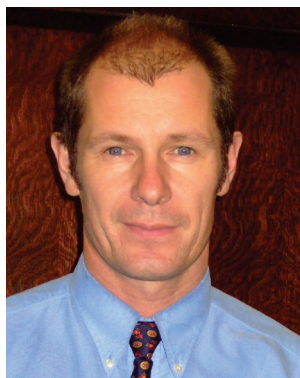


Business Focus

Consortium pharmacy (when 2 plus 2 makes 3)

David Parker urges caution in making use of a commonly suggested solution to the problems created by the combining of GP practices in a “super-surgery”



The concept of a “consortium pharmacy” is not new, but has been resurrected somewhat since the changes to the control of entry regulations in 2005. These changes included four exemptions to regulation 12 (the necessary or desirable test) one of which permits consortium pharmacies within new one-stop primary care centres.

In reality, this exemption is quite complex and restrictive and has, in practice, given rise to very few opportunities to establish a new pharmacy. This article does not deal with “consortium pharmacies” in this context, but rather in the more straightforward context of one or more pharmacies, or pharmacists, deciding to come together to offer a combined service to patients.

How do consortium pharmacies come about? The most common trigger for the creation of a consortium pharmacy is the development, or at least mention, of a new “super-surgery”. Given the fact that proximity to prescribers is often considered “critical success factor No 1” for a pharmacy, a complete re-configuration of local GPs is bound to put the cat amongst the pigeons. Where two or more pharmacists are merrily pottering along, each capturing their fair share of the local patient list, the possibility of a “winner-takes-all” situation, which could make or break retirement plans, comes as quite a wake-up call.

A developer calls

Often the first pharmacists hear of the proposed development is when they receive a call from a tough-talking property developer asking what they would bid for the privilege of some space within the new “super-surgery”. More often than not, the developer will have one sole objective: to extract as high a price as is possible for the space. In fact, this “third party income”, as developers call it, can often go a long way towards financing what would otherwise be a marginal scheme.

Those familiar with the story will know that the demands can include not only pretty extravagant rents but also an entry premium or key-money. The threat of losing the majority of

their goodwill overnight can create a real bidding frenzy among pharmacists, with the main beneficiary being the developer and/or the GPs. Understandably, many pharmacy owners, who have spent many years developing their business and nurturing goodwill, feel rather indignant that they should donate their hard-earned wealth to help with the construction of a new medical-centre. It is in response to this kind of threat that pharmacists who were previously fierce competitors can find themselves pulling together for a group-hug and concocting a plan to frustrate the enemy by holding firm. Rather than simply refusing to make an offer for the premises, a move that would require a great deal of trust to be placed with a competitor, it is not uncommon for the idea of a consortium approach to be mooted. So what is the problem? The thinking behind the consortium approach is obvious and at first sight seems to offer the ideal opportunity to keep all local pharmacists happy and avoid handing over huge chunks of goodwill.

Complicating issues

However, much as the consortium approach may seem to offer the solution, several complicating issues can make the initial idea harder than you may imagine to convert to reality. Problems can start even before an offer has been made to the GPs.

- Who should be included in the consortium? Do you include all pharmacies that would be significantly affected by the re-shuffle, in which case the number of people at the negotiating table can be significant, or do you just include those pharmacies that have the potential to relocate to the new premises on the basis that these are the only ones who are actually in a position to compete?

- What should be the shareholding of the consortium? A common construction is to split the shareholding according to the number of items dispensed by each pharmacy from the relevant surgeries, which appears very fair, but which ignores the fact that the opportunity for each party is in fact equal. If this gave rise to only a 15 per cent share in the consortium for

one party there is a chance that that individual will break ranks in order to win the jackpot

- What is the level of trust? If the newly formed partnership is successfully to face off the developers it is essential that no party break ranks. How well do you know or trust your new found business partner?

- How will you decide and agree what to bid?

- If successful, which contract will be sacrificed for the new location and how will the relevant owner be compensated?

- Who will guarantee the lease payments, as the “consortium” is not a trading entity?

These are but a few of the important stumbling blocks that must be overcome even before an offer can be jointly presented to a developer or a GP.

Potential problems

But even if all goes to plan and a lease is secured at a reasonable rate within the new “super-surgery”, a whole new raft of potential problems can emerge:

- How will the pharmacy be fitted out?

- How will operating practice (opening hours, staffing levels, salaries, stockholding policy, ongoing investment nursing home services, enhanced services etc?) be agreed upon?

- Who will be responsible for business decisions?

- How will voting rights be established?

- Who will be responsible for day-to-day running of the business and how will they be remunerated?

- To whom should a patient, the GPs or the PCT be speaking if they have a problem?

- How do you deal with the fact that, given a straight choice, each consortium member, apart from the one who has sacrificed their contract, will prefer that patients continue to use their pharmacy rather than migrate to the consortium business?

Once again this not an exhaustive list of the potential problems that can aggravate the harmonious operation of a consortium business. Given all of the above, it is easy to appreciate that what may begin with a genuine desire to work as a team to synergistic effect can, in reality, become a prime example of 2 + 2 makes 3.

Finally, it should be added that there are some serious concerns with respect to the legality of this type of arrangement. As the trigger for the creation of many consortia is the desire to avoid a competitive stand-off, it could be argued that that their creation is by definition “anti-competitive”. Although untested, this legal concern and the potentially substantial penalties are sufficient for several multiples to steer clear of consortia altogether.

Although not impossible to pull off, the advice with respect to consortia, therefore, has to be: approach with caution and take the best advice possible.

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