

CIP SPEAKER NOTES

Bonjour Madames et Messieurs!

(**SLIDE 1**) I'm sorry but that is about as far as my O'level French from 40 years ago permits me.

I have only 15 minutes to attempt to give you a flavour of the UK Wholesale Pharmaceutical Market which is a very mature and complex market. When UniChem Limited considered who they wished to speak at your conference, they considered the following requirements for the recruitment of a speaker (**SLIDE 2**). The ethics of Mother Theresa, the IT skills of Bill Gates, the charisma of Britney Spears and the business brain of Rupert Murdoch.

Unfortunately the recruitment reality (**SLIDE 3**) is that you have me, with the charisma of Bill Gates, the ethics of Rupert Murdoch, the IT skills of Mother Theresa and the business brain of Britney Spears!

Having said that the UK Healthcare Distribution system is complex, I thought I would start with a simple diagram (**SLIDE 4**). Pharmaceutical Wholesaling and Pre-wholesaling in the UK enables manufacturers to optimally distribute their products to hospitals, pharmacists and dispensing doctors (Dispensing Doctors being General Practitioners who dispense drugs at their practise, rather than via Pharmacy and consist of 16% (by value) of the UK Market).

The UK Retail Market (**SLIDE 5**) has changed over the last 10 years seeing an averaged growth of 10% per annum and at the same time, generics and parallel imports growing from a very small base to 26% of the total market.

If we look at pharmacy remuneration (**SLIDE 6**) within the UK Health Service, we see that the Department of Health manages 85% of the total budget and from this a global sum of

£20M is given to Pharmacy (**SLIDE 7**) and this is broken down into a dispensing fee, professional services and non-core payments. Therefore we can see that the dispensing fee of 94.6pence (1.43 Euro) is the main payment gained by the Pharmacist from the Government. In addition, (**SLIDE 8**) we see that income per script versus script volume has fallen over the last 4 years. The big challenge for Pharmacy has therefore been to gain additional income by profit on purchasing, especially in the areas of generics and parallel imports.

This has changed the face of wholesaling over the last 10 years (**SLIDE 9**) where we can see the number of wholesalers and depots in the UK has decreased whereas the number of wholesaler dealers licences has grown appreciably. These licences permit pharmacies to buy and trade prescription medicines leading to a growth in short-line pharmaceutical wholesalers. We can therefore see the market (**SLIDE 10**) changing with short-line wholesalers selling more generic and parallel import products by volume than full line wholesalers. This market share is altered (**SLIDE 11**) when looking at full line versus short-line by value.

The final piece in the jigsaw to give you an overview of the UK market is to look at retail pharmacy itself over the last 6 years. As you may be aware it is permissible in the UK for a pharmacist to own more than one pharmacy and for wholesalers to have their own pharmacy chain (**SLIDE 12**). This slide shows the drop in independent pharmacy ownership versus multiple ownership and Supermarkets. Even within Independent Pharmacy (**SLIDE 13**) we see a large number of multiple pharmacy ownership and finally, (**SLIDE 14**) in the Independent Pharmacy Trading Sector, we see that only 14% of independent pharmacies are not part of either multiple ownership or Trading Groups.

I would like now to turn more specifically to UniChem and firstly show you **(SLIDE 15)** a view of UniChem's retail pharmacy customer universe. In order to service these customers **(SLIDE 16)** we have 10 depots within the UK and 1 central distribution, OTC hub. Each distribution centre's structure **(SLIDE 17)** consists of customer service, service delivery and inventory. If we look especially at inventory **(SLIDE 18)** you can see that the averaged current stock value is £11M with an averaged 17 day stock holding and a service level of 98.6%. The stock keeping units booked per week being 7.9M and the lines received per week being 3.1M. If we now look at the volumes **(SLIDE 19)** you will see that we are satisfying 260,000 orders per week and making 65,000 deliveries per week, 73% of which are achieved through automation **(SLIDE 20)**.

Our automation is fairly standard consisting of an automat attached to a variety of scanning activities. 99% of customer orders **(SLIDE 21)** are transmitted electronically through a variety of ordering systems.

What I have talked to you about so far is the current status of the UK market. At this moment in time however, there are several areas in which the government is going to actively intervene within the Healthcare Market which will have a direct effect on pharmacists **(SLIDE 22)**. The Office of Fair Trading are currently ruling concerning the restriction of trade that exists where currently pharmacies are licensed and this restricts the growth and location of new pharmacies. This has been challenged by the supermarkets, many of whom wish to have a pharmacy in each of their locations. At a stroke this could reduce the value of pharmacies throughout the UK. Additionally, a reduction in generic pricing has recently removed £200M from the UK market and threatens to remove more. The greatest threat however is the renegotiation of pharmacy contractors remuneration **(SLIDE 23)**.

This new contract is due for implementation in October 2004 and will lead to a change in the terms of reference of the pharmacist. It is going to place heavy emphasis on increasing the skill levels of pharmacists and their teams to give higher quality services, create minimum standards and increase access and promote choice and competition within pharmacy (**SLIDE 24**). Thus, the current model where dispensing gives the higher level of remuneration compared to services such as medicines management, as demonstrated with the following slide (**SLIDE 25**). There will be a progression (**SLIDE 26**) from volume to service led income, thus the old model (**SLIDE 27**) of remuneration plus profit on purchasing will move to cost of service, plus a fair return.

UniChem's answer to supporting our pharmacists being that we will concentrate on our 4 key core values (**SLIDE 28**) of service, innovation, excellence and partnership and it is particularly in the areas of innovation and partnership where will be differentiate ourselves from our competition. We have already, by working with our pharmacist partners (**SLIDE 29**) created working standards agreements by which we are measured. This demonstrates our desire to satisfy our customer's needs. Additionally we have looked at the challenge of the new contract which is about discount and added value (**SLIDE 30**) and have created a new offering combining these two essential elements, called Portfolio (**SLIDE 31**). Portfolio is UniChem's new commercial offer which will enable pharmacists to build their dispensary and retail businesses to meet the challenges of the new contract. As a result UniChem are providing over 60 added value support offerings ranging from training to merchandising to medicines management.

We therefore find ourselves in a time of great change in the UK Healthcare Market and this creates some big questions for the pharmacy sector. (**SLIDE 32**): Amongst these are:

- Is effective CRM the path to customer value growth?
- Will Human Rights Legislation affect the customer contract?
- Should I get my lawyer to check through the new contract?
- Can baby wipes remove ink stains from carpets?

The answer to these questions being, yes, no, yes, no, no, no, yes , no and amazingly yes!

I thank you for listening to my quick tour through the UK Healthcare Market. I hope this hasn't left you more confused than I am at present! And I thank you for giving me the opportunity to speak at your conference.

