Russian Federation pharmacy chains rating based on the results of the 1st half of 2017

Pharmaceutichestky Vestnik, August 2017, # 24

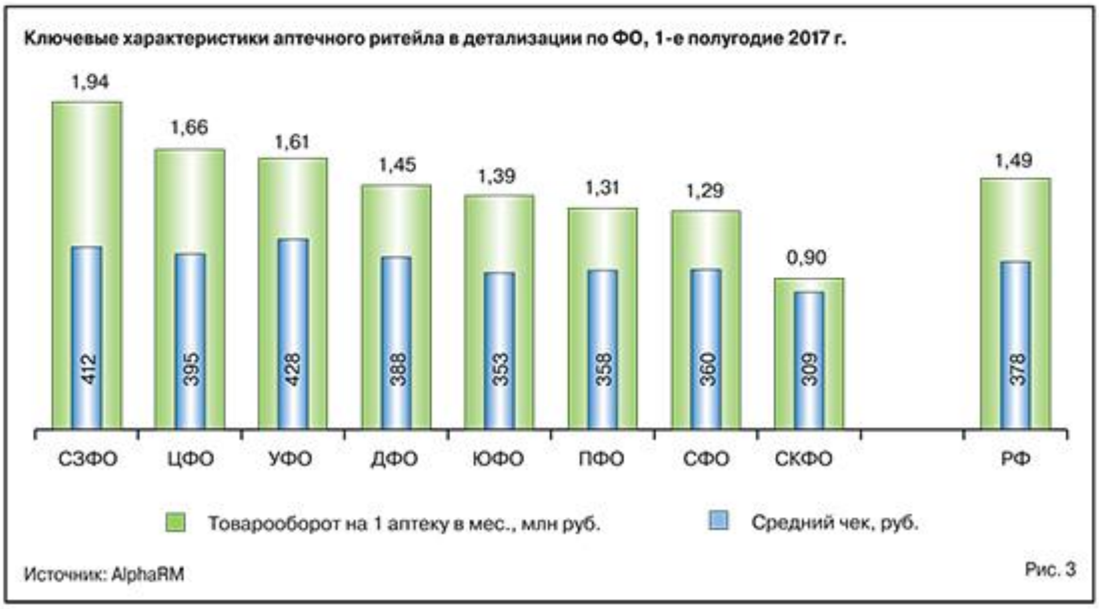
The struggle for a place under the sun has been going on forever. At the dawn of the evolution, it was fought by primitive microorganisms. Nowadays, whole systems consisting of people, structures and processes are involved in this fight. In order to survive, some choose a strategy of searching for new resources and unoccupied territories, while some take over the resources that used to belong to less fortunate players. Like the "King of the hill" game, in which the most valuable resources pass from one winner to another, in an endless series of competitions for leadership.

Survival strategies

In the second quarter of 2017, the saga of the redistribution of the market continued; one of its chapters should feature the success of the pharmacy chain **Mega Pharm** in acquiring ever more stable positions closer to the TOP100 top of the iceberg. Today, it ranks 21st in the general rating, has a federal status, includes 1,419 pharmacies, and is present in 17 subjects of the Russian Federation (Table 4). In the first quarter of 2017, it ranked 23rd, with 235 pharmacies, while in 2016, it occupied the 117th position, with 148 pharmacies and regional status. **Mega Pharm** had to try very hard to overtake its rivals.

First, it had to conquer new territories, accessing Kostroma, Yaroslavl, Kaluga, Volgograd, Vologda regions and Chuvashia in April; Samara region in May; Tver, Tula and Lipetsk regions in June (Table 3). Then some competitors were forced out of their cities of origin: Nizhny Novgorod's **Farmani&Aptechestvo** lost 23 pharmacy outlets in Vladimir and Nizhny Novgorod regions, the **Group 36.6** lost 26 pharmacies in Moscow, St. Petersburg and their regions; St. Petersburg's **Aloe BSS** lost the same number of pharmacies in 6 regions, while Lipetsk pharmacy chain **Samed** lost 7 pharmacies in its home city.

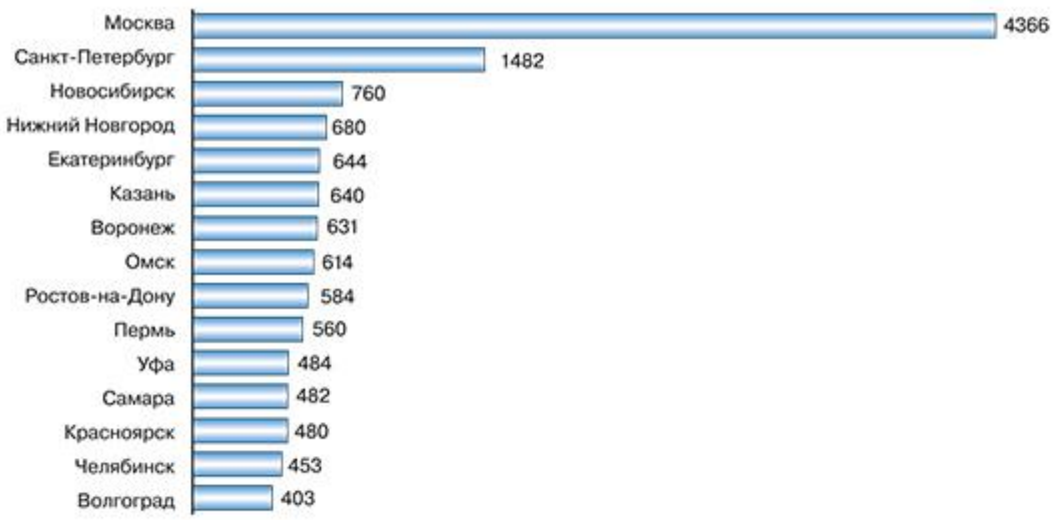
Then the story repeated itself: almost all of these pharmacy outlets (except for *Samed*) previously occupied the premises of the pharmacy chain *A5*, which were divided by more than ten market participants in 2016. Some of the pharmacies listed above had to surrender their premises to *Mega Pharm* in 2017. The fact that only 16% of all Russian pharmacies own their retail space, and the rest are renting the premises makes it easier to change the ownership of pharmacy outlets (Figure 9).



The Krasnodar **April** reached the TOP10, ranking 8th in the rating based on the results of 2017, with the federal status and 712 pharmacies in 14 regions, vs. the 14th position with 517 pharmacies in 5 regions according to the results of 2016. In March 2017, *April* opened its pharmacies in two new regions, then in three more in April, and in two more in May (Table 3).

The leaders of the rating traditionally attracted attention with the rapid growth of the number of pharmacy outlets: **Rigla** (+84 pharmacies), **Implozia** (+133 pharmacies) and **Planeta Zdorovia** (+110 pharmacies, absorption of 15 outlets of *Semeinaya Apteka* in the Republic of Tatarstan and the expansion to the Krasnodar Territory) (Tables 1, 3, 4).

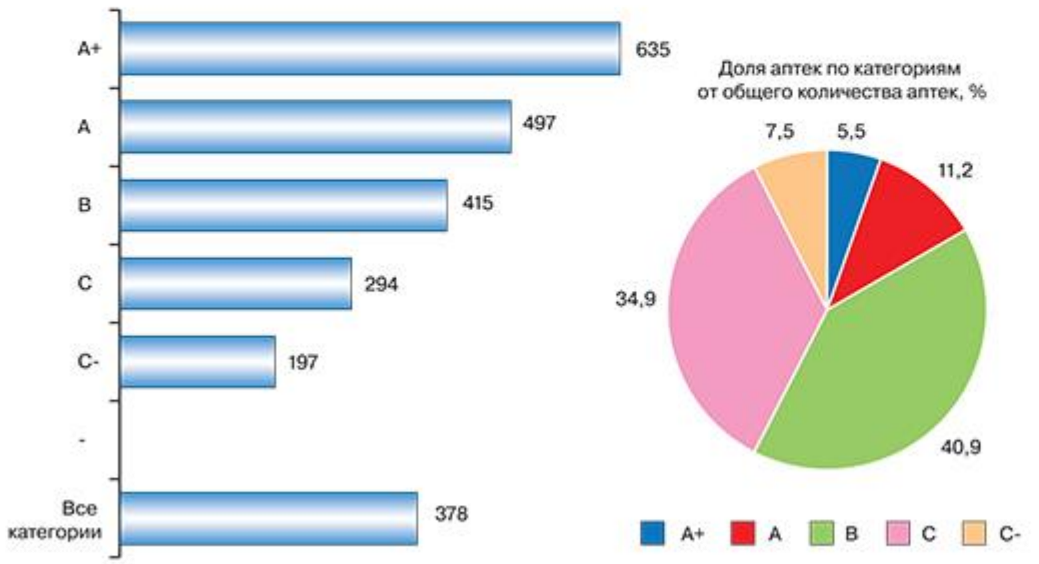
Количество аптек в городах-миллионниках на 01.07.2017



Источник: AlphaRM

Рис. 4

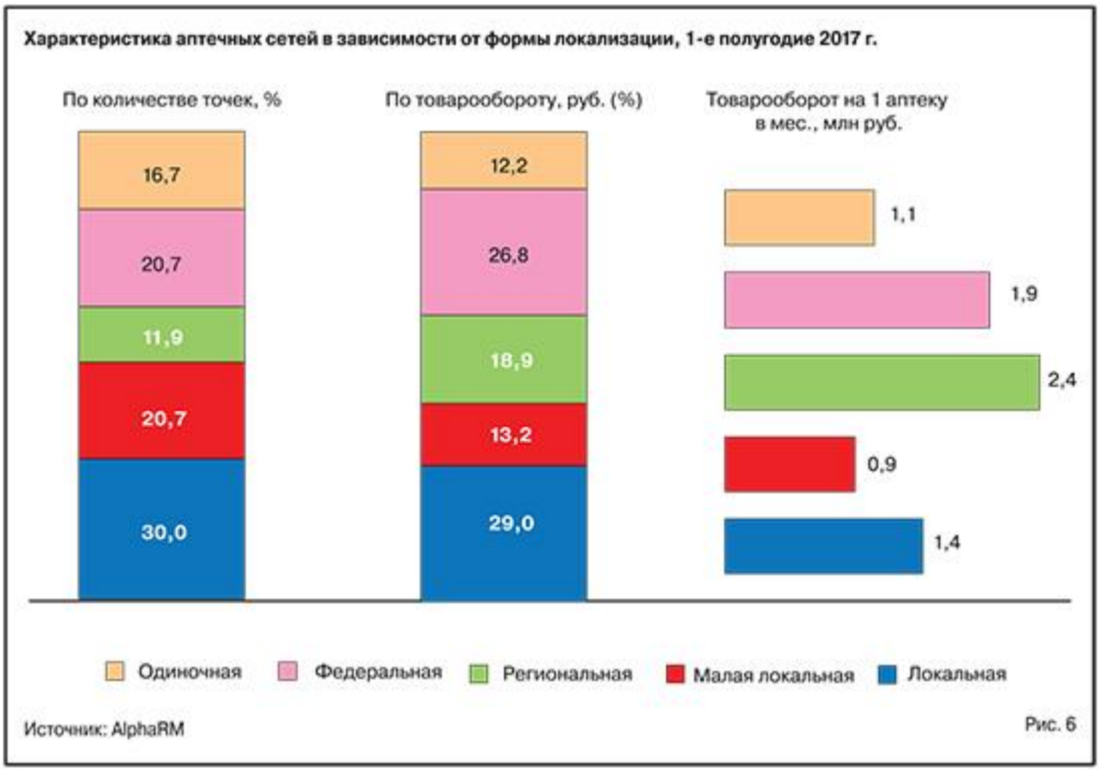
Размер среднего чека в зависимости от товарооборота аптеки, 1-е полугодие 2017 г., руб.



Источник: AlphaRM

Рис. 5

The acquisition of 1,176 pharmacies of Saint-Petersburg company *Pervaya Pomosh&Raduga* by the network *Doctor Stoletov&Ozerki* promises to become the largest strategic transaction in 2017. The information about this event appeared in the media at the turn of the first and second quarters; with such an arsenal, *Doctor Stoletov & Ozerki* will be ready to challenge the leader of the rating, based on the results of 2017. Among the less ambitious yet significant deals of the middle of the year: Izhevsk *Pharmaimpex* took over the management of the same city's pharmacy chain *Pharmacon&Klukva* that used to own 145 outlets earlier (46th line in the rating), while Moscow network *Serdce Rossii* became the owner of 133 pharmacies from the Bryansk pharmacy chain *Maitre* (53rd line in the rating) (Table 1, 4). At the same time, based on the results of the 1st half of 2017, *Serdce Rossii* entered the TOP 100, occupying the 97th position in the rating, though it used to rate 108th in 2016.



In order to tough it out against the dinosaurs of the market, which have the energy, power and ambition, smaller inhabitants of the pharmacy retail niche create alliances and associations that help sum up their efforts, and sometimes produce miracles of synergy. As a result of such mergers, the Tomsk **Sibirskaya Apteka** appeared as a sum of the local chains *Fialka* and *KSP* in April; in May, **Pharmacia** was born in Sakhalin, based on the *Pharmacia* of Okhta district, *Pharmacy #66 Beregite Zdorovie* and *CRA #40* from the city of Alexandrovsk-Sakhalinsky. This strategy was not supported by the Yaroslavl *Yukon*: in April, it was divided into *Yukon*, *Yukon-Pharm* and *IP Sudakova N.M*. This decision surely reflects one more survival strategy, which is popular under certain conditions.

Strategic transactions M&A among the biggest retail pharmacies in the 1st half of 2017				
Month	**Purchaser**	**Acquisition**	**Region**	**Number of pharmacies**
April	Doctor Stoletov&Ozerki (Moscow)	Medunitsa (a part, Saratov)	Saratov region	20
	Pharmsklad (Saratov)	Medunitsa (a part, Saratov)	Saratov region	19
	Valeta (Ekaterinburg)	Patronazh (Aramil)	Sverdlovsk region	5
	Valeta (Ekaterinburg)	Dolgoletie (Revda)	Sverdlovsk region	5
June	Planeta zdorovia (Perm)	Semeinaya apteka (Naberezhnye Chelny)	Tatarstan	15

Source: AlphaRM

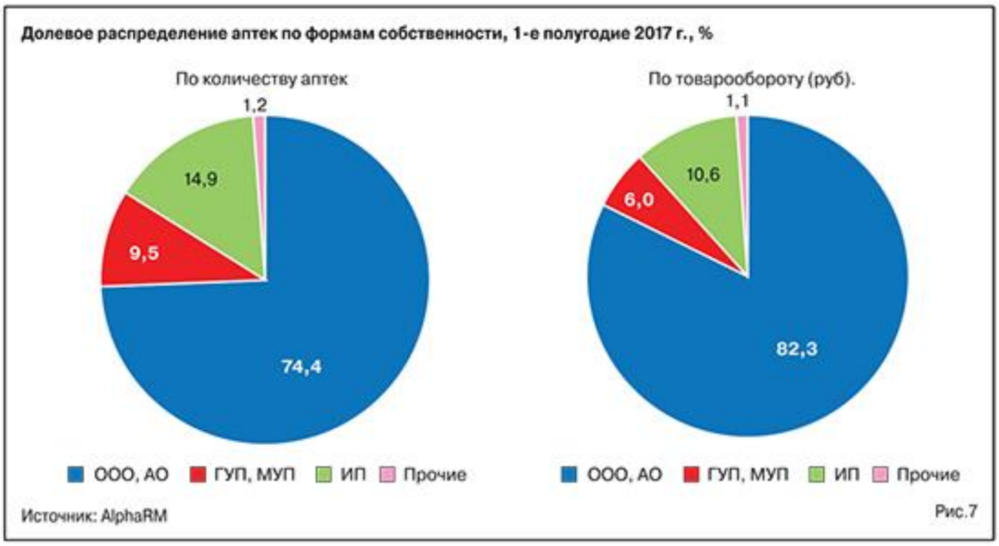
Table 1

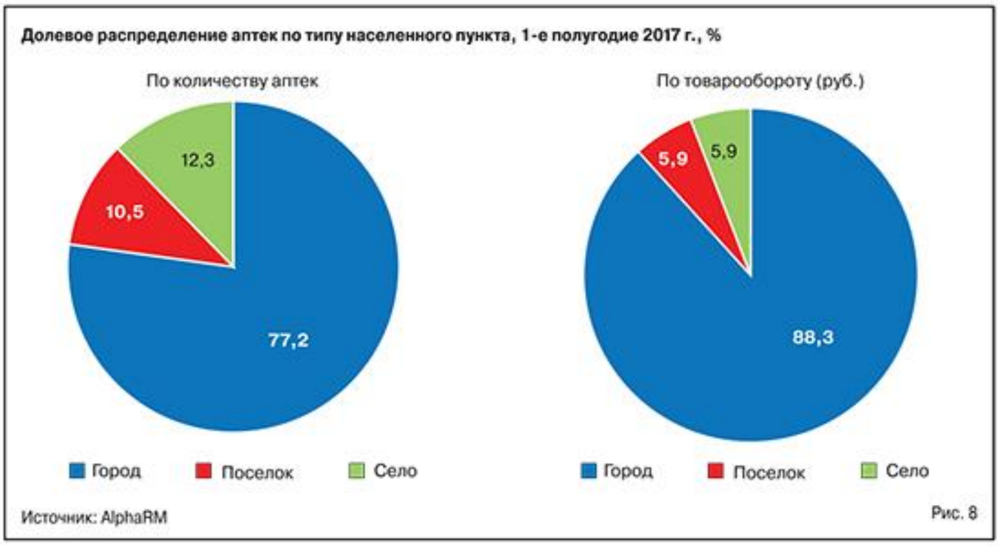
Pharmacy chains having changed their ownership from State enterprise/Municipal enterprise to LLC, 1st half of 2017		
Chain	**Region**	**Month of change**
Pharmacy 186 (Kingisepp)	Leningrad region	April
Pharmacy 66 (village Staroyurievo)	Tambov region	
Pharmacy 79 (Kostroma)	Kostroma region	
Oficina (Balakovo)	Saratov region	
Pharmacia (Buzuluk)	Orenburg region	
Pharmacia (Kirishi)	Leningrad region	
Pharmacia (Yuriev-Polsky)	Vladimir region	
CRA 260 (Chernushka)	Perm region	
Pharmacy 11 (village of Milkovo)	Kamchatka region	May
Pharmacy 23 (township of Znamenka)	Tambov region	
Pharmacy 64 (Kostroma)	Kostroma region	
Pharmacia (Priozersk)	Leningrad region	
Pharmacia of Oktyabsky district (Vladimir)	Vladimir region	
CGA 5 (Partizansk)	Primorsky region	
CRA 69 (township Sosnovka)	Tambov region	
Pharmacia (Furmanov)	Ivanovo region	June
Central city pharmacy (Kogalym)	KhMAD - Yugra	

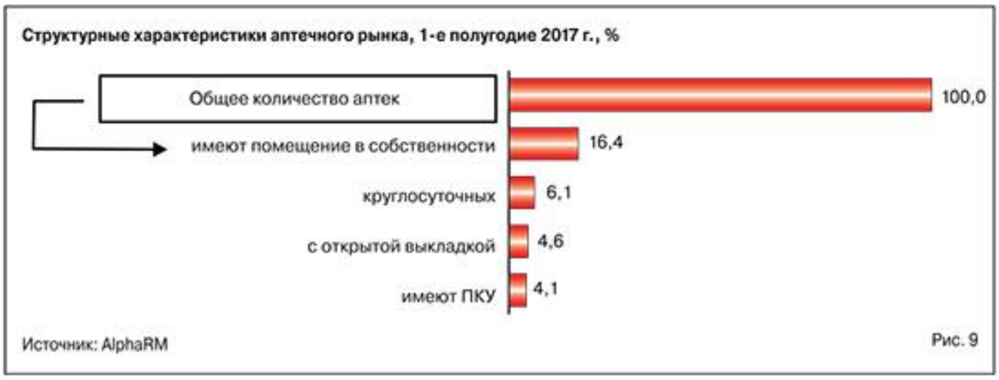
Source: AlphaRM

Table 2

In June 2017, the President of the Russian Federation endorsed a law, which freed State Unitary Enterprises and Municipal Unitary Enterprises from the iron fist of 44-FZ that limited the ability of pharmacies to maintain a competitive product range and replenish the stock of goods in time. Earlier, in order to escape the restrictions of this law, state and municipal pharmacies began to change their form of ownership. In the first quarter of 2017, five pharmacy chains took this decisive step; the process gained momentum in the second quarter, with 17 pharmacy chains in 11 regions of Russia joining this movement (Table 2). Soon, we will know if the new law stop the flight of SUEs and MUEs into the group of LLC or the force of inertia will push other market participants to make such a transition.







Pharmacy chains that expanded into new regions, 1st half of 2017		
Chain	**Region**	**Month of expansion**
Aprel (Krasnodar)	Kursk region	April
Aprel (Krasnodar)	Volgograd region	
Aprel (Krasnodar)	Astrakhan region	
Mega Pharm (Moscow)	Kostroma region	
Mega Pharm (Moscow)	Yaroslavl region	
Mega Pharm (Moscow)	Kaluga region	
Mega Pharm (Moscow)	Chuvash Republic	
Mega Pharm (Moscow)	Volgograd region	
Mega Pharm (Moscow)	Vologda region	
Pharmaceut+ (Rostov-on-Don)	Lipetsk region	
Shah (Astrakhan)	Republic of Dagestan	
Planeta Zdorovya (Perm)	Krasnodar territory	
Antei (Vologda)	Yaroslavl region	
Aprel (Krasnodar)	Saratov region	May
Aprel (Krasnodar)	Voronezh region	
Mega Pharm (Moscow)	Samara region	
Kalina-Pharm (Veliky Novgorod)	Republic of Karelia	
Aprel (Krasnodar)	Bryansk region	June
Mega Pharm (Moscow)	Tver region	
Mega Pharm (Moscow)	Tula region	
Mega Pharm (Moscow)	Lipetsk region	
Evalar (Biysk)	Saint-Petersburg	

Source: AlphaRM Table 3

Overall results

According to the results of the first half of 2017, the number of pharmacies in Russia reached 61,812, the total turnover[2] from the sale of the goods through the pharmacy segment amounted to 551.2 billion rubles. The three leading players (*Rigla*, *Group 36.6*, and *Implozia*) accumulate one tenth of the entire pharmacy market volume under their control, while the Top10 earn more than one fourth in value through less than one fifth of the total number of pharmacy outlets (Figure 1). The Central Federal District concentrates one third of all resources on its territory, both in terms of financial flow and the number of outlets (Figure 2). However, North-West Federal Districts leads in terms of the average check and turnover per pharmacy (Figure 3). The territory of the Central Federal District has only 2 out of 15 cities with a million's population, most of these cities (5 of them) being located in the Volga Federal District (Figure 4). The average check in a pharmacy amounted to 378 rubles based on the results of the first half of 2017. The "average" pharmacies (category B3) had a check of 415 rubles, while a check in super-profitable pharmacies (category A +) amounted to 635 rubles (Figure 5). The regional networks demonstrated the highest turnover per pharmacy, holding one fifth of the pharmaceutical market volume and operating only one tenth of the total number of pharmacy outlets (Figure 6). The market share of nearly 80% belonged to companies with the form of ownership of LLC / JSC [4] (Figure 7). Pharmacies located within the cities' limits showed similar results [5] (Figure 8).

TOP50 pharmacy chains by turnover, 1st half of 2017							
Ranking	**Name of the chain (central office)**	**Type of the chain**	**Geography, number of regions**	**Number of pharmacies on 07/01/2017**	**Total sales volume, million rub**	**Average purchase amount, rub.**	**Market share, %**
1	Rigla (Moscow)	Federal	48	1,858	26,512	457	4.8
2	Group 36.6 (Moscow)	Regional	4	1,735	24,495	436	4.4
3	Implozia (Samara)	Federal	42	1,995	17,771	402	3.2
4	Planeta Zdorovya (Perm)	Federal	40	1,203	14,612	469	2.7
5	Doctor Stoletov&Ozerki (Moscow)	Federal	12	392	13,351	671	2.4
6	Pervaya Pomosch&Raduga (Saint-Petersburg)	Federal	45	1,176	13,239	403	2.4
7	Neo-Pharm (Moscow)	Regional	7	369	11,960	639	2.2
8	Aprel (Krasnodar)	Federal	14	712	9,304	423	1.7
9	Pharmland (Ufa)	Regional	7	758	9,252	494	1.7
10	Pharmaimpex (Izhevsk)	Federal	19	604	8,388	516	1.5
11	Pharmakopeika& Tvoi doctor (Tula)	Federal	15	893	7,879	414	1.4
12	Vita (Samara)	Federal	14	792	7,070	415	1.3
13	36.7C& Maxavit (Nizhny Novgorod)	Federal	30	334	6,366	569	1.2
14	Apteka ot sklada (Perm)	Federal	22	600	5,778	454	1.1
15	Samson-Pharma (Moscow)	Local	1	74	5,605	1,440	1.0
16	Pharmaceut+ (Rostov-na-Donu)	Regional	7	297	5,587	506	1.0
17	Melodia Zdorovia (Novosibirsk)	Federal	52	674	5,426	380	1.0

18	Novaya apteka&Apteka Minicen (Khabarovsk)	Federal	10	136	4,495	762	0.8
19	Nevis (Saint-Petersburg)	Regional	5	405	3,939	388	0.7
20	Classica (Chelyabinsk)	Local	2	166	3,520	544	0.6
21	Mega Pharm (Moscow)	Federal	17	419	3,241	416	0.6
22	Rodnik zdorovia &LekOptTorg (Saint-Petersburg)	Regional	4	119	3,133	492	0.6
23	Gubernskie apteki (Krasnoyarsk)	Local	2	196	2,968	415	0.5
24	Deshevaya apteka (Rostov-on-Don)	Regional	3	79	2,591	661	0.5
25	Pharmacor (Saint-Petersburg)	Federal	17	216	2,457	393	0.5
26	Aloe BSS (Saint-Petersburg)	Federal	19	224	2,432	419	0.4
27	PharmImEx (Moscow)	Federal	17	258	2,378	444	0.4
28	Floria (Moscow)	Regional	4	186	2,367	476	0.4
29	Farmani& Aptechestvo (Nizhny Novgorod)	Regional	4	225	2,359	416	0.4
30	Zdorovie (Ust-Labinsk)	Local	2	102	2,240	555	0.4
31	Phrameconom (Irkutsk)	Local	1	75	2,197	605	0.4
32	Peterburgskie apteki (Saint-Petersburg)	Local	1	85	2,195	466	0.4
33	Antei (Vologda)	Regional	6	199	2,125	499	0.4
34	Oblastnoy aptechny sklad (Chelyabinsk)	Local	2	266	2,078	388	0.4
35	Alia-Pharm (Samara)	Regional	5	128	2,060	508	0.4
36	Edelweiss (Kemerovo)	Regional	4	131	1,921	499	0.4
37	Semeinaya apteka (Blagoveshchensk)	Regional	5	121	1,879	527	0.3

38	Novosibirskaya aptechnaya set (Novosibirsk)	Local	1	96	1,872	543	0.3
39	Yug-Pharma (Rostov-on-Don)	Regional	3	133	1,867	512	0.3
40	DEZHURNAYA APTEKA (Moscow)	Local	2	51	1,818	654	0.3
41	Stavropolskie gorodskie apteki (Stavropol)	Regional	3	177	1,731	375	0.3
42	Volgopharm (Volgograd)	Local	1	137	1,671	389	0.3
43	Apteki Stolitsy (Moscow)	Local	1	80	1,626	526	0.3
44	TriKa (Moscow)	Regional	4	55	1,601	536	0.3
45	Nizhegorodskaya oblastnaya pharmacia (Nizhny Novgorod)	Local	1	263	1,442	344	0.3
46	Pharmacon&Klukva (Izhevsk)	Regional	3	145	1,228	390	0.2
47	DIALOG (Moscow)	Local	2	38	1,215	699	0.2
48	ZDOROV.ru (Moscow)	Local	2	38	1,179	654	0.2
49	Formula Zdorovya (Murmansk)	Local	2	68	1,146	649	0.2
50	Permpharmacia (Perm)	Local	1	198	1,144	294	0.2

Source: AlphaRM Table 4

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[1] Federal chains include the pharmacies represented in 10 regions and more; regional chains include 10 or more pharmacies present in 3 to 9 regions; local chains include 10 or more pharmacies in 1 or 2 regions; small local chains have 3 to 9 pharmacies in 1 or 2 regions.

[2] Here and further, the turnover includes all categories of goods sold through the pharmacy segment.

[3] Each subject of the Federation has its own scale for evaluating pharmacy institutions. The category B includes pharmacies with average revenue for the region; the category A includes pharmacies that have a turnover above the average; the category A + includes the pharmacies that have “super-profits” (the turnover per month exceeds the average regional revenue by more than 2.5 times in a particular region). The category C includes pharmacies

with a turnover below the average. The category C- includes pharmacies with “super-losses” (the size of turnover per month is much lower than the average regional level).

[4] The category of LLC, JSC includes legal entities that are owned by LLC, JSC, CJSC, JSC. The category of State unitary enterprises (SUE) and Municipal unitary enterprises (MUE) includes legal entities that are owned by SUE, MUE, State enterprises, and Municipal enterprises. The category of individual entrepreneurs (IE) includes individuals who have the status of an individual entrepreneur. The category “other” includes such entities as manufacturing cooperatives, manufacturing associations, district consumers’ societies, or entities that are not identified according to the register of Roszdravnadzor.

[5] The category "city" includes all cities and military towns; the category “small town” includes settlements, townships, industrial townships, resort villages. The category “other” includes villages, boroughs, stations, and other residential communities.