-pharma.com

1. Introduction

In this position paper, Smart Pharma Consulting proposes an analysis of recent changes that have affected French retail pharmacies and an assessment of their perspectives by 2023

Context and objectives

In this position paper, Smart Pharma Consulting proposes to answer the following questions:

- 
- How is **organized drugs distribution** in France?
 - What is the **regulatory** framework applicable to **retail pharmacies** in France and how should it **evolve**?
 - What are the **recent dynamics, changes** and **trends** on the **French retail pharmacies market**?
 - What is the **level of performance** of retail pharmacies in France and what are the main **levers** to boost it?

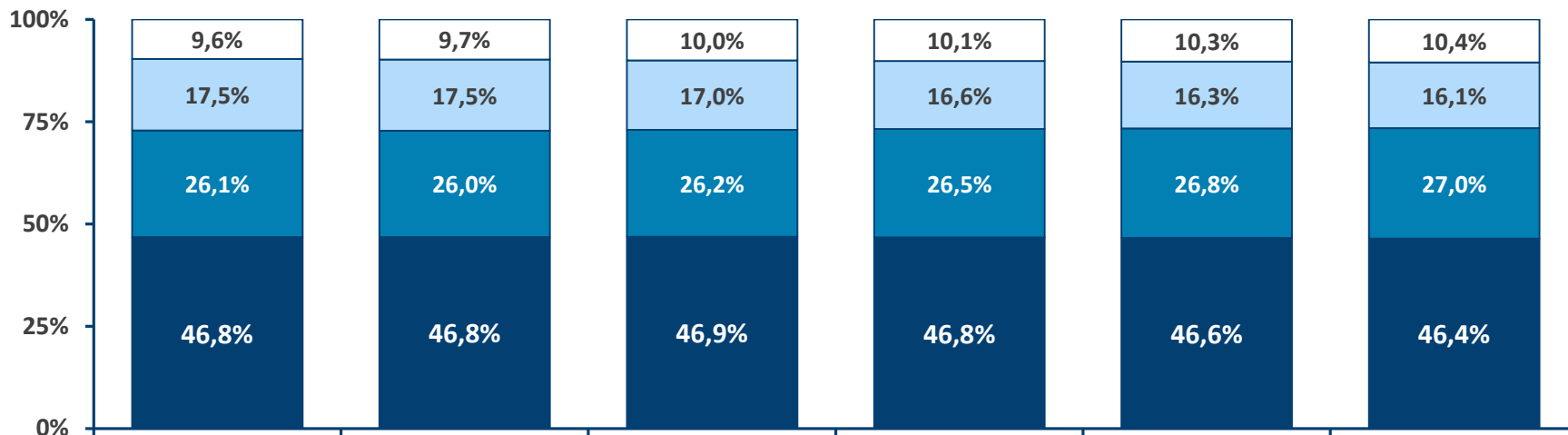
1. Introduction

Although drugs expenditure is only the third largest source of spending in France, it is under a higher pressure as it is politically and technically the easiest to reduce

Breakdown of public and private healthcare expenditure

■ Hospital ■ Ambulatory □ Drugs □ Others¹

As a % of CCMG²



	2013	2014	2015	2016	2017	2018
Total (€ B)	185.2	190.2	190.0	196.8	199.3	203.5
CCMG as a % of GDP	8.7%	8.8%	8.8%	8.8%	8.7%	8.6%
CEH ³ as a % of GDP	11.9%	12.0%	11.9%	11.9%	11.9%	11.7%

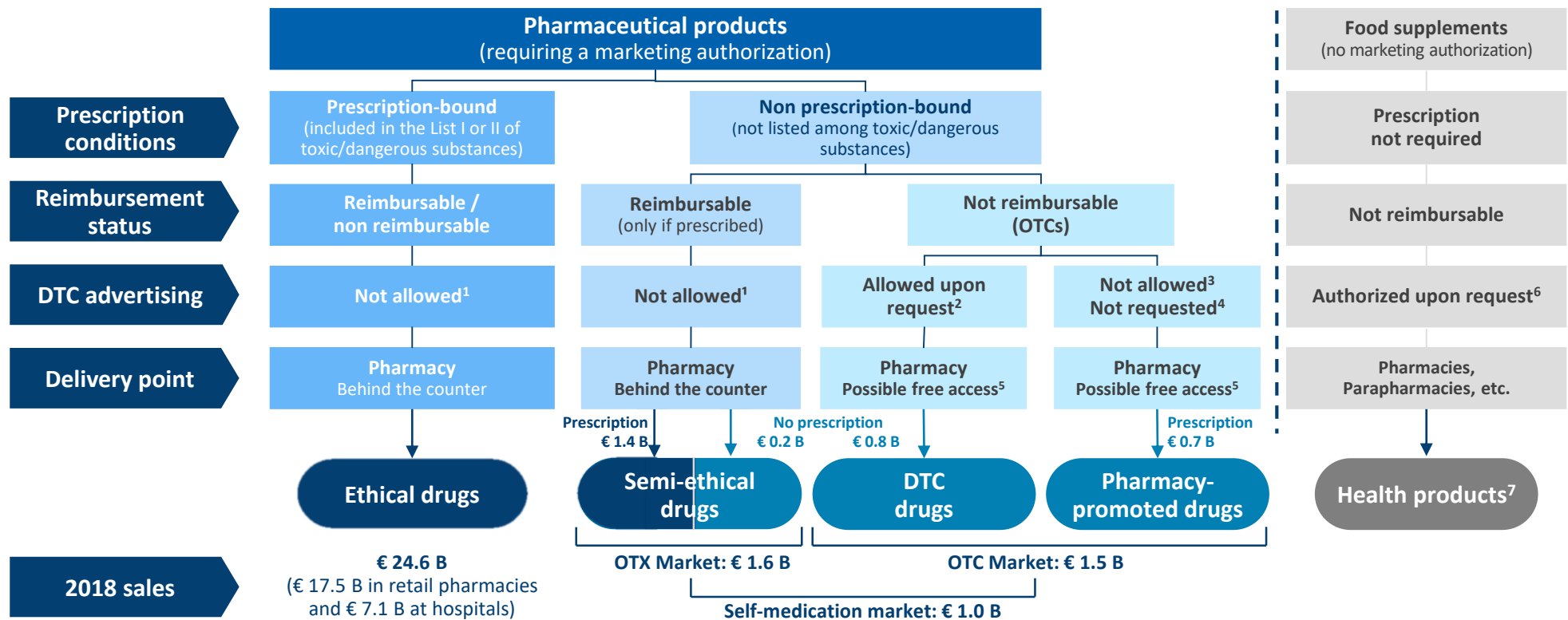
Sources: "Les dépenses de santé en 2018", DREES (2019) – INSEE – Smart Pharma Consulting analyses

¹ Other healthcare goods and services, including patient transportation and other medical goods – ² CCMG: Consumption of care and medical goods – ³ CEH: Current expenditure on health

1. Introduction

Pharmaceutical products can be split into prescription- and non-prescription-bound drugs, knowing that some of the prescribed drugs are not reimbursed

Classification of pharmaceutical products



Note: OTC = Over-the-counter, OTX = combination of prescription (RX) and over-the-counter (OTC), DTC = Direct to consumer

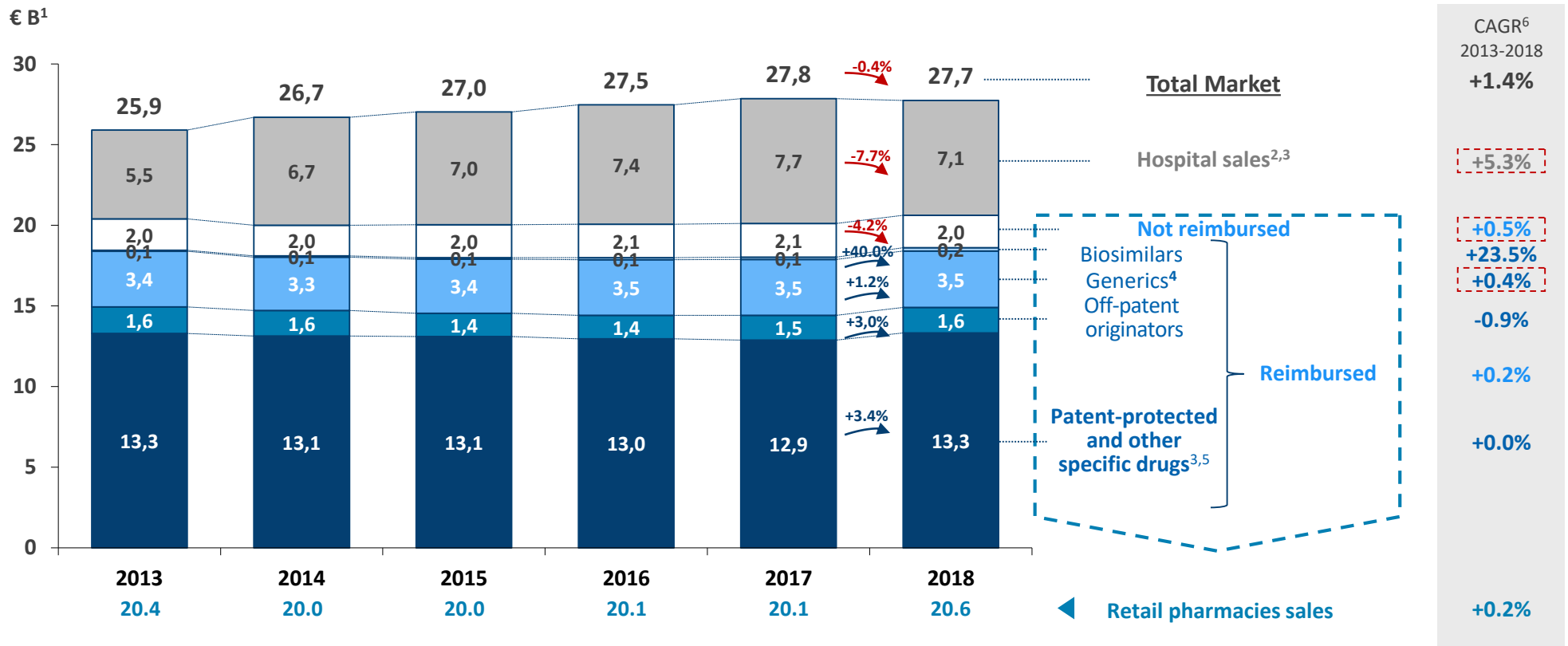
Sources: ANSM – DGCCRF – Smart Pharma Consulting analyses

¹ Rare exceptions (e.g. vaccines) – ² Whatever the claims – ³ Psychotropic or narcotic drugs – ⁴ When the pharma company does not wish to communicate to the general public – ⁵ Possibility of “free access” within the retail pharmacy for certain OTC products – ⁶ Only for claims relating to healing, alleviating or preventing diseases – ⁷ Other than drugs and pharmaceutical products

1. Introduction

Since 2013, spending on drugs has been mainly driven by hospital sales and by not-reimbursed drugs and generics sold in retail pharmacies

Evolution of drugs sales by segment (2013 – 2018)



Sources: GERS dashboards – Smart Pharma Consulting estimates

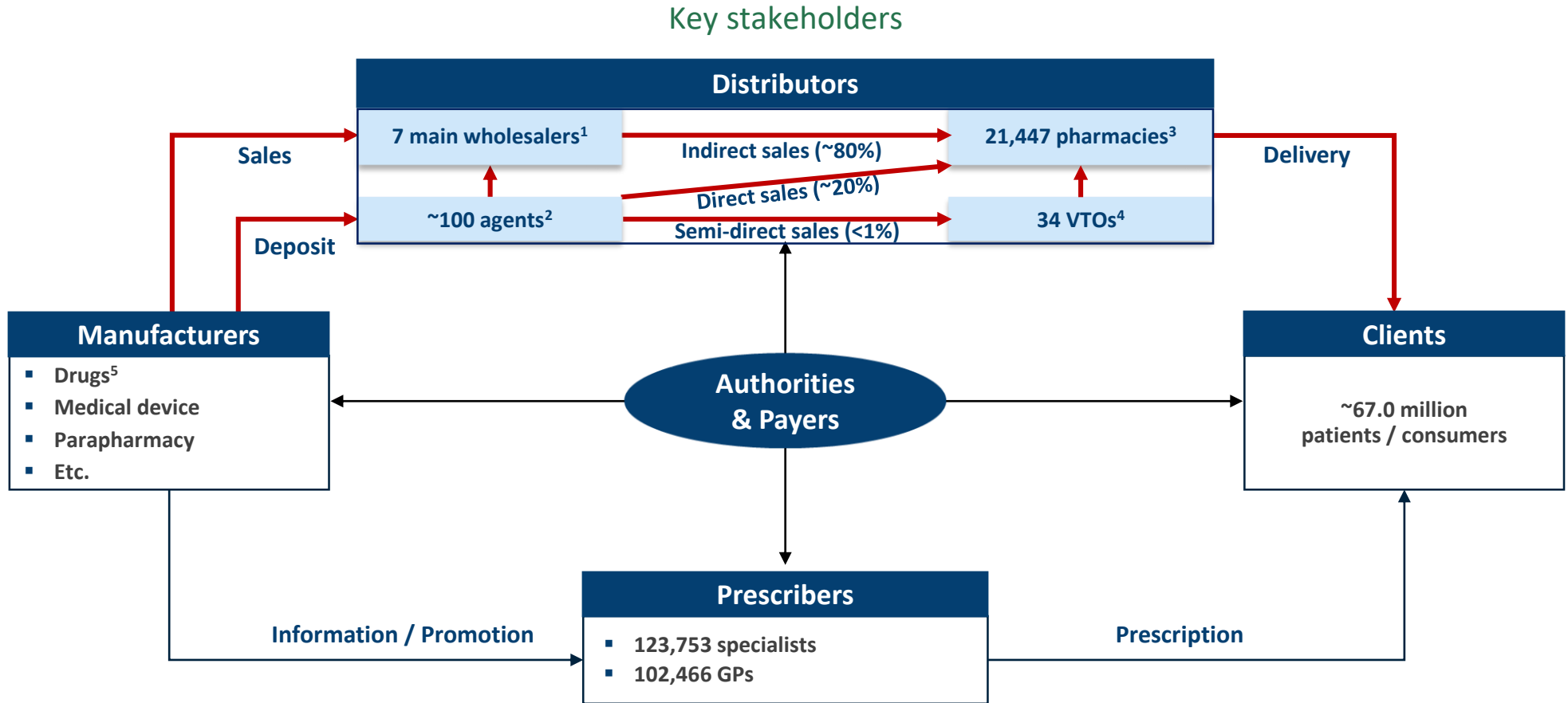
¹ Constant ex-factory prices – ² Estimated rebated sales including hospital sales of biosimilars, products invoiced on top of "T2A" and reassigned medicines –

³ In 2018, classes of drugs (e.g. hepatitis C) have been transferred from the hospital to the retail market – ⁴ Reimbursable generics and quasi-generics –

⁵ Sales of drugs whose patents have not expired and of other specific products (e.g. calcium, sodium, potassium, paracetamol) – ⁶ Compound Annual Growth Rate

2. Drugs distribution in France

The drug supply chain organization involves 4 categories of stakeholders which are highly dependent on the decisions made by healthcare authorities and payers

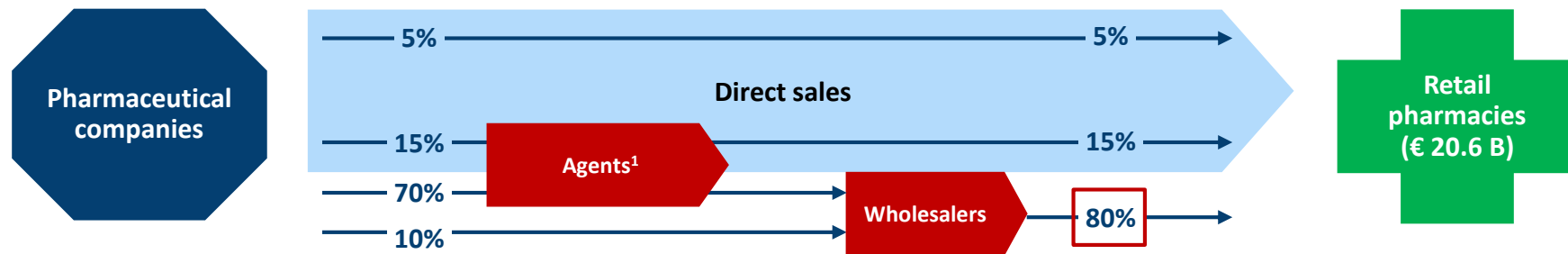


Sources: CSRP – LEEM – GERS – Ordre National des pharmaciens – ANSM – ¹ Accounting for ~97.7% of the wholesalers market in 2018 – ² Pre-wholesalers – ³ Including 620 pharmacies located in French overseas departments – DREES – Ameli and RPPS database – Smart Pharma Consulting analyses ⁴ Of which 17 with more than 500 members individually – ⁵ Mandatory or optional medical prescription, reimbursed or not

2. Drugs distribution in France

In the retail market, ~80% of the value goes through wholesalers, who are the cornerstone of the supply chain between pharma companies and retail pharmacies

Share of direct sales in the retail market



Agents (~20%)

Independent health specialists:

- CSP

Subsidiaries of integrated distribution groups and health specialists:

- Alloga / Directlog (Alliance Healthcare)
- Eurodep (CERP)
- IvryLab (PharmaVie / Phoenix Pharma)
- Movianto¹ (Owens & Minor, USA)
- Sogiphar (Giphar)

Subsidiaries of integrated distribution groups; non health specialists:

- FM Health (FM Logistic)
- Arvato Services Healthcare (Bertelsmann group)
- Pharmalog (Geodis)
- Rhenus (previously Wincanton)

Subsidiaries of pharmaceutical companies:

- AstraZeneca
- Pierre Fabre
- Sanofi Pasteur
- Servier

Wholesalers (~80%)

Market share²

- **CERP network** **36.2%**
 - CERP Rouen (Astera) 20.7%
 - CERP Rhin Rhône Méditerranée 11.8%
 - CERP Bretagne Atlantique 3.7%
- **OCP (McKesson)** **31.3%**
- **Alliance Healthcare France** **19.2%** (Alliance Boots)
- **Phoenix Pharma** (Phoenix Group) **8.4%**
- **Giphar** **2.6%**
- **Others³** **2.3%**

Sources: Xerfi – LEEM – GERS – CSRP – ANSM – Register of the French pharmaceutical establishments – Smart Pharma Consulting analyses

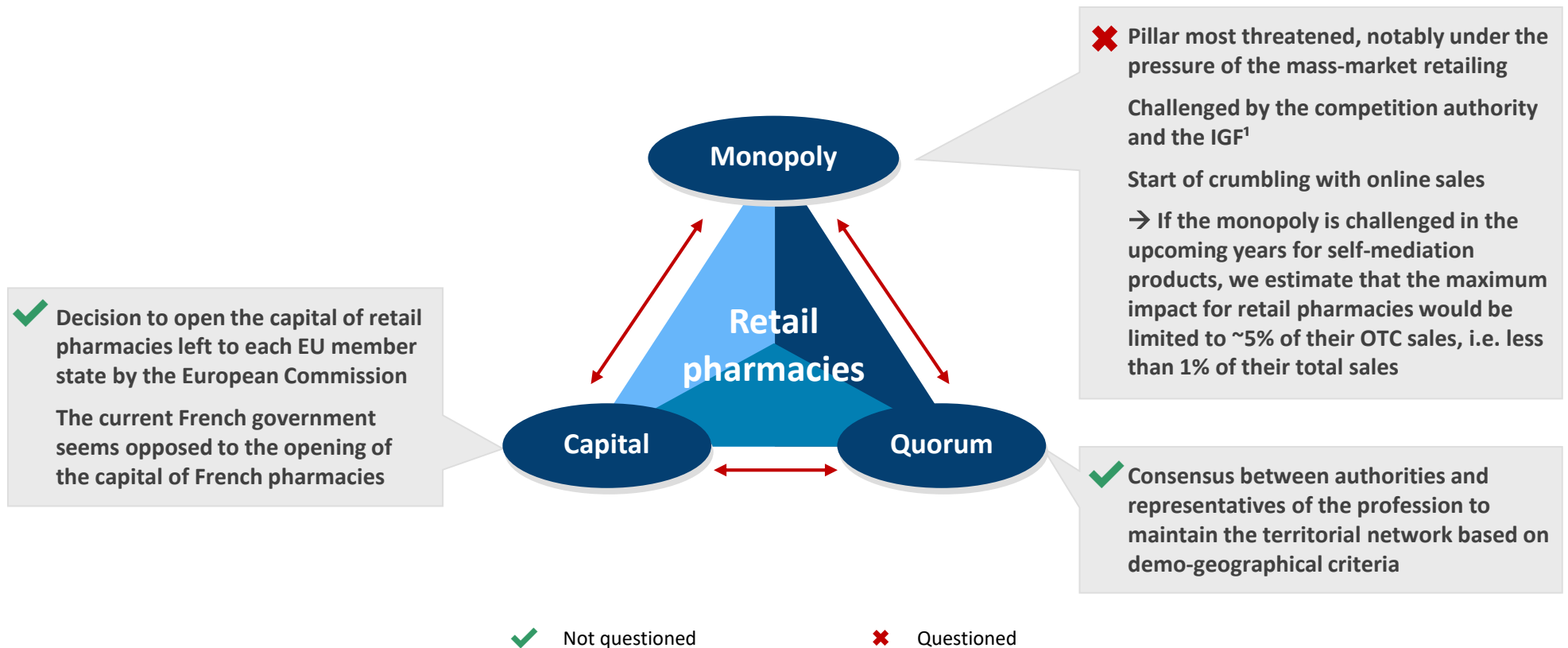
¹ Pre-wholeselling to wholesalers or VTOs or directly selling to retail pharmacists – ² Market share in value (2018) –

³ Non-members of the “Chambre Syndicale de la Répartition Pharmaceutique (CSRP)”

3. Regulatory environment

Amongst the three fundamental pillars of retail pharmacies, only the monopoly on the dispensing of self-medication products could be called into question

The 3 fundamental pillars of retail pharmacies in France



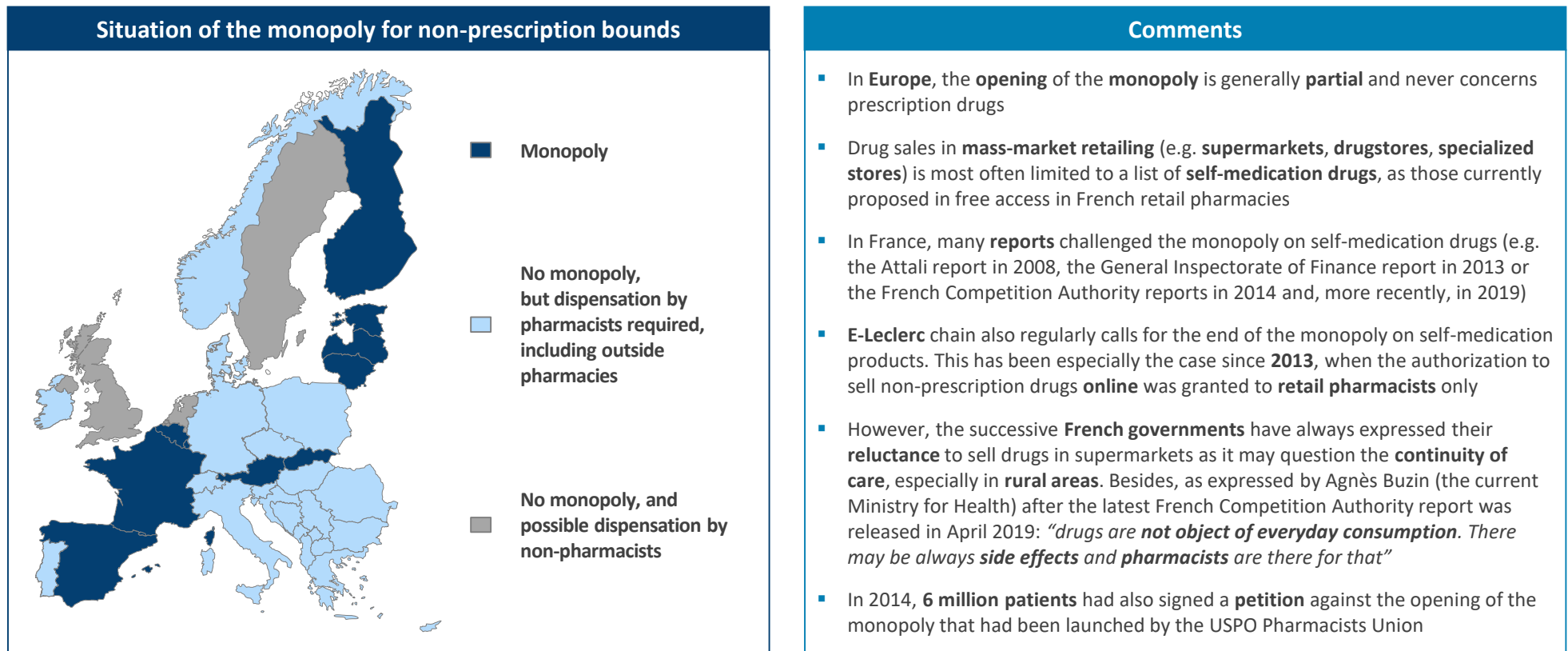
Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions (September 2019) – Competition authority report (April 2019) – “La pharmacie d’officine: nouveaux défis, nouvelles opportunités de croissance”, Les Echos Etudes (2017) – Smart Pharma Consulting analyses

¹ “Inspection Générale des Finances”: General Inspectorate of Finance

3. Regulatory environment

Although questioned by distribution chains and reports, French governments and people have always shown an attachment to retail pharmacists monopoly

Monopoly – Situation in Europe



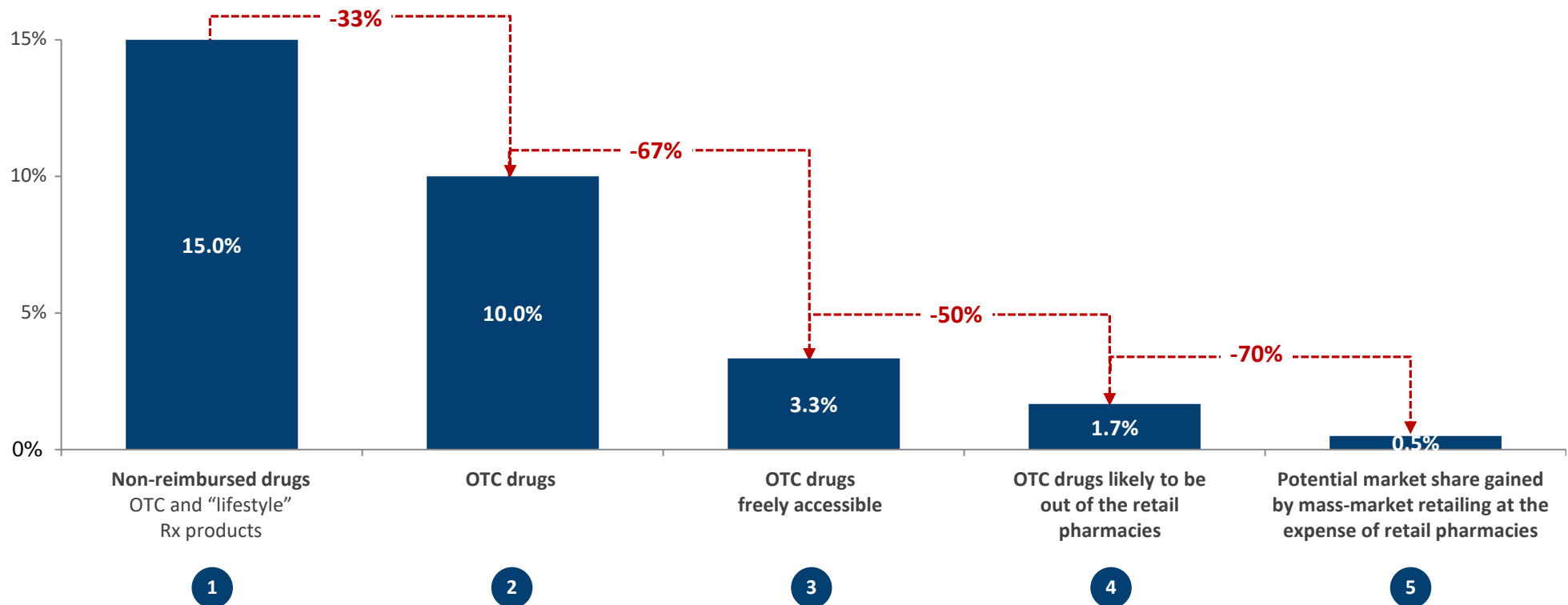
Sources: Desk research – Competition Authority report (April 2019) – Smart Pharma Consulting analyses

3. Regulatory environment

If the monopoly is challenged, we estimate that the maximum impact for French retail pharmacies would be less than 1% of their total sales, i.e. ~5% of their OTC sales

Monopoly – Estimated impact of French retail pharmacies monopoly loss

% of retail pharmacies sales



Sources: Smart Pharma Consulting analyses and estimates

3. Regulatory environment

Since January 2nd, 2013, non-prescription-bound medicines can be sold online by pharmacies under some specific conditions...

Monopoly – Online drugs sales – Regulation

Date of authorization

The online sale of medicines is **allowed** in France since **January 2nd, 2013**¹

Authorized drugs

All **non-prescription-bound medicines**, either **reimbursable** if prescribed or **not reimbursable** drugs (+/- 4,300 references)

Conditions of creation and activity

- The **website** must be **attached** to a **physical retail pharmacy** and **managed** by the **pharmacy owner**
- It must be authorized by the **Regional Health Agency (ARS)** before being opened and declared to the **French Chamber of Pharmacists** (Ordre National des Pharmaciens)
- **Patients** must fill a **health status questionnaire** before placing the first order on a given website
- Drugs can be **either directly** sent to the patient or delivered to the **pharmacy** to which the website is attached
- Comply with **online commerce rules** and **good practices** set by a decree issued by the **Ministry of Health**

Evolution of the regulation

- In **March 2015**, a ministerial decree **limiting** the **promotion** of online pharmacies was canceled by the State Council, authorizing the **online promotion** of non-prescription bound medicines
- Since **July 1st, 2015**, a **unique logo** for the entire European Union appears on websites authorized to sell drugs online
- On **December 1st, 2016**, 2 ministerial decrees on good practices and technical rules applicable to Internet websites for the online commerce of medicinal products was published on the Official Gazette and entered into force in February 1st, 2017

3. Regulatory environment

... but corresponding sales remain limited, as online purchases are estimated to represent about 2% of the total self-medication purchases

Monopoly – Online drugs sales – Key Facts & Figures

Number of authorized websites

- As of **January 2020**, **689** websites¹ are officially authorized by Regional Healthcare Agencies (ARS) and published by the French Chamber of Pharmacists (Ordre National des Pharmaciens)

Performance

- According to French Chamber of Pharmacists, online purchases represented in 2017 **about 2% of the total self-medication** purchases in France
- In comparison, the online channel represents up to **18% of the total self-medication** purchases in **Germany** or in the **UK** (where online drug purchases have been authorized since 2004 and 2000, respectively)

Patients behavior

- Experience of online purchases: according to various studies, **~10% of French people** have already bought non-prescription-bound medicines online
- Willingness to purchase online in 2015: **45% of patients** declared to consider drugs purchase online vs. **30% in 2013** and **13% in 2012**

Key drivers for online purchases

- Convenience:** home delivery in **24 to 48 hours**
- Possibility to **compare prices (with platforms like Unooc)**
- Lower prices** than those in physical retail pharmacies

3. Regulatory environment

Various government reports have advocated the opening of the capital of pharmacies but it does not seem that there is any real political will to adopt such a law

Capital – Situation

Current regulation

- In **Europe**, although some countries have made the choice to reduce the ownership of retail pharmacies capital to **pharmacists**, as in **France**, other countries have chosen to open the capital of retail pharmacies to **non-pharmacists**, leading to the creation of drug chains (e.g. **UK**, **Netherlands**, etc.)
- In this context, and since the early 2000s, various **government reports** aimed at modernizing the French economy (e.g. Beigbeder, Attali and Longuet reports) **recommended the opening of the capital to non-pharmacists ...**
- ... like the **European Commission** which, in March 2007, put France and other countries in need of **liberalization**
- Subsequently, the **European Court of Justice** was solicited on similar cases in Italy and Germany. It ruled that a pharmacist *"is supposed to operate the pharmacy not for a purely economic purpose, but also for a professional purpose related to his medical training. The subordination of pharmacists, as employees, to an outside operator could make it difficult to oppose the instructions given"*
- More recently, in October 2014, the **Ferrand report** submitted to the Minister of the Economy, recommended *"to allow the opening of the capital of the liberal exercise societies (SEL) within the health professions, subject to the respect of the rules of incompatibility"*
- The negotiations following the Ferrand report are today in the spirit of **compromise**, with the possibility of opening up the capital to the **employees of the pharmacy only**

3. Regulatory environment

Since November 2019, retail pharmacists must report to the Pharmacists Order all agreements / amendments signed with their related parties (including lenders)

Capital – Recent measure

The “Transparency” amendment (July 2019)

- On July 24th, 2019, the article L4221-19 of the French Public Health Code was amended to increase transparency on the agreements that may be signed between pharmacy owners and non-pharmacists (e.g. investment funds)
- The amended article is written as follows:
 - “Pharmacists must **communicate** to the Council of the Order to which they belong, in addition to the statutes of their pharmacy and their endorsements, all **agreements** and corresponding **amendments** related to their operations with related parties, including **partners** and, when applicable, **lenders** contributing to the funding of their pharmacy”
 - “These documents must be communicated **within one month** after the signature of the agreement or amendment”
 - “Contractual provisions which are **incompatible** with the rules of the profession or which may **deprive** the contracting parties of their professional **independence** render them liable to the **disciplinary sanctions** provided for in Article L. 4234-6 of the French Public Health Code”¹
- This amendment came into force from **November 1, 2019**

3. Regulatory environment

The authorization to set up a pharmacy in a municipality depends on the number of inhabitants and any creation, grouping or transfer is subject to the issue of a license

Quorum – Situation

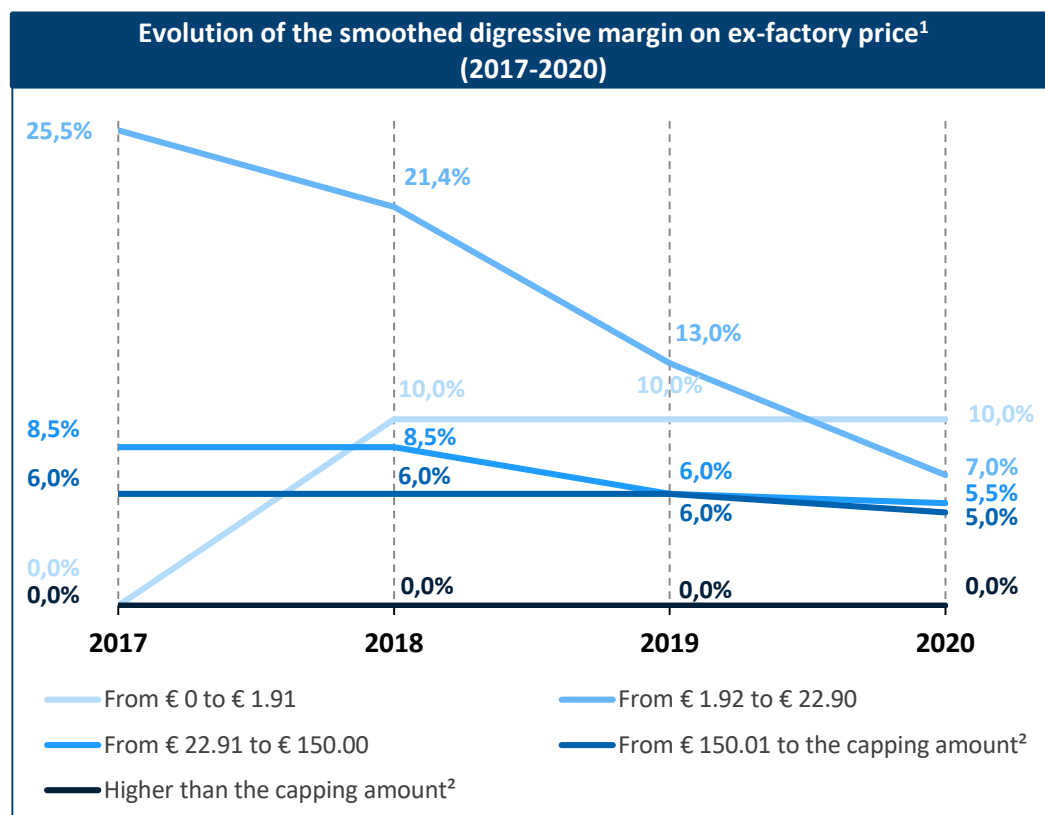
Current regulation

- In France, the **authorization to establish a retail pharmacy** in a municipality depends on the **number of inhabitants** identified in the municipality where it will be located, in accordance with the *numerus clausus*
- The **opening** of a pharmacy, by **transfer** or **creation**, is possible in municipalities with **over 2,500 inhabitants** (or 3,500 in Guyana, Moselle and Alsace and 7,500 for Mayotte). Then, the opening or transfer of new pharmacies is allowed for every **4,500 inhabitants**. Thus, a **second** pharmacy can be located in a municipality with more than **7,000 inhabitants**
- The establishment of a pharmacy in a municipality of **less than 2,500 inhabitants** is **not allowed unless** the municipality previously had a pharmacy that served more than 2,500 inhabitants
- The **transfer** of a pharmacy to **another commune** is possible only if the municipality of origin has **fewer than 2,500 inhabitants**, if there is only **one pharmacy** or a population of less than **4,500 inhabitants per additional pharmacy**
- Any transfer, grouping or creation of pharmacies is subject to the issue of a license by the **Regional Health Agency (ARS)**
- In some cases, the **prefect** may also impose a minimum distance between the pharmacies of the district where the transfer takes place

3. Regulatory environment

The revision of the smoothed digressive margin is part of a decorrelation process between the economy of retail pharmacies and the price of reimbursed drugs

Retail pharmacists margins and fees for reimbursed drugs – Excluding rebates



- The main priority of the 11th amendment³ to the National Pharmaceutical Agreement is to change the remuneration of retail pharmacies and make them **less dependent on the price and volume of reimbursable drugs**
- Thus, it proposes **progressive transfer to new forms of remuneration** related to dispensing and to the improvement of patients management

New dispensing fees	2019 ¹	2020 ¹
Fees for the delivery of a prescription	€ 0.50	€ 0.50
Fees related to the age of the patient (youth children and elderly people)	€ 0.50	€ 1.55
Fees for the delivery of specific drugs (e.g. immunosuppressive drugs)	€ 2.00	€ 3.50

New missions	Remuneration (2019)
Medication reports for elderly people taking more than 5 drugs	€ 60 for the initial interview and then € 30 ⁴ or € 20 ⁴
Belonging to a primary care team	€ 420 per year
Share medical file	€ 1 per open medical file

Sources: 11th amendment to the National Pharmaceutical Agreement (July 2017) – Official Gazette (September 2015, December 2017 and November 2018) – 11th Meeting of the USPO (January 2019) – Le Moniteur des pharmacies (December 2019) – Smart Pharma Consulting analyses

¹ VAT excluded – ² Amount from which the margin is capped: € 1,500 in 2017, € 1,515 in 2018, € 1,600 in 2019 and € 1,930 in 2020 – ³ The amendment was signed by only 1 of the 3 French pharmaceutical unions – ⁴ Whether new treatments are initiated in subsequent years or not

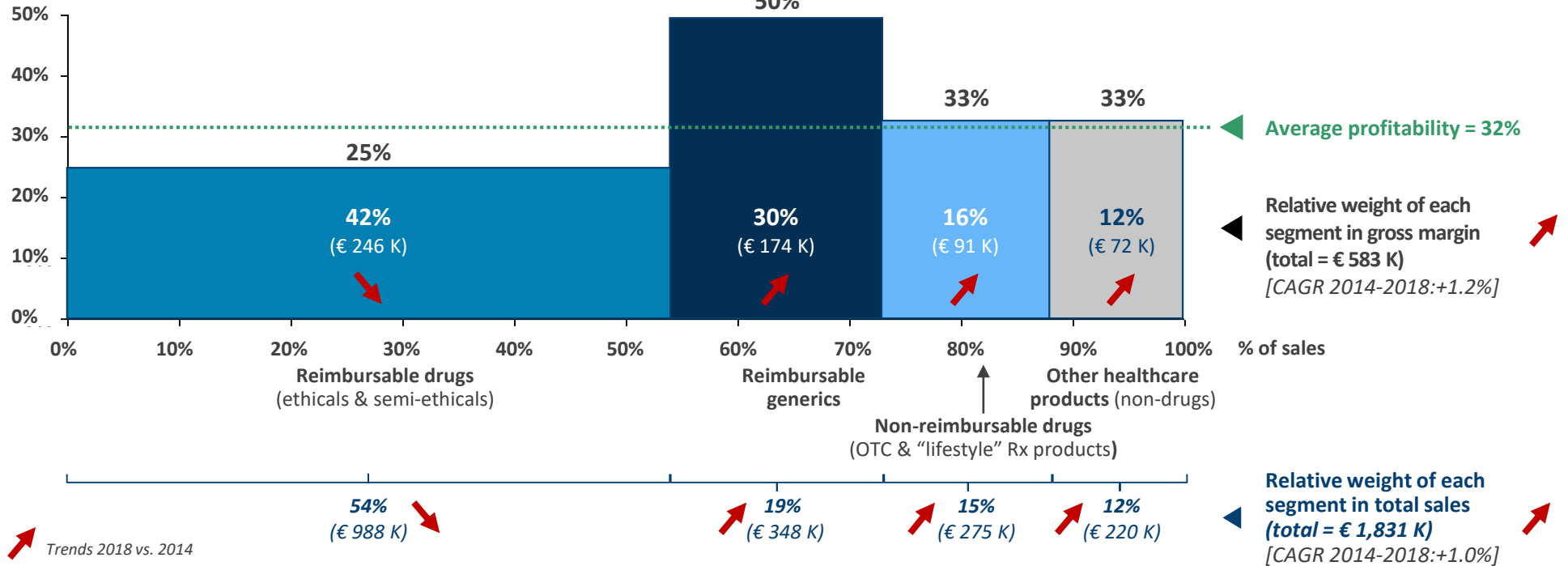
4. Sector financial performance

In 2018, originators accounted for ~54% of the retail pharmacies sales on average and for ~42% of their gross margin

Economic structure of retail pharmacies in France (2018)

Average annual turnover of a retail pharmacy in 2018: € 1,831 K
(public price excluding VAT)

Average profitability by segment¹



Sources: CGP Experts Comptables – KPMG – Smart Pharma Consulting estimates

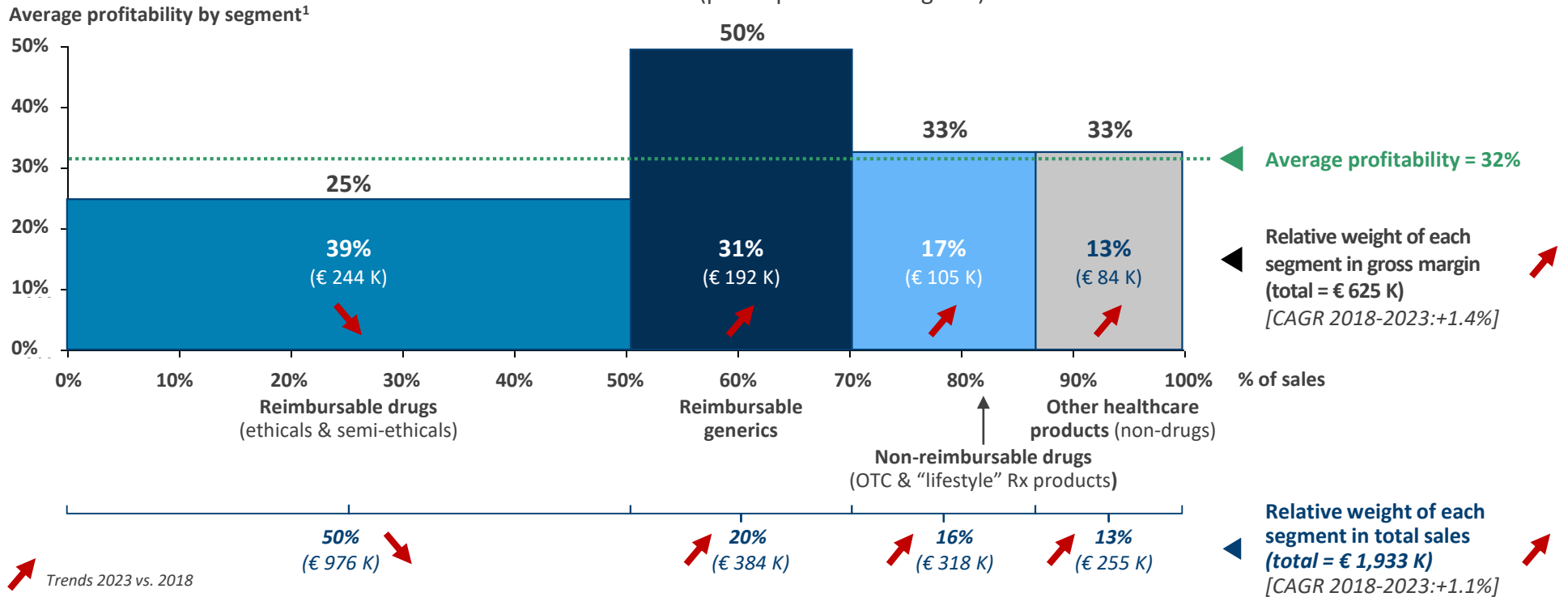
¹ Inclusive of legal margin, rebates, commercial agreements and remuneration for pharmaceutical services, notably those corresponding to the public health objectives (e.g. generics substitution objectives, pharmaceutical interviews with patients, etc.)

4. Sector financial performance

In 2023, originators should account for ~50% of the retail pharmacies sales on average and for ~39% of their gross margin

Economic structure of retail pharmacies in France (2023)

Average annual turnover of a retail pharmacy in 2023: € 1,933 K
(public price excluding VAT)



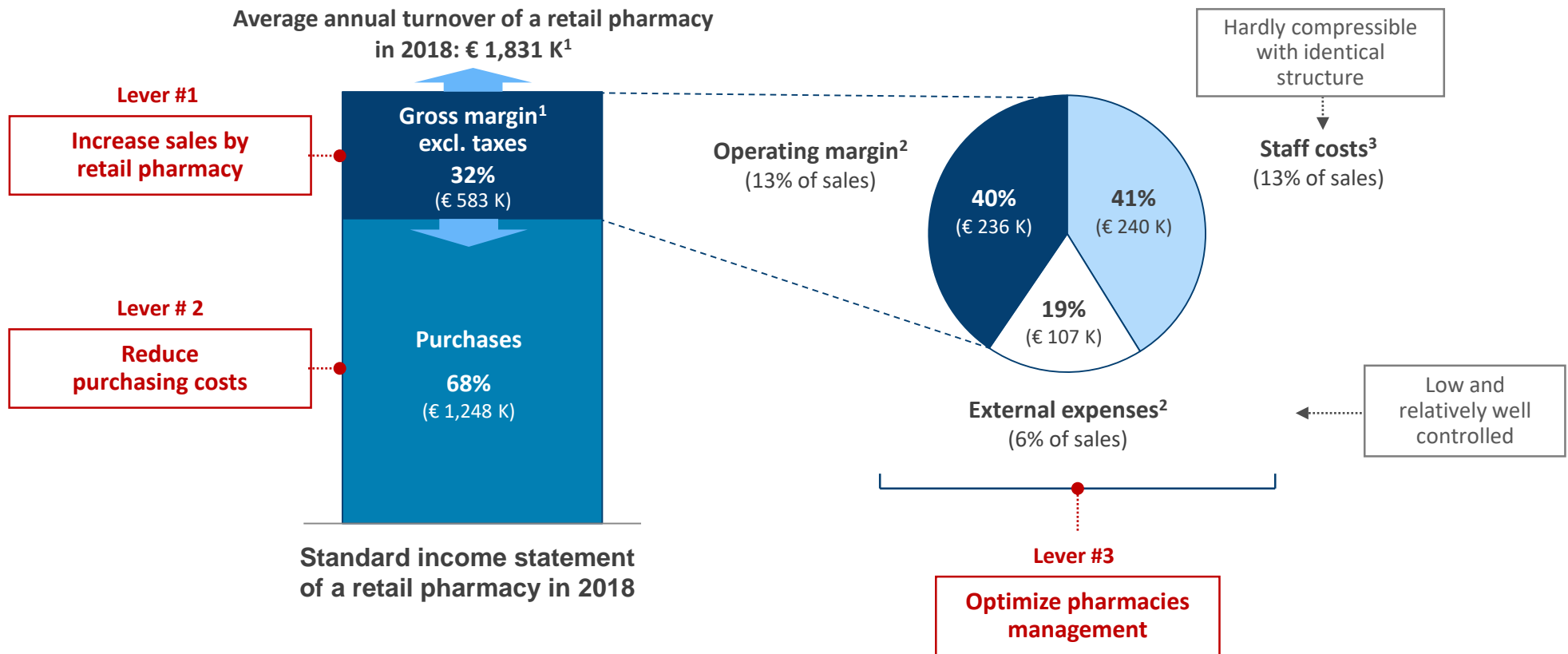
Sources: CGP Experts Comptables – KPMG – Smart Pharma Consulting estimates

¹ Inclusive of legal margin, rebates, commercial agreements and remuneration for pharmaceutical services, notably those corresponding to the public health objectives (e.g. generics substitution objectives, pharmaceutical interviews with patients, etc.)

4. Sector financial performance

The revitalization of sales (by the expansion of products and services offering), as well as purchasing cost optimization are the key levers to protect / increase profits

Optimization levers by retail pharmacy



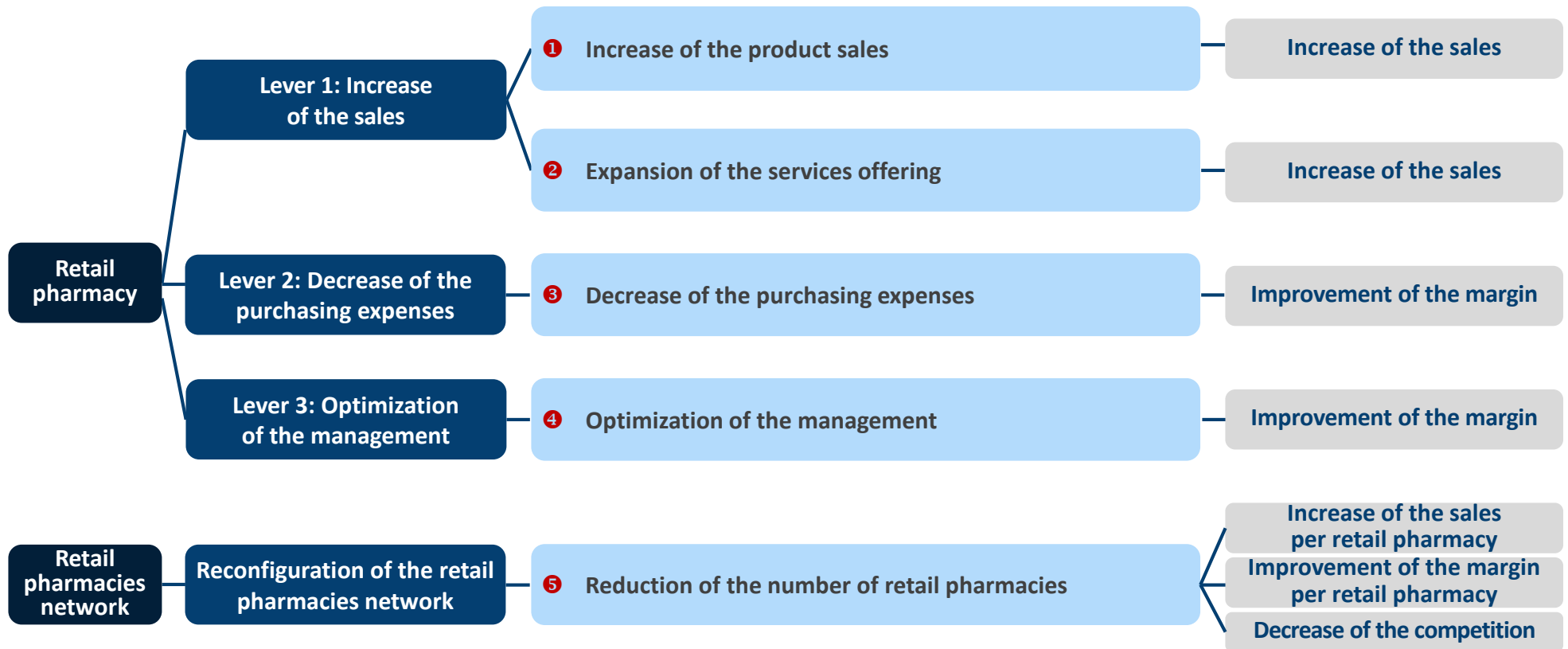
Sources: CGP Experts Comptables (2019) – Smart Pharma Consulting analyses

¹ Including dispensing fees and other remunerations (e.g. RO SP) which averaged ~€ 187 K per retail pharmacy in 2018 – ² Before amortization, financial expenses and dues paid to the pharmacist owner – ³ Including social charges and contribution for non-salaried workers

5. Optimization levers

The room for improvement of retail pharmacies performance is important but requires to rethink and reshape the role and the organization of pharmacists

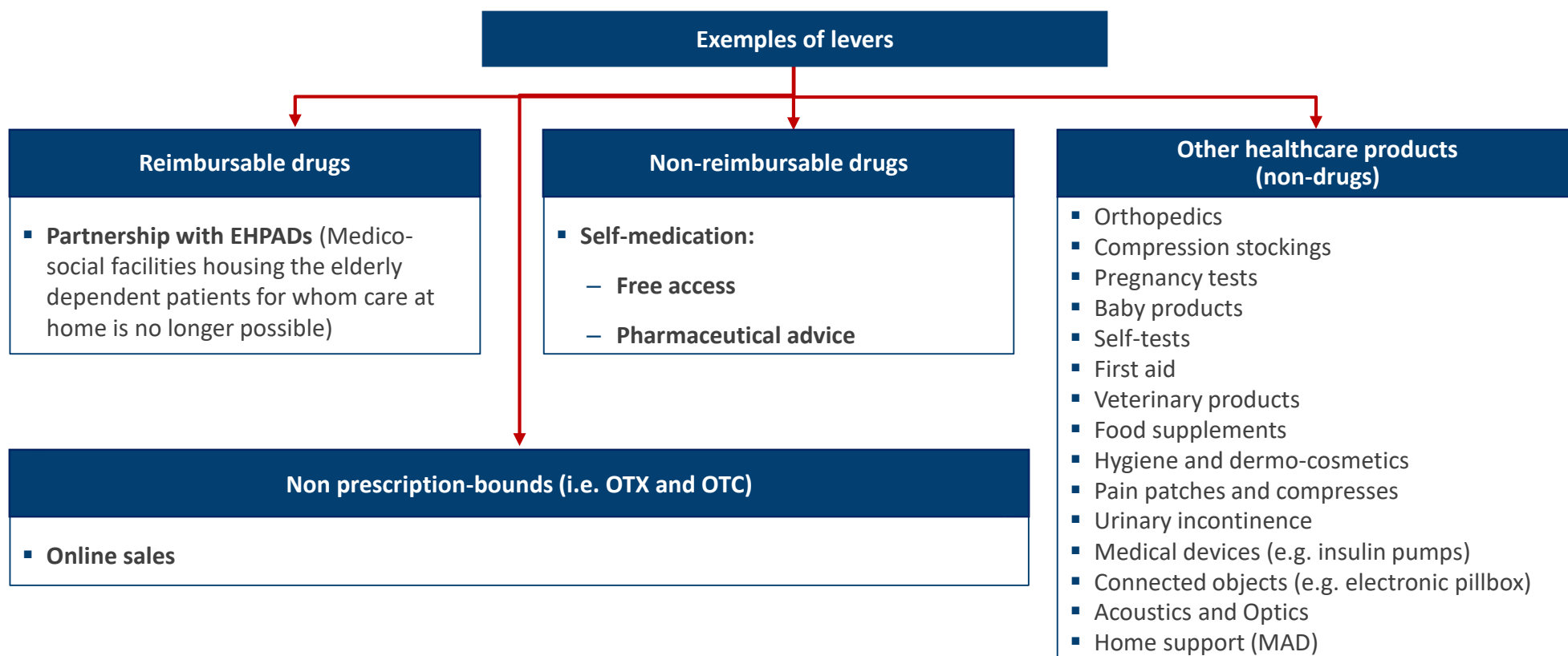
Overview of levers and solutions to improve retail pharmacies performance



5. Optimization levers

Retail pharmacies sales by product segment can be boosted by rigorously and systematically activating a certain number of levers

1 Increase of the product sales



5. Optimization levers

In addition to their core business focused on drugs dispensation, pharmacists should carry out new missions, notably for patients suffering from chronic diseases

2 Expansion of the services offering

Extension of services

Regulatory framework:

- HPST law (2009)
- National Pharmaceutical Agreement (2012)
- National agreement on inter-professionality (2018)
- “My Health 2022”: Territorial reorganization of care (2018)

Supports (tools – means – structures):

- Shared patient file (DP)
- Connected health / Telemedicine / Telecare
- Multidisciplinary Health Homes (MSP)
- Healthcare networks

Prevention – Screening – Vaccination – Therapeutic education – Follow-up

- **In particular for patients suffering from chronic diseases** (e.g. patients receiving anti-vitamin K treatments (AVK) or direct-acting oral anticoagulants (AOD), long-term illness (ALD), diabetes, asthma, high blood pressure, COPD, overweight, etc.)
- **Services paid by various stakeholders:**
 - National Health Insurance / Private insurers / Mutual health organizations
 - Regional health agencies (ARS)
 - Regional unions of HCPs (URPS)
 - Pharma companies

5. Optimization levers

With SRAs and CAPs, the lawmaker proposed a solution to regularize retrocession practices between retail pharmacies

3 Decrease of the purchasing expenses

	SRA	CAP	SRA + CAP
	Grouped procurement structure	Buying group	SRA supported by a CAP
Principle	<ul style="list-style-type: none"> The SRA has no delivery points 	<ul style="list-style-type: none"> The CAP has delivery and storage points 	<ul style="list-style-type: none"> The SRA negotiates and charges The CAP stores and delivers
Negotiation	<ul style="list-style-type: none"> The agent negotiates maximum purchasing conditions 	<ul style="list-style-type: none"> The CAP sales manager negotiates purchasing conditions 	<ul style="list-style-type: none"> The commissioner / agent negotiates maximum purchasing conditions
Procurement	<ul style="list-style-type: none"> The agent purchases on behalf its pharmacy members 	<ul style="list-style-type: none"> The CAP purchases on its behalf 	<ul style="list-style-type: none"> The commissioner / agent purchases in on behalf its pharmacy members
Delivery	<ul style="list-style-type: none"> The pharma company delivers each retail pharmacy 	<ul style="list-style-type: none"> The pharma company delivers the CAP 	<ul style="list-style-type: none"> The pharma company delivers the CAP
Billing	<ul style="list-style-type: none"> The pharma company charges the SRA 	<ul style="list-style-type: none"> The pharma company charges the CAP 	<ul style="list-style-type: none"> The pharma company charges the SRA
Relationship with members	<ul style="list-style-type: none"> The SRA charges each pharmacy member 	<ul style="list-style-type: none"> The CAP delivers and charges each pharmacy member 	<ul style="list-style-type: none"> The SRA relies on the CAP to store, delivers and charges each pharmacy member

Note: The current regulations do not allow a retail pharmacist to buy large quantities of drugs to resell to colleagues

5. Optimization levers

Retail pharmacists can improve the operating result of their pharmacy through professionalizing their management methods

4 Optimization of the management

1. Margin and price strategy

- Don't limit it to a linear multiplying coefficient policy by product class and apply:
 - A **lower coefficient** on “sensitive” products whose price is well known by customers, in particular those in free access
 - A **higher coefficient** on **prestige** products or on products requiring a pharmaceutical **advice**
- The selling price must include a **profitability objective** and take into account the **competition** on the **catchment area**

2. Rationalization of the activity and organization according to the catchment area

- **Adapt** the **offer** of products and services
- Adapt **opening hours** to customer expectations and competition
- **Optimize** the **layout** of the retail pharmacy to boost sales and improve circulation of customers in the selling point, based on the supermarkets and hypermarkets model
- **Streamline staffing**, organization and staff time
- Assess the opportunity of **automating inventory management** (i.e. robots)

3. Professionalization of pharmacy management

- **Monitor the performance** of the retail pharmacy thanks to few relevant KPIs¹
- Follow, if needed, a postgraduate **training of retail pharmacy management** (e.g. MBA, master, university diploma, certificate)

4. Financial, accounting and tax optimization

- Improve **control** over **operating costs** and **stock rotation**
- Reduce **borrowing costs** (individual contribution, short-term loan, renegotiation of the loan, if needed)
- Evaluate **tax optimization** opportunities

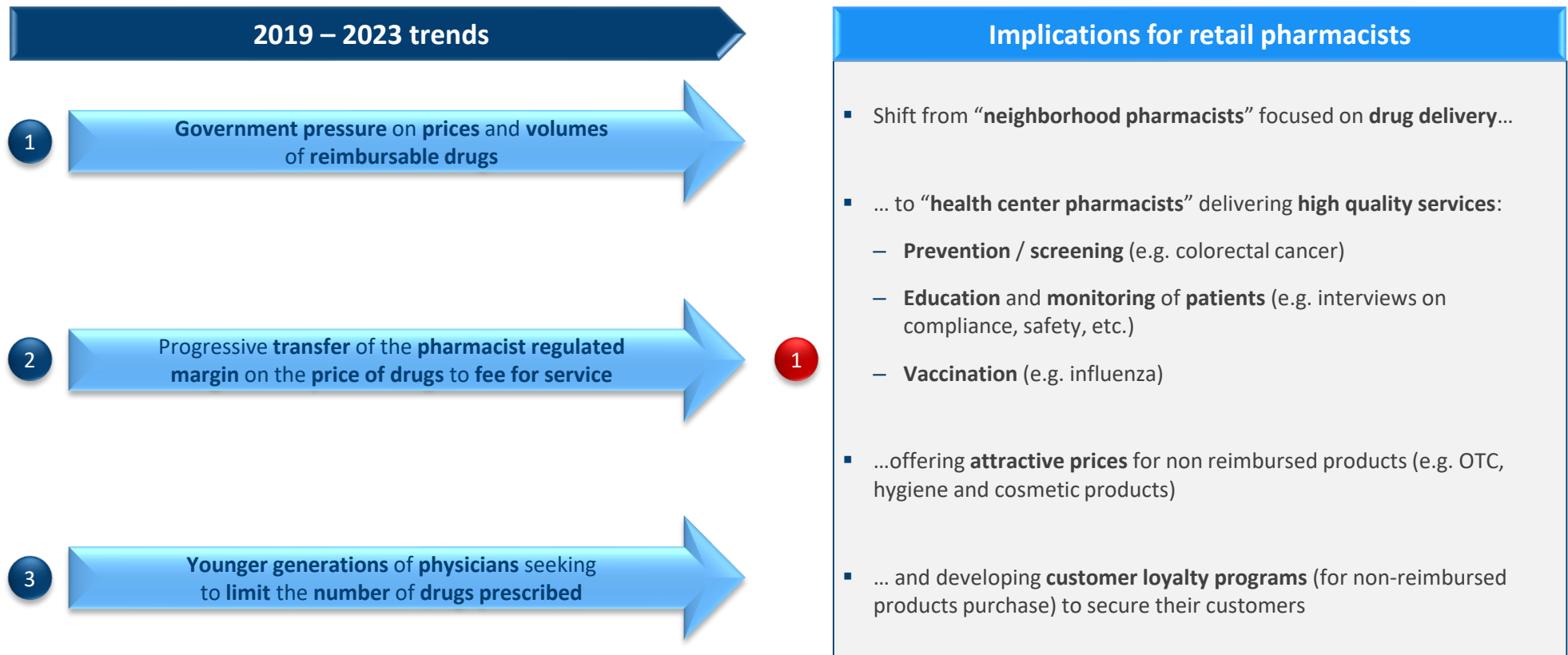
5. Cost sharing

- **Mutualize the cost of support functions** (e.g. procurement, IT, quality management, management control, treasury) with other retail pharmacies thanks to:
 - The membership in VTOs²
 - The creation of holdings of SELs (e.g. SPFPL)

6. Conclusion

French pharmacists are currently experiencing a real revolution which will turn them from drugs dispensers to providers of high quality services for their patients

Strategic priorities for retail pharmacists (1/2)

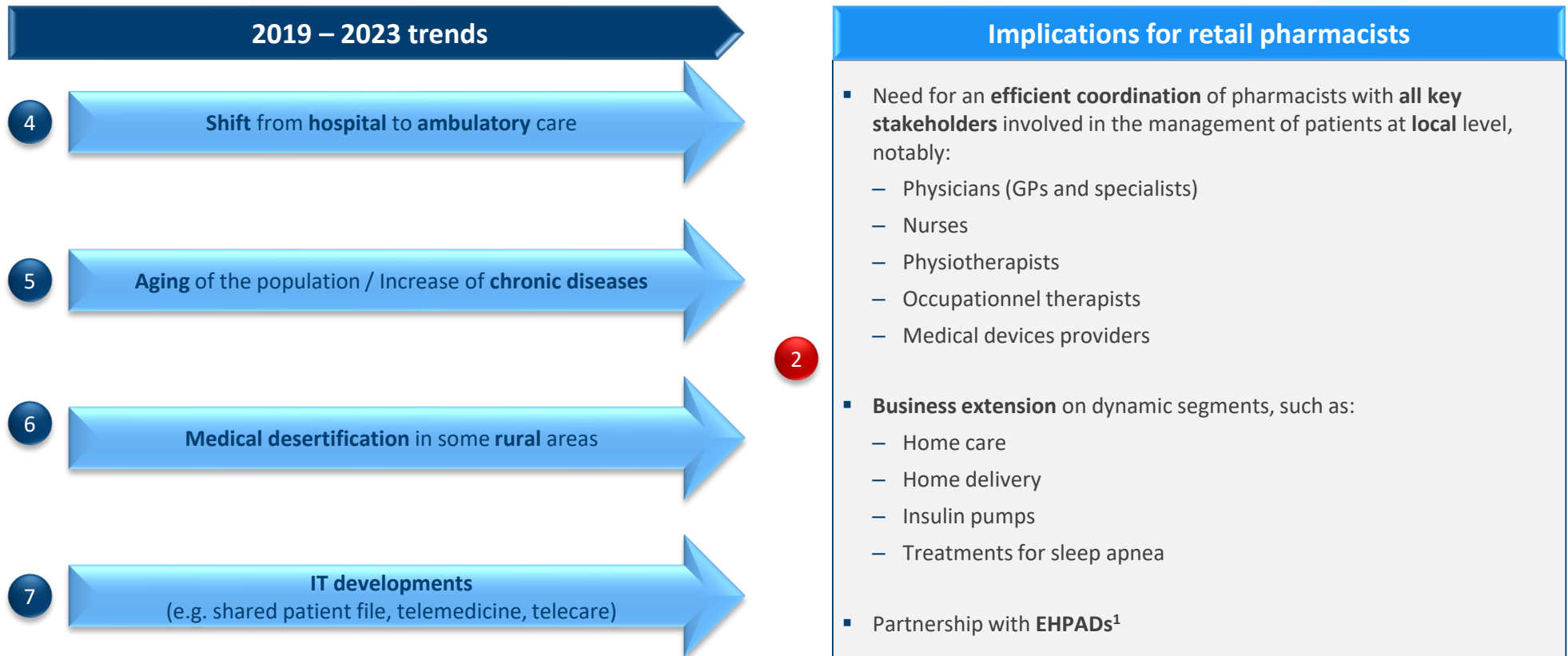


Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions (September 2019) – Smart Pharma Consulting analyses

6. Conclusion

Pharmacists will be more and more at the cornerstone of a coordinated management of patients, notably in rural areas deserted by physicians

Strategic priorities for retail pharmacists (2/2)



Sources: Interviews with retail pharmacists and representatives from VTOs and professional unions (September 2019) – Smart Pharma Consulting analyses

¹ Medico-social facilities housing the elderly dependent patients for whom care at home is no longer possible

Consulting firm dedicated to the pharmaceutical sector operating in the complementary fields of strategy, management and organization

The Smart Pharma Business Papers

- Our Business Papers have in common to:
 - Be well-documented with recent factors and figures
 - Highlight key points to better understand the situations
 - Determine implications for key stakeholders

French retail pharmacies 2019 – 2023 Perspectives

- This Business Paper proposes an in-depth analysis to better understand the outlooks of French retail pharmacies by 2023
- In particular, this document presents:
 - The organization of drugs distribution in France
 - The regulatory framework applicable for retail pharmacies
 - An analysis of recent dynamics and trends
 - An identification of optimization levers
- This analysis is based on:
 - Interviews conducted with stakeholders (e.g. retail pharmacists and representatives from VTOs and professional unions)
 - Our knowledge of the distribution system and of the economy of retail pharmacies in France

Smart Pharma Consulting



- Besides our consulting activities which take 85% of our time, we are strongly engaged in sharing our knowledge and thoughts through:
 - Our teaching and training activities
 - The publication of articles, booklets, books and expert reports
- As of today, more than 80 articles and position papers in free access can be downloaded from our website
- Since 2017, we have published:
 - 5 business reports (e.g. The Global & French Pharma Markets – The French Generics Market, incl. Biosimilars)
 - 8 position papers in the “Smart Manager Series”
 - 9 position papers in the “Best-in-Class Series”
- Our research activities in pharma business management and our consulting activities have shown to be highly synergistic
- We hope that this new publication will interest you and we remain at your disposal to carry out consulting projects or training seminars to help you improve your operations

Best regards

Jean-Michel Peny