

Comparative analysis of commercial strategies in different types of pharmacy chains

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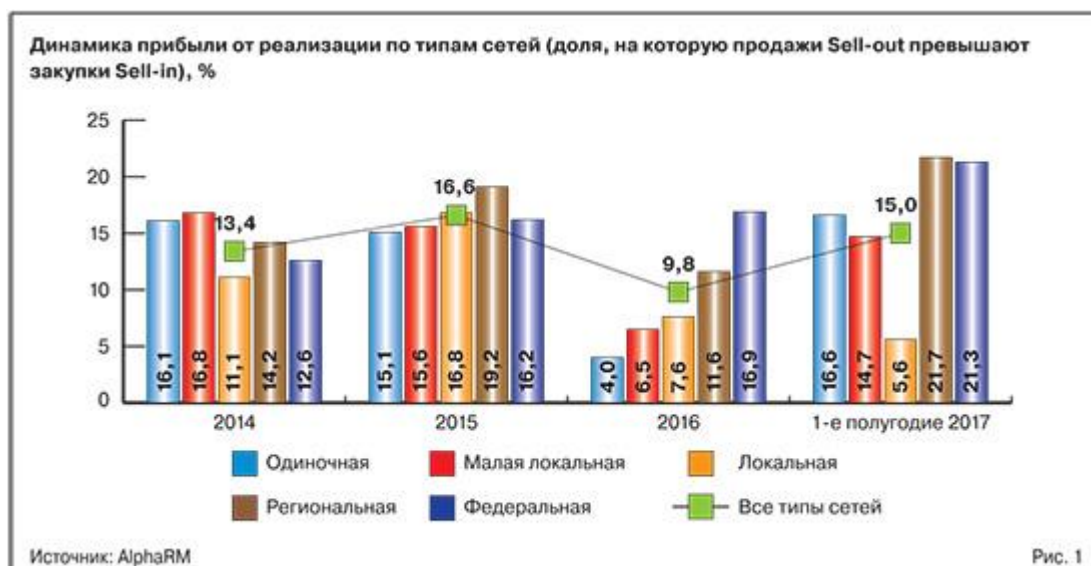
Networks diversity

When discussing the types of pharmacy chains, it always meant that regional pharmacies are different from federal ones, which, in turn, are not like local networks, while single pharmacies not belonging to any chain, form a group that is completely apart. Basically, we talk about which pharmacy is stronger, which markets they are trying to conquer, and about the “big” chains getting bigger, and “small” chains surviving with difficulty. However, “big” chains make a lot of efforts to stay afloat, and they have to be better than “small” ones in many respects, to preserve their competitive ability. If we track the sales trends only at two points, at the entry, when the goods are delivered to a pharmacy by a distributor (Sell-in), and at the outlet, when the goods are sold to final consumers (Sell-out), we can compare several key elements characterizing the working performance of each type of pharmacy chains¹.

Profit

Regional and federal networks had the largest profit (difference between the sales at Sell-out and Sell-in) in the first half of 2017, and the local chains can be considered as outsiders based on this parameter. In the years of crisis, the local level networks and smaller pharmacy chains were affected much more than regional and federal ones, which reached the highest profits in the considered period of the first half of 2017, while the local chains' situation became worse than it was during the crisis (Fig. 1).

Based on the profit per pharmacy per month, the regional pharmacies did better than the federal ones, reaching more than 300 thousand rubles per outlet in the first half of 2017, while local networks were lagging behind, with just about 60 thousand rubles (Fig. 2).





Commodity balance

In the years of crisis, managing the range of goods was like walking the minefield: businesses could not survive only on cheap goods, but ordering expensive goods was dangerous when the consumers were impoverished. Probably because of failures in brand portfolio planning during the period from 2014 to 2016, the experts from AlphaRM observed that pharmacies were receiving much more packages than they were selling. There was a tendency to increase the stock of goods by about 10% per year during the entire crisis period. Most likely, a part of the goods was written off due to reaching the expiration date, and another stored part will serve as a reserve for sales. Then we will observe the reverse trend in the foreseeable future: the quantity of goods sold from pharmacies will exceed the quantity of goods delivered to pharmacies. Today, only the most successful participants of the market reached this level: according to the results of the first half of 2017, federal networks sold as many packages of goods as they had received, without increasing the total commodity stock. The local pharmacy chains stand out once again: their commodity stock increased by 22% of the number of packages delivered to pharmacies during this period (Fig. 3).



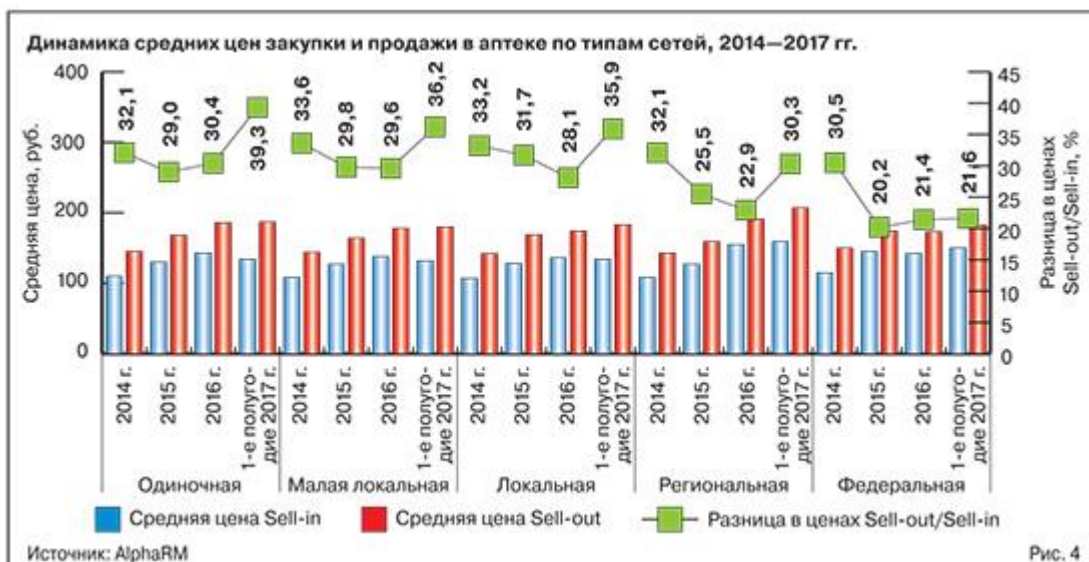


Рис. 4

Pricing

Regional and federal pharmacy chains form their brand portfolio and retail margin in such a way that they offer less expensive price per product package to consumers, compared to smaller participants in the market (Fig. 4), despite the fact that they have a bigger revenue and a smaller commodity balance than local chains and single pharmacies, which are trying to survive by means of higher prices and retail margins. It becomes clear that the success of large chains is not so much due to their pursuit of selling a package at the highest price, but rather to selling a lot of packages with an average retail margin at an affordable price, thereby generating significant profits and reducing the commodity balance. The competent integrated approach combining logistics, marketing and understanding the market trends indirectly results in performing the social function of pharmacies: customers get medicinal products at lower prices, more affordable than in local single pharmacies. It is clear that large pharmacy chains are unlikely to do all this work for charity purposes: they are just monitoring the prices competitiveness. It is undoubtedly easier for them to accomplish this strategy, because major players always get discounts from distributors easier, and buy goods at lower initial prices.

TOP50 МНН* по ценовым диапазонам с наибольшей долей прибыли от продаж (доля, на которую продажи Sell-out превышают закупки Sell-in), 1-е полугодие 2017 г., %										
Рейтинг	До 50,00 руб.		От 50,01 до 200,00 руб.		От 200,01 до 500,00 руб.		От 500,01 до 1000,00 руб.		Более 1000,01 руб.	
	МНН	Прибыль	МНН	Прибыль	МНН	Прибыль	МНН	Прибыль	МНН	Прибыль
1	Витамин Е+ Ламинарии слоевищ экстракт	103	Нафазолин	82	Бифидобактерии лонгум+ Энтерококкус фециум	96	Полиметил-силоксана полигидрат	80	Вакцина для профилактики дифтерии и столбняка АДС, коклюша ацеллюлярная, полиомеиелита инакт., инфекции, вызываемой Н. influenzae типа b конъюгированная	112
2	Активированный уголь	80	Аскорбиновая кислота	79	Нагоцел*	67	Дексаметазон+ Неомидин+ Полимиксин b+Фенилэфрин	55	ФНО-тимозин альфа 1 рекомбинантный	95
3	Аммония хлорид+ Аниса обыкновен. семян масло+ Натрия бензоат+ Натрия гидрокарбонат+ Солодки корнев. экстракт+ Термопсиса ланцетного травы экстракт	79	Гвоздики цветков масло+Намфора+ Коричника китайского масло+Мята перечной листьев масло+ Эвкалипта прутовидного листьев масло+ Рацементол	58	Парацетамол+ Фенилэфрин+ Фенирамин+ Аскорбиновая кислота	59	Кеторофен	49	Терипаратид	67
4	Аллея лекарственного корнев. экстракт+ Аммония хлорид+ Аниса обыкновенного семян масло+ Натрия бензоат+ Натрия гидрокарбонат+ Солодки корнев. экстракт	79	Ромашки аптечной цветки	58	Имидазололтанамид пентагидровой кислоты	58	Лизаты микроорганизмов candida albicans+ Corynebacterium pseudiphthericum+ Enterococcus faecalis+ Enterococcus faecium+ Fusobacterium nucleatum subsp	39	Гистидил-глицил-валил-серил-глицил-гистидил-глицил-глутаминил-гистидил-глицил-валил-гистидил-глицин	60
5	Витамин Е+Ретинол	59	Мята перечной листьев масло+ Месульфамид+ Сульфатназол+ Тимол+ Эвкалипта прутовидного листьев масло	54	Интерферон гамма	58	Натрия цитрат+ Натрия лаурил-сульфоацетат+ Сорбитол	34	Тиамфеникола глицинат ацетилцистеинат	58

*Среди TOP50 МНН ценового сегмента по сумме, на которую продажи Sell-out превышают закупки Sell-in
Источник: AlphaRM

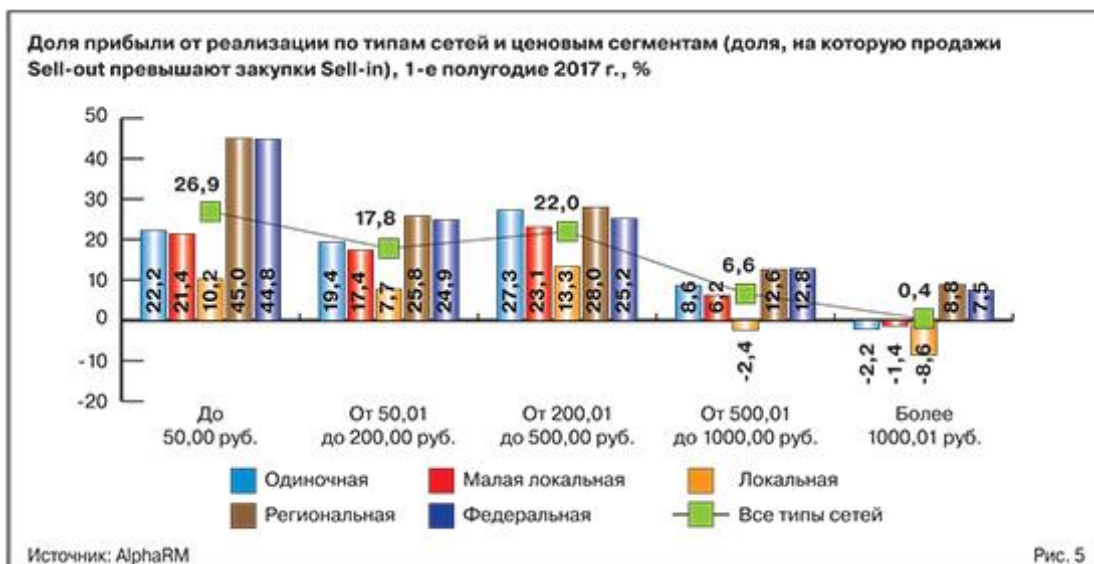
Таблица 1

Сравнительная характеристика ценообразования и движения товара по типам сетей, 1-е полугодие 2017 г.					
Фактор	Одиночная	Малая локальная	Локальная	Региональная	Федеральная
Объем условного товарного остатка	+	+/-	**	-	--
Общая прибыль по типу сети	+/-	-	--	+	**
Прибыль на 1 аптеку в мес.	+/-	-	--	**	+
Цена продажи из аптеки Sell-out	+	--	-	**	+/-
Условная наценка (разница между ценами Sell-out/Sell-in)	**	+	+/-	-	--

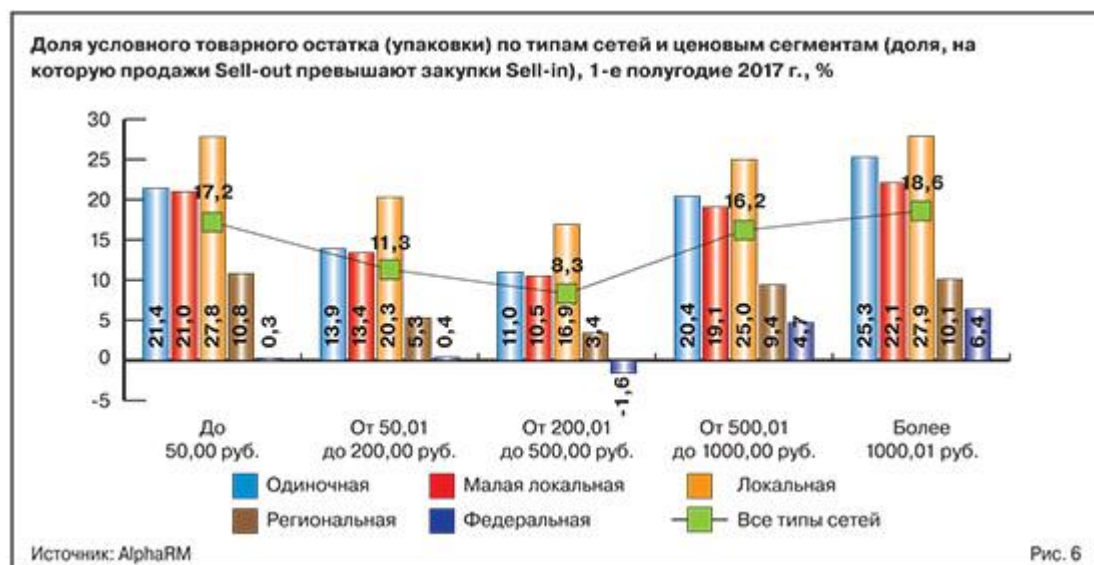
*** — очень сильный; ** — сильный; +/- — средний; + — слабый; -- — очень слабый
Источник: AlphaRM

Таблица 2

According to major players, the goods with a factory price of up to 50 rubles represent the range that should “work.” After purchasing them, they are pricing them so as to get 45% more money than they have paid to the distributors. The second pricing trick concerns the sales of the goods that were in storage during the crisis period. Smaller market participants use this price segment more sparingly; they got profit of 10 to 20% from it in the first half of 2017. They survive mainly due to the goods with the cost ranging from 200 to 500 rubles; these goods give profit that exceeds the amount spent on their purchases by 15 to 30%. In small pharmacy chains and single pharmacies, expensive goods with a price of more than 1 thousand rubles, which were in storage during the crisis period, are finally being sold, and the proceeds from their sale in the first half of 2017 are greater than expenses to purchase the goods of this price range (Fig. 5).



Federal pharmacy chains are excellent at managing their goods portfolio in different price segments: in the segments of less than 50 rubles and 50 to 200 rubles, the relative stock on hand that could increase the trading stock, is close to zero. For the price segment of 200 to 500 rubles, its value is negative, probably due to sales of the products remaining from past years. In the price segments above 500 rubles, due to stabilization of the external economic situation, large pharmacy chains operate more confidently and increase the stock of necessary expensive drugs in order to avoid inventory shortage (Figure 6).



The most profitable drugs are probably known to every frontline worker: naphtyzin, activated charcoal, cough mixture, ascorbic acid, kagocel, and ingavirin. As a rule, these products have higher margins and sell themselves well because they are familiar to consumers, ensuring a stable cash flow to the pharmacy cash desk (Table 1).

Summary

Major players in the pharmacy market have won their position due to painstaking work on all the stages of circulation of pharmacy products. Thanks to the efforts they are making, federal networks have the lowest commodity balance and the highest profit, while working with low retail margins on the goods. Unlike them, regional networks have a higher profit per pharmacy. The federals chains have far-reaching expansion plans and increase the number of their pharmacy outlets, opening new ones that need time to reach sufficient level of

profitability. Regional chains have less resources; they are more cautious and do not allow themselves to grow too rapidly. Local pharmacy chains mostly have poor financial results, because the most attractive among them are often acquired or «eaten up» by larger players, which weakens the group's overall achievements. Those who remain are powerful enough in comparison with small networks that are sometimes managed in an old-fashioned way, just as when they were smaller. Small local pharmacy chains and single pharmacies try to survive by means of higher margins, while small local networks think more seriously about managing the commodity balance and reducing it; they also often engage in predatory pricing. Single pharmacies have a greater profit than small local ones, with a bigger commodity balance (Table 2).

1) Federal chains include pharmacies represented in 10 regions and more; regional chains include 10 or more outlets represented in 3 to 9 regions; local chains have 10 or more outlets represented in 1 or 2 regions; small local chains have 3 to 9 outlets represented in 1 or 2 regions.

2) The sales of medicinal products and dietary supplements are included.

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