

Siberian pharmacy chains do not want to pass into private business

Unitary Consolidation

Altai state regional pharmacies are actively consolidating. The largest Altai Territory Public Unitary Enterprise "Pharmacies of Altai" will absorb three local networks by the end of the year, in order to withstand the growing competition from federal players and to maintain drug provision for economically disadvantaged people. At the beginning of the year, lawmakers put state-owned pharmacies on their knees, submitting them to the law 44-FZ on procurements. The current mergers of the territorial pharmacies and the corporatization of municipal Barnaul networks are an echo of the repealed law.

The deadly 44th

"Altai Pharmacies" is one of the few Siberian non-privatized networks demonstrating the vitality in the competitive field of the pharmaceutical retail. Having increased the number of outlets to one hundred with modest state subsidies, the old-timer of the local market is ready to invest about 5 million rubles in automating cash registers and installing online cash offices. Timely purchases made at the end of 2016 helped us to survive over half a year under the Federal Law 44-FZ, admits the network director **Natalia Ashikhmina**. For example, a similar small enterprise "Novosibirsk Pharmacy Chains" (NAS) had an unlucky spell; it kept losing its revenue and customers during the entire first half of 2017 ("We are waiting for new surprises", page 22).

According to the Law "On the contract system in the procurement of goods..." (44-FZ), which provided legal framework for state-owned pharmacies since January 2017, it was necessary to expose each contract for bidding, as in public procurements, indicating only the active substance of the drug (INN). "Altai pharmacies" managed to survive through the winter, but the issue of this law is not yet completely resolved. When purchasing medicinal products through their wholesale enterprises, which remained under the press of the law, state-owned pharmacy chains are still not on equal terms with private traders. To bypass 44-FZ, they have to make procurements through pharmacies. Joining three small networks to a local leader will allow the pharmacies to survive.

"By the decision of the governor of the territory, we will absorb the "*Pharmacies of Rubtsovsk*", "*Loktevskaya pharmacy*" and "*Rodinskoe RPP*" by the end of the year. This will help small pharmacies that will come under our protection, to get favorable terms and prices from distributors. As a growing network, we will also get better conditions in our dealings with wholesalers, regarding deferrals of payments and pricing," said Natalia Ashikhmina.

"The issue of the complete exemption of pharmacies from the law 44-FZ is now being actively resolved, as the law hinders the development of the industry. But we will be able to take real steps only six months after the cancellation of the requirements for the pharmacy retail, the executive director of NP "Pharmacy Guild" and the Union "National Pharmaceutical Chamber: **Elena Nevolina** told the *PhV*.

The union for the sake of wholesale

The merger of state-owned pharmacies is an example of optimization under the threat of competition by federal players who are penetrating deeper into the regions. The pharmacies that carry a social burden, cannot survive alone. The remaining state-owned mini-chains and single pharmacies intend to join the "*Pharmacies of Altai*" next year. According to *AlphaRM*, the chain "*Pharmacies of Rubtsovsk*" includes 21 outlets today. The other two chains own three to four pharmacies. According to Elena Nevolina, the merger and state control will make it possible to fulfill the "roadmap" for the availability of pain medications and, probably, get additional financing.

According to Elena Nevolina, no more than 15% of the total number of pharmacy enterprises still remains in municipal property. Many state-owned pharmacy chains began reorganizing to transform into joint-stock companies. Nevertheless, it is difficult to say how privatization will affect the provision of medicines to the population, Ms. Nevolina notes. It is important to remember that wholesale trade in narcotic drugs can be carried out only by state-owned enterprises, i.e. state and municipal pharmacies.

In the course of corporatization, such conditions should be observed that will allow pharmacies to continue purchasing narcotic drugs. "I do not see any new prospects in the process of corporatization. The drug procurement will take place under the same law. Being a unitary enterprise, we have more freedom to dispose of the finances that we earn. We enjoy good conditions when working with a distributor, so we can effectively manage the range of goods," says Natalia Ashikhmina.

Forced privatization

The authorities of Novosibirsk decided to privatize their largest pharmacy chain in order to save it from going bankrupt. However, after the repeal of the law this summer they showed determination to cancel privatization. The authorities of Barnaul referred to the program of gradual privatization of commercial property that has been in force for many years, refusing to allow the heads of city pharmacies to suspend privatization. This was reported by PhV's first-hand source in the Altai Territory.

According to this source, the pharmacy chains number 132 and 306 began the corporatization to escape the new law, but then they asked to cancel the procedure. "Local authorities refuse to return the networks to their former status under the pretext that it would demand too much money and financial costs. The reorganization has been going on for 10 months. It turned out to be just privatization for the sake of privatization, not for helping pharmacies to provide needed drugs to socially unprotected people," in the opinion of PhV's source. The heads of pharmacy chains refused to comment on the situation. Elena Nevolina believes that if the underlying motives are political the process of corporatization can be canceled.

Meanwhile, guests from other regions are penetrating deeper into the Altai Territory. According to *AlphaRM*, the federal pharmacy chain "*Pharmakopeika*" entered the region with its 134 outlets, taking a 15.5% share of the local market. In general, the federal networks' share tends to cover at least half of the sales revenue in the province. To date, they control 37.5% of market against almost 50% occupied by local players, in monetary terms. The remaining 13% are divided between single pharmacies, which will soon be absorbed.

The pharmacy chain of Altai manufacturer *Evalar* includes 22 sales outlets today. "We control about 3.8% of the local market and we are the third largest regional player in the province," said **Ekaterina Belyaeva**, communications director of Evalar. "Indeed, in recent years, the number of federal players actively entering the small towns of the region has increased. Under these conditions, regional players certainly attempt to sustain their positions: they join associations, and they create marketing unions or purchasing alliances."

In addition to *Pharmakopeika*, the chain *Implozia* entered the region with 89 pharmacies, while *Melodia Zdorovia* from Novosibirsk opened 83 outlets there. The number of local pharmacies still exceeds the share of newcomers. Of the total number of outlets (1127), 667 belong to local pharmacy chains, 308 belong to the incoming players and 162 to single pharmacies. Thus, the share of newly opened networks has already grown to 27%, by the number of pharmacies. Despite the fact that the region is subsidized, federal networks are in no hurry to sell drugs at lower prices. However, at the very beginning of their activity, they lure the customers by cutting down the prices for a short time, local players complain.

Today, nine of 17 state-owned pharmacy chains in the Altai Territory undergo different stages of transformation. Thus, during the short period of its validity, the law 44-FZ swept out a significant part of the state-owned pharmacies responsible for social security drug provision. It would seem that this process did not affect commercial networks in any way, but it might lead to an increase in social stress on them, in the future.

Read more: <https://www.pharmvestnik.ru/publs/lenta/v-rossii/unitarnaja-konsolidatsija-prnt-31-m9-906.html>