



17 November 2014

**SIGMA PHARMACEUTICALS LIMITED
SUBMISSION TO THE COMPETITION POLICY REVIEW FINDINGS AND DRAFT
RECOMMENDATIONS**

Overview

This submission by Sigma Pharmaceuticals Limited (Sigma) is in reference to the Competition Policy Review draft report released in September 2014.

In particular, this submission is in response to the recommendations concerning the Community Pharmacy sector in Australia, and is supplementary to Sigma's submission dated 18 July 2014 that was supportive of retaining the existing community pharmacy model.

As outlined in our previous submission, Sigma is a major participant in the Australian health care industry, with 15 warehouses providing daily access to PBS ethical, OTC and FMCG products to community pharmacies across Australia. Sigma owns pharmacy brands that collectively have over 700 members, with more than 500 independent pharmacies also serviced through long term service arrangements. Sigma is a CSO (Community Service Obligation) Distributor ensuring the timely and equitable distribution of PBS medicines across Australia.

As a major participant who is heavily invested in the current industry structure yet also has potential to gain from industry change, Sigma is well placed to provide balanced input on the recommendations.

Summary of submission

Sigma is fully supportive of the Competition Review process, and the need in general to continually review policies, practices and processes to ensure they remain relevant and continue to efficiently and effectively meet the needs of today's society.

What must be avoided however is change for the sake of change. The passing of time is not a justifiable reason to discard a tried and trusted model that has been

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proven to effectively meet the needs of the community, to move to an unknown model with unclear benefits and the risk of significant unintended consequences.

Sigma remains of the view that the current community pharmacy model continues to meet the increasing demands of the community, and **does not** need remedial or structural change. The current community pharmacy model:

- Effectively and efficiently meets the Government objectives in the National Medicines Policy;
- Provides a healthy balance between competition, service and advice within a professional, accessible and trusted healthcare setting that is held in high regard by the community it services;
- Ensures the quality of medicines in Australia is provided under regulated guidelines.

The following comments are made by Sigma in response to the following recommendations in particular:

Draft Recommendation 2 – Human Services;
Draft Recommendation 52 – Pharmacy.

Draft Recommendation 2 – Human Services

Draft Recommendation 2 – Human Services, outlines that the guiding principles for establishing choice and competition principles in the field of human services should be:

1. User choice should be placed at the heart of service delivery;
2. Funding, regulation and service delivery should be separate;
3. A diversity of providers should be encouraged, while not crowding out community and voluntary services; and
4. Innovation in service provision should be stimulated, while ensuring access to high-quality human services.

Sigma is fully supportive of these guiding principles. It is the view of Sigma that these very guiding principles are in fact at the heart of the existing pharmacy model. This view is formed from the following:

1. User choice should be placed at the heart of service delivery;

There are currently over 5,350 pharmacies operating in varying sizes, shapes and models, dispersed across Australia, serving the needs of local communities.

Existing pharmacies operate under varying business models - discount product offering model, professional services model, a more beauty oriented model and a range of variations in between. Locations of pharmacies also vary according to consumer demand, with some operating in shopping centres, street shops, standalone destinations, in metropolitan, regional, rural and remote areas of Australia. In all cases, pharmacy is competing with supermarkets and other general retailers for products that are not Government regulated as requiring pharmacist intervention.

Whilst the theory behind removing certain ownership restrictions is that it will deliver increased competition and therefore greater choice, Sigma strongly believes the practical reality is that it will lead to an aggregation of pharmacies and a reduction of choice.

If combined with a removal of location rules, this will not only lead to aggregation, but also congregation of larger pharmacies in higher density locations, with centralized decision making and adjusted business operating settings. This has been evidenced in other sectors where major player domination has stifled smaller operators and reduced the level of competition and real choice available to consumers.

It is interesting on page 111 of the recommendations that the panel holds up the general practitioner model as an example of a model that works with no restrictions. In relation to this example, we make the following comments:

- The existing community pharmacy model continues to adapt to and meet the community needs and demands;
- The existing model supports the Government in meeting health policy objectives including the National Medicines policy objective;
- The existing model offers locally targeted solutions and competition;
- Regulatory restrictions apply equally to GPs and pharmacists - only GPs can claim Medicare funding and only pharmacists can claim for dispensing services under the PBS;
- In terms of outcomes for patients, access to a local pharmacy and to professional advice without an appointment is very good in Australia. In contrast, there has been consistent and repeated commentary regarding the lack of GP's, waiting times to access GP's, and inadequate GP's to support rural and remote areas.

The fact that pharmacy sector was ranked the best industry consumer service provider in new research into people's choice for 2014, conducted on behalf of the International Customer Service Professionals (ICSP) is vindication the existing pharmacy model is delivering service that is valued, trusted and respected by consumers. Phil Prosser, CEO of Feedback ASAP who conducted the survey stated that "Pharmacy stands out for customer service because of the high level of personal service which builds high levels of trust in relation to other categories."



2. Funding, regulation and service delivery should be separate;

Sigma agrees with the panel recommendation of a segregation of responsibilities for funding, regulating and delivering service. The existing pharmacy model distinctly provides three levels of separation as follows:

- **Funding** – Federal Government funds the PBS, pharmacy dispensing fees, the wholesaler margin, and the Community Service Obligation (CSO). The existing model provides the Federal Government with extensive levers to control the funding and cost of administration of Government policy objectives. Medicines Partnership of Australia data has indicated that Government Price Disclosure reform will have reduced Government spend on PBS product by more than \$11 billion cumulative up to the 2017/18 year. This is strong regulatory pricing control over 65% to 70% of your average pharmacy revenue;
- **Regulation** – Pharmacists are registered at a Federal level through the Pharmacy Board of Australia, whilst pharmacies are regulated at a State and Territory level for ownership, and at a Federal level for location rules. These provide Federal and State/Territory based controls over how the community is serviced to ensure it remains relevant for the changing needs of the community;
- **Service delivery** – The current pharmacy model ensures the pharmacy is owned and operated at a community level, even for those pharmacies that operate as part of a banner group. This model provides the pharmacist with autonomy to tailor health solutions and services that are

in demand at a local level, and to engage with the health and wellbeing needs of the local community. Adopting a centrally determined corporate service model will lead to reduced professional autonomy of pharmacists.

The Victorian Government recommendations contained in the “Inquiry into Community Pharmacy in Victoria” document released in October 2014, calls for a raft of additional services to be provided by pharmacies to improve accessibility of services and help alleviate the pressures on other parts of the health system. The current community pharmacy model supports these objectives and provides a trusted and respected environment for broader health service implementation.

3. A diversity of providers should be encouraged, while not crowding out community and voluntary services

Under the existing regulatory controls in place within the pharmacy market, a diversity of choice has actually flourished. There are now over 5,350 pharmacies dispersed throughout Australia, up from just over 5,000 at the time of the last Commission Review in 2000. Furthermore, there is currently a significant mix of competition within the pharmacy industry, with approximately:

- a. 38% of pharmacies in groups with more than 50 pharmacies;
- b. 28% in groups of 4 to 49 pharmacies; and
- c. 34% independent.

This mix of business models has evolved to provide a healthy and competitive choice to meet the needs of the community. Consumer choice has been enhanced by the existing pharmacy framework providing a balance of competition and choice, yet continuing to retain the community and voluntary services that exist today.

4. Innovation in service provision should be stimulated, while ensuring access to high-quality human services

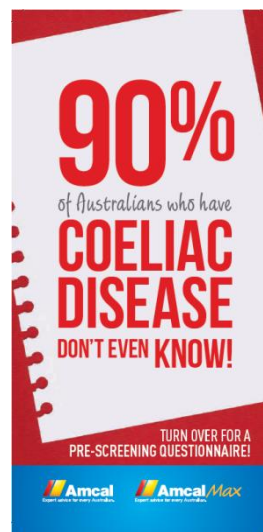
The existing pharmacy operating environment has encouraged not stymied innovation in service delivery. This has included:

- An accelerated introduction of professional service programs within pharmacy to facilitate the community to pro-actively manage their health in a more structured way;
- Significant and costly investment in automated dispensary services to free up pharmacist time to consult with their patients;
- Pharmacy investment in consulting suites within the pharmacy;
- Greater use of online capability to service customer needs;

- Enhanced areas of specialization that fits the need of the local community;
- Provision of medicine management programs;
- Provision of at-home care programs;

As highlighted above, the ICSP customer service award found that the pharmacy industry provides the best customer service in the country. Sigma is concerned that changes to the existing regulatory environment will adversely impact this standing.

The pharmacy team at Portland Amcal have been proactive in promoting Kidney Health amongst their community.



Draft Recommendation 52 – Pharmacy

The Panel does not consider that current restrictions on ownership and location of pharmacies are necessary to ensure the quality of advice and care provided to patients. Such restrictions limit the ability of consumers to choose where to obtain pharmacy products and services, and the ability of providers to meet consumers' preferences.

The panel considers that the pharmacy ownership and location rules should be removed in the long-term interests of consumers. They should be replaced with regulations to ensure access and quality of service on pharmaceuticals that do not unduly restrict competition.

Negotiations on the next Community Pharmacy Agreement offer an opportunity for the Australian Government to remove the location rules, with appropriate transitional arrangements.

Sigma does not believe that the current ownership and location restrictions limit the ability of consumers to choose where to obtain pharmacy products or services. We do however have concerns that the unilateral removal of such regulation will have a negative impact on the quality of advice and care available to patients as it will inevitably lead to a non-localized decision making model that:

- Results in considerable aggregation of pharmacies within larger centralized corporate structures, potentially reducing the amount of real competition;
- Results in a congregation of pharmacies and reduction in service levels to less densely populated communities;
- Leads to an inevitable scaling back of the community and voluntary services currently provided within community pharmacies, which is contrary to the recommendations contained within the Victorian Government Inquiry into Community Pharmacy in Victoria issued in October 2014;

These concerns materialized during regulatory changes that occurred in several European countries, with the creation of more powerful corporate groups clustered in metropolitan regions.

Pharmacists are some of the most accessible healthcare professionals in Australia. With over 5,350 pharmacies operating under different business models, there is actually significant choice for consumers whilst also ensuring the safety and efficacy of products. Assuming the removal of regulation will provide incremental benefit to the community over and above the quality, accessibility, and trust that exists within the current structure, is in our view not an evidenced based assumption.

Consistent with the recommendations contained in Recommendation 2, the existing model also provides a clear separation of funding, regulating and operating pharmacy.

Conclusion

The community pharmacy model has a rich tradition of providing quality, secure and safe medicines to all Australians irrespective of where they live. The current pharmacy model has evolved within the existing regulatory framework to continue to provide effective and efficient health support that is valued by the community. It is a highly respected industry recognized and trusted by the community.

Failure to recognize 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 remains of the view that:

- Existing policy has and continues to deliver a world class leading healthcare system that must be preserved to deliver a healthy future for all Australians;
- 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 that is held in high regard by the community it services;
- The existing model ensures the quality of medicines in Australia is provided under regulated guidelines.
- Structural change to the existing ownership and location rules is not required.

Sigma Pharmaceuticals Limited

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Any queries in relation to this submission can be addressed to:

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