

# The local 'Distance-selling' pharmacy

*David Parker discusses the commercial opportunity or threat posed by a recent rise in applications to open so-called 'Internet/Mail order pharmacies'.*

Under the changes to the control of entry regulations 2005 four exemptions to regulation 12, the well-known necessary or desirable test, were introduced to reflect both the findings of the earlier OFT enquiry as well as changes in patients' needs with respect to accessing pharmaceutical care.

One of these exemptions, the 100-hour pharmacy is well known to almost all contractors and is almost certainly the most commonly exploited route to a new pharmacy contract. This is largely because this is the simplest exemption to understand and it does what it says on the tin; it's a pharmacy that opens for 100 hours a week (approximately 50 serving the general public and 50 honing the pharmacists' crossword or Sudoku skills).

It seems that all realistic, along with many less realistic, opportunities to exploit this exemption have been unearthed and as a result greater focus has moved to the other three more complex, or tricky, exemptions.

The fourth of the exemptions to regulation 12 is referred to as "Distance selling premises". To quote directly these are "premises at which essential services are to be provided but the means of providing those services are such that all persons receiving them do so otherwise than at those premises".

Although the regulations are not explicit in their intentions it can be reasonable sup-



Mail order pharmacies are now an option

posed that the idea behind this particular exemption was to create access to an alternative channel of supply for medicines through the Internet and/or mail order. This is a channel that already exists and serves its niche sector very well in other countries. Given that this market is a niche and thus limited in size, along with a fact that the cost structure must be supported by the same 90p item fee that every other pharmacy receives, the exemption would appear to be one that could only be exploited on a large scale by a very efficiently run outfit. Pharmacy2U were the first to enter this market well before the regulation changes in 1999 and, as such, had a significant first-mover advantage. I can also confirm from first-

hand experience that it is a very slick operation directed by some of the brightest individuals I have ever come across in the industry. Their turnover in 2007 was a very respectable £9m; very good business for them but still a minuscule part of, and limited threat to, the overall bricks and mortar market.

Whilst Pharmacy2U have shown there is a healthy demand for Internet/mail order pharmacy in its commonly understood sense, there has recently been a surprising number of new applications to open "Distance selling premises" across the country.

The aim of most of these applications is not to offer a "Pharmacy2U style" nationwide supply system to those that prefer the Inter-

net or mail order as a procurement route, but rather to exploit what some might consider a loophole in the regulation.

The regulation does not require that the pharmacy is a mail order or Internet business but simply that the contractor: (a) does not offer to provide pharmaceutical services to persons who are present at the premises to which the application relates; and (b) the means by which he provides pharmaceutical services are such that the person receiving them does so otherwise than at the premises to which the application relates. In theory therefore a distance selling pharmacy could supply NHS prescriptions to anybody who does not want to visit the pharmacy. The obvious targets here are your nursing/residential homes and your collection and delivery patients. For many of you this could represent a substantial chunk of your monthly items and the arrival of electronic transfer will, in all likelihood, grow this part of the market.

Although the majority of these new operators will operate a website and pay lip-service to mail-order, their real modus operandi will not be national coverage; but rather an aggressive local assault on nursing/residential homes and collection and delivery business. For any existing contractor with substantial homes business and/or delivery services this may appear a frightening prospect. For the same reasons, to a young pharmacist keen to get on the business ownership ladder, this may seem like a cracking opportunity.

However, given some deeper thought, the business model seems far from guaranteed and risk-free.

Consider firstly the fact that the new pharmacy will have to generate almost all its turnover from nursing/residential homes and collection and delivery. I could count on the toes of a duck's feet the number of pharmacies that I have come across dispensing more than 2,000 items per month to nursing/residential homes, and these are businesses with the advantage of a physical presence, and a long and distinguished history of providing a service. Although a new entrant could gear up as a "homes factory" he or she would still need to persuade a substantial number of homes that they would be better off served from a pharmacy that they have never visited, will never visit, and

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# macy; 'a cunning plan, Baldrick!'

which has no track record with respect to this service.

The capture of collection and delivery patients is likely to prove an even greater challenge for the new entrant. Firstly it should be recognised that although they are usually lumped together, the majority of prescription "collection and delivery" business is "collect only". As the distance-selling business cannot receive customers at their premises, their slice of the market is the much smaller and more costly delivery patients. To further frustrate capture, these patients are not, as with the homes, conveniently clustered in one building, the contact details of which can be found in

And on a general note it should also be borne in mind that, even following the most pro-active and aggressive communication campaign, any existing patient or home will only make the switch to a new provider if they feel confident they will get something more than they do at present. I fail to see what the USP could be for a new contractor of this kind and thus what greater threat they can pose than any other competing contractor.

Given that the fledgling business will have almost no OTC sales, be dispensing very labour-intensive prescriptions, often with high ingredient cost, to be delivered to schedules that beat off the competition, the P&L pro-

Turnover: **low and volatile,**  
 Gross margin: **low**  
 Staff costs: **high**  
 Operating costs: **high**  
 Stock-holding: **high**

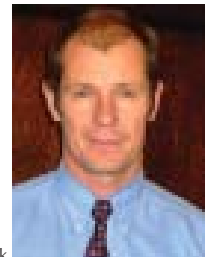
To anybody realistically considering such a venture I would suggest that they do some serious scenario analysis before they quit the day job and invest significant time and money in the project. It just may, in the right area, given the right competition, be possible to make this model work, but I sincerely doubt it. Far more likely is the all too common outcome we have seen with 100 hour businesses, where the new contractor falls well short of the numbers required to make a profit, whilst significantly denting the P&L of the long-standing contractors. A cunning lose-lose situation if ever I saw one!

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the Yellow Pages. Simply making these patients aware of the existence of the new service is a problem for which I see no simple or economical solution.

file does not look so healthy. In fact a quick run-through suggests that almost every financial indicator of the new business would be unfavourable;

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Some customers want to use an Internet pharmacy

### MEETING THE MUR CHALLENGE – COMPLEX BUT REWARDING

It's one thing to have the skills needed to do something new in your business. It's often quite another to 'tick all the boxes' needed to get a new service off the ground. Just ask **Mak Jahal** of Farnborough's Chapel Pharmacy.

Qualified to offer MURs since February 2006 Mak was raring to go, with expansion plans and a temporary facility at the back of the shop as an interim. But the resource planning didn't stop there.

"Pharmacy cover and skill mix were obvious extra needs" he explains. "The whole team needed thinking about. I recruited an extra technician and trained one of the existing ones in accuracy checking. Now they help identify and recruit patients for MURs and in populating the forms."

What completed the picture was the confidence boost from a Numark training evening.

"I'm really glad I took the opportunity to practice in a safe environment by going through case studies and talking to fellow members. I also learnt about what could be classified as an intervention, for instance showing someone how to use an inhaler, could trigger an MUR."

Training evenings followed Numark's 2006 on-line offering, which explained how to plan and deliver an MUR. This toolkit contained marketing material such as window posters, bag stuffers and appointment cards for use in store.

"Though we've delivered an on-line toolkit, we still wanted to follow up with some very hands-on sessions to help get members started," says Mimi Lau, Numark's director of professional services.

She knows MUR can be a long road, and so does Mak. But the rewards are there and, as he says:

"They really aren't difficult to conduct: you just need to plan them into the normal workload. The tools available from Numark proved to be very useful."

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