From Illness to Health: Challenges for the Spanish Pharmacies

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Abstract

European pharmacy market is a regulated model vs. the deregulated model existing in other countries like United States. In Spain, the pharmacy model is based on a pharmacist as a health agent permanently in duty, and in a “network of pharmacies” as a private healthcare establishment of public interest.

Spanish pharmacies network is considered as one of the most intensive in terms of distribution. In fact, 98, 9 % of the Spanish population has at least one pharmacy near their home. (Consejo General del Colegio de Farmacéuticos, 2009). As a consequence, Spanish pharmacy system with 21.000 pharmacies is the closest and most accessible being the third country in Europe, after Belgium and Greece with the highest number of pharmacies per inhabitant (2.159 inhabitants per pharmacy).

Pharmacy retailers in Spain are mainly small and medium businesses with less than $50m^2$ on average that implies low concentration and purchasing power in such fragmented and atomized industry. Compared to Europe the average sale per pharmacy in Spain is among the lowest (500.000 €/year), however drug consumption being above European Union average, and average price for medicines are the lowest except France (Padilla, 2007).

Government regulation on pharmacies as a consequence of universal social security system in Spain heavily affects business dynamics. Price of prescriptions are regulated by the government, which in order to reduce the sanitary deficit has heavily pushed down medicines average price promoting as well the sale of non branded medicines. As a consequence of this policy and also threatened by European Union deregulation pharmacies have been forced to look for new sources of income: assortment, adding parapharmaceutical products to their portfolio, service, increasing opening hours and promotion to build loyalty have been the main pharmacies reaction towards this new environment (Doucette and McDonough, 2002a). However the pharmacy retailers are still far from the sophistication of modern trade retailers like hypermarkets and supermarkets, which are in turn starting to compete with the pharmacies for the profitable parapharmaceutical market. Parapharmaceutical business only represents 26,4% of total pharmacy income (Informe Anual de la Oficina de Farmacia, 2009). Thus, in a short period of time, pharmacies have found themselves with a considerable decrease of profit in their traditional business, threatened by the liberalization of the industry and competing for a new market with new and powerful retail competitors.

Thus the pharmacies are trying to reposition themselves expanding their source of business to profit Spanish market trends, namely, increase on average life expectancy, importance of convenience for consumers and increasing trend towards health and well being (Hooley et al., 2008; Ryan, et al. 2007; Gavilan, 2010).

The purpose of this paper is to analyze the positioning of the pharmacies in Spain vs. modern trade retailers and understand the challenges that they have to reposition away from “medicine retailers” to “health and personal care retailers”. We want to answer the following research questions.

1. How is the pharmacy perceived vs. the modern trade retailers?
2. Which are the key attributes for pharmacies that drive consumer satisfaction?
3. What attributes can the pharmacies exploit as a competitive advantage vs. the modern trade?

The contribution of this paper is first, to better understand cross retailer dynamic, specially in the case of pharmacies and modern trade where literature is scarce, and second, to contribute and shed orientation to management decisions in the pharmacy industry which will be highly relevant given the future liberalization of the sector .

The research design is composed by an empirical study based on a survey of 2.850 interviews to active consumers at the pharmacies point of sale. We perform a regression analysis to understand factors influencing consumer satisfaction in pharmacies and a positioning analysis vs. hypermarkets, supermarkets, perfumeries and parapharmacy shops to better understand consumer perception of pharmacies in this new competitive environment (Jin and Jae, 2005). We classify consumers through a cluster analysis and provide implications of our results and guidance and recommendations for management.

We find that there is an opportunity for pharmacies to build a competitive advantage around “personal advice” and “personal attention” vs. modern trade competitors (McDonough, Pithan, Doucette and Brownlee, 1998; Doucette and McDonough, 2002b). We find three clusters of consumers depending on their level of satisfaction that highlight differences by age and different perceptions of the pharmacy depending on the amount of medicines and parapharmacy sold. We named them “passionate”, “Interested” and “Resigned”. Results show that recent efforts from pharmacies to increase assortment, promotions and service haven’t been noticed by consumers suggesting some recommendations and guidelines to compete more efficiently in the market place.

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