



18 July 2014

**SIGMA PHARMACEUTICALS LIMITED
SUBMISSION TO THE COMPETITION POLICY REVIEW**

Overview

This submission by Sigma Pharmaceuticals Limited (Sigma) is in reference to the Community Pharmacy sector in Australia.

Sigma is a major participant in the Australian health care industry, established in 1912 and with over 100 years of industry experience.

- Provides daily access to PBS ethical and FMCG products to all community pharmacies across Australia;
- Operating 15 distribution centres across Australia servicing the health care needs of Australians through all pharmacy operating models – independent pharmacies, groups and banner members;
- Has revenue in excess of \$3.0 billion;
- Delivers more than 600,000 products per day;
- Sources products for distribution from over 400 suppliers locally and internationally;
- Employs more than 1,000 people across Australia;
- Owns the brands Amcal, Amcal Max, Guardian and Pharmasave, with almost 600 members;
- Provides retail solutions and support for independent and group pharmacies;
- Is signatory to the current Community Service Obligation (CSO) ensuring the timely and equitable distribution of PBS medicines across Australia;
- Provides structured Professional services strategies through its network to ensure accessible healthcare for all Australians.

Summary of submission

Sigma is strongly of the view that:

- Existing policy has delivered a world class leading healthcare system that must be preserved to deliver a healthy future for all Australians;

**SIGMA PHARMACEUTICALS LIMITED
ABN 15 088 417 403**

PO Box 2890 (3 Myer Place) Rowville Victoria 3178 Australia
Telephone: +61 3 9215 9215 Facsimile: +61 3 9215 9799

- Community pharmacy is a critical third pillar of primary healthcare for all Australians, alongside General Practitioners and Hospitals;
- The current community pharmacy model effectively and efficiently meets the Government objectives in the National Medicines Policy whilst continuing to meet the increasing healthcare needs of the community;
- Significant competition already exists at various levels – between individual pharmacies, between models of pharmacies, and with general retail;
- The existing community pharmacy model provides a healthy balance between competition, service and advice within a professional, accessible and trusted healthcare setting.
- The existing model ensures the quality of medicines in Australia are provided under regulated guidelines;
- Wholesalers continue to invest heavily to provide quality, safe and secure access to medicines throughout Australia.

Key Policy considerations

In considering the regulatory environment, it is imperative that the overarching Government intent contained within the National Medicines Policy not be compromised. This is a cornerstone health policy that has delivered a world class leading healthcare system, and must be preserved to deliver a healthy future for all Australians. The four key drivers of the Government's National Medicines Policy are:

1. Timely access to medicines that Australian's need, at a cost individuals and the community can afford;
2. Medicines meeting appropriate standards of quality, safety and efficacy;
3. Quality use of medicines; and
4. Maintaining a responsible and viable medicines industry.

These overarching policy objectives are supported in many ways, however the key enablers of this policy are:

- The Pharmaceuticals Benefits Scheme (PBS);
- The Community Pharmacy Agreement (CPA);
- Community Service Obligation (CSO).

In considering an effective and efficient healthcare system, it is imperative that these agreements, and the components within these agreements, are not only considered in isolation, but also in totality. Significant and detrimental unanticipated consequences can flow from micro consideration.

Maintaining a healthy balance

In the context of the terms of reference of this review, Sigma does not believe the current regulated community pharmacy model is stifling competition, as evidenced by over 50 brands in the market, and we make the following points:

1. The community pharmacist is already one of the most accessible, trusted and respected healthcare providers, and is often the first touch point on the health and wellbeing of consumers. Regulation has not stifled this community presence, in fact it has entrenched its place in the community health setting. Significant changes to the community pharmacy model will lead to a major shift in the operations of pharmacies, leading to:
 - a greater emphasis on commodity trading;
 - a reduction in services and accessibility;
 - more strain transferred back on to the traditional healthcare providers - general practitioners and hospitals; and
 - significant budgetary issues for the Government.

The value of the services provided by Community pharmacy needs greater policy recognition not erosion.

2. There are more than 5,300 pharmacies throughout Australia servicing the healthcare needs of Australians. That represents on average one pharmacy for around 4,300 head of population. More importantly, the existing pharmacy regulation ensures a geographic spread of pharmacies to minimise clustering and better service Australia's geographic population spread. Without this regulation, the National Medicines Policy, in particular the timely and safe delivery of medicines, would be severely compromised.
3. There is currently a significant mix of competition within the pharmacy industry, with approximately:
 - 38% of pharmacies in groups with more than 50 pharmacies;
 - 28% in groups of 4 to 49 pharmacies; and
 - 34% independent.

This mix of business models has evolved to provide a healthy and competitive choice to meet the needs of the community.

4. Sigma is concerned whether fundamental shifts in current regulations would achieve the outcomes expected. Changes to the regulated operating environment has the potential to see a greater concentration of market power and a decrease in competition, as has been evidenced in other industry sectors such as petrol, liquor, and hardware. Pharmacy is the third pillar of primary

healthcare that should not be compromised. It should not be treated as a commodity traded on price alone due to the high level of professional service and advice that is provided to ensure the safe use of product.

5. The Government already materially controls competition on the price of essential medicines sold within pharmacy through the PBS. Sales of PBS medicines represent close to 65% of what is sold in pharmacy. PBS Price Disclosure amendments, implemented by the Government to capture the benefits from generic medicines, is evidence that the Government already controls price to enable it to meet its National Medicines Policy objective of providing medicines at a cost the community can afford. Current regulation of the industry improves the ability to meet the objectives of the National Medicines Policy, and any change may have significant unintended and detrimental consequences.
6. Of the remaining 35% of pharmacy sales, approximately 15% represents sales of pharmacy only non-prescription medication, where pharmacy competes with other pharmacies not just on price but also on service and advice that is critical to health and safety of the community. The remaining 20% of pharmacy sales is general retail, in competition with all retail operations. The existing community pharmacy model provides a healthy blend of a competitive operating environment that retains the fabric of community pharmacy – trusted, respected, accessible and professional advice.
7. The pharmacy market continues to evolve and adapt within the operating environment. Discount pharmacy stores have grown on volumes whilst other pharmacy groups have grown on service. PBS price disclosure reform and broader competition issues have impacted pharmacy incomes, driving significant changes in operational and competitive behaviors. Sigma is concerned that if community pharmacy is treated as a commodity trader and not valued and respected for its current position as a primary healthcare provider, unintended consequences will flow to other parts of the healthcare system.
8. The products available within the supermarket chains have encroached on traditional pharmacy only medicines, at a time when internet capability has increased the prevalence of self-diagnosis by consumers. This creates a dangerous mix of accessibility of medication without fully trained professional advice to ensure its safe and efficacy in particular circumstances. Any move for further deregulation has the potential to contribute to this proliferation of inaccurate and potentially dangerous misdiagnosis.
9. The current competitive operating environments have led to significant investment by pharmacists and wholesalers to better service and differentiate their businesses. In essence, the current model provides Government with a privately funded network to administer its National Medicines Policy without the investment of Government capital. Changes to the regulated operating

environment, and more specifically selectively changing elements of the regulated operating environment, will likely have adverse implications on the ability of pharmacists and wholesalers to fund investment, leading to flow on implications to other sectors of the healthcare industry, and the Government budget.

10. A stabilised operating environment gives industry participants confidence to continue to make significant investments in servicing the needs of the community and to meet Government policy objectives. Pharmacists invest in their retail outlets to meet the growing and competitive service requirements of consumers. Wholesalers invest in facilities and technology to continually improve efficiencies to remain competitive. For example, Sigma is making significant investment in a warehouses, distribution networks, products, and structured Professional Services programs designed to support the pharmacist to support the health of their patients. This has included a number of health care programs rolled out to pharmacy to help patients better self-manage their health in a trusted and respected professional environment, assisting to alleviate the pressure on other parts of the healthcare system.

Conclusion

The current regulated pharmacy model provides an effective competition framework that is a vital element of a strong economy. The existing pharmacy model balances the need for strong competition on commodities with the need for trusted service and advice.

The current model is efficient and effective in meeting the healthcare needs of all Australians in concert with the National Medicines Policy, and contributes significantly to the achievement of efficiency gains through the broader healthcare network through the additional professional services provided.

The Australian economy has changed markedly since the last major review of competition policy in 1993. Whilst still operating within the regulated framework, the pharmacy model has significantly evolved, with over 5,300 pharmacies dispersed across Australia, competing within the pharmacy framework and the broader retail market, yet still maintaining the service ethics and professional trust of the community.

The current regulated environment provides the Government with the levers it needs to ensure an efficient, effective and equitable model operates for the benefit of all Australian's, at a manageable cost to the budget. The current policy framework supports the ability of the community pharmacy model to continue to provide professional service and advice consistent with its role as the third pillar of the healthcare system.

The pharmacy model has a rich tradition of providing quality, secure and safe medicines to all Australians irrespective of where they live. Failure to recognise the significance of the current model and the community benefits that flow from it may undermine the very fabric of the world class healthcare system the current model provides.

Sigma Pharmaceuticals Limited

18 July 2014