

The impact of pharmacy entry: three case studies

**OFT Pharmacy
Investigation Study 2**

*A report prepared for the
Office of Fair Trading*

November 2002



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Executive Summary

Executive Summary

This report examines three case studies relating to the entry of a pharmacy into a local area. The aim of the case studies has been to develop an insight into the competitive dynamics of new entry. We find that the examination of recent entries provides useful information on the impact on the supply of entry on pharmaceutical services in a local area. In particular, it provides a greater insight into how the current regulations governing the award of NHS dispensing contracts – the NHS (Pharmaceutical Services) Regulations 1992 (the “regulations”), which update an earlier set of regulations from 1987 – affect the behaviour of entrants and existing pharmacies.

The case studies had four key objectives:

- to assess the impact of pharmacy entry on pharmacies in the local area;
- to develop an insight into the behaviour of customers in response to new entry;
- to understand the responses made by existing pharmacies in the face of new entry; and
- to understand other factors that might be important in considering the competitive dynamics of the particular entry.

Case studies cannot provide findings from which statistical generalisations can be made. Rather, they provide fine-grained information on the competitive dynamics of individual examples. In particular, case studies may potentially provide a greater understanding of the influence of the regulations surrounding the award of NHS contracts on the operation of existing pharmacies. In addition, they may also allow the development of hypotheses that could potentially be tested using alternative, more complete data sources.

The three cases to be investigated were chosen on a number of grounds, including type of entrant, and type of local area. Case 1 considered the entry of an independent pharmacy in a semi-rural area where pharmaceutical services were provided in part by dispensing doctors. Case 2 considered the entry of a supermarket in an edge of town location. Case 3 investigated the entry of an independent pharmacy in an urban area. These characteristics are summarised in the table below.

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Key features of case studies			
	Case 1	Case 2	Case 3
Population density	Low	Medium	High
Entrant	Independent	Supermarket	Independent
Main competitors	Dispensing doctors	Community pharmacies and national chains	Community pharmacies and national chains
Year (of opening)	1998	2000	1997
Type of application	Full	Full	Full

Source: Frontier Economics

The case studies were carried out in July and August 2002. Interviews were carried out with a variety of stakeholders, including pharmacists, GPs, and representatives of the local Health Authority/Primary Care Trust. The interviews were conducted primarily on a face-to-face basis, although some respondents preferred to be contacted by telephone or in writing.

Case Study 1: Entry in a semi-rural area

The key lesson from this case study was that existing pharmacies were not affected in any significant way. This was because the catchment areas of the entrant and existing pharmacies were highly localised. A dispensing doctor in the village felt the only discernible impact. This effect was primarily caused by the regulations relating to the patients to which dispensing doctors are allowed to dispense.

Case Study 2: Entry of a supermarket pharmacy

The entry of the supermarket pharmacy had no specific impact on any individual pharmacies in the local area. Its impact was wide and diffuse across all pharmacies. The case study revealed a number of further issues of interest. The regulatory burden on the applicant and others can be significant, in terms of the time and effort that can be involved in making a successful (or unsuccessful) application.

The case study also shows that small successive movements within the current framework is a possibility through consecutive minor relocation applications. Moreover, doctors can freely relocate their practice, but the same freedom of location decision is not available to pharmacies.

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Case Study 3: Entry of a pharmacy in an urban area

The case study indicates that the local decision makers, in deciding whether or not to allow a new NHS dispensing contract, can face cases that are complex and require judgements to be taken as to the likely impact of a new pharmacy on existing pharmacies. Here, a number of pharmacies indicated that the new entrant had an impact on their businesses, although this had not been sufficient to result in the exit of any pharmacy. Customer behaviour seems to have been largely location driven. The proximity of a pharmacy to either a GP or a shopping area seems to be the key factor determining the choices made by customers as to where to get their prescription dispensed.

There were a number of responses to entry. One pharmacy responded by buying the entrant from its original owner after a period. Another pharmacy increased the services it offered including providing a collection and delivery service, whilst a third reduced opening hours.

1. Introduction

As part of the Pharmacy Investigation, Frontier Economics was asked by the Office of Fair Trading (OFT) to undertake three case studies investigating the entry of a NHS contractor pharmacy into a particular local area. The case studies took place in June, July and August 2002. The main aim of the studies was to develop an insight into the competitive dynamics of new entry. This involved developing an understanding of the impact of the introduction of a new NHS contractor pharmacy on the local provision of pharmaceutical services and other existing NHS contractor pharmacies. This report describes our approach to the case studies and summarises the main findings.

The report is structured as follows.

- Section 2 describes the objectives of the case studies and gives an overview of the methodology and selection of the cases.
- Section 3 reports the findings of the first case study - the pilot case study. It looked at the entry of an independent pharmacy in a rural area.
- Section 4 reports the findings of the second case study - the entry of a supermarket pharmacy in an edge of town location.
- Section 5 reports the findings of the third case study - the entry of an independent pharmacy in a suburb of a major city.

The Annexes contain supporting material.

2. Objectives of the case studies

Under the current regulations surrounding the award of NHS dispensing contracts there have been about fifty new pharmacy entrants per year. These entrants have to adhere to the current conditions for entry, and so will not be fully representative of the type of entry dynamics that would occur within a more liberal entry environment. Nonetheless, examination of recent entries can provide useful information on how entry currently affects the competitive dynamics in a local catchment, and may also show how the current regulations for granting an application affect the behaviour of entrants and existing pharmacies.

This section describes the objectives of the case studies as decided at the start of the investigation. It also outlines the methodological framework that was developed to ensure that all case studies were carried out and analysed in a consistent manner¹. This section also briefly presents the approach taken to the fieldwork.

2.1 Scope and objectives of case studies

The main aim of the case studies was to develop an insight into the impact of entry restrictions on pharmacy performance. To meet this aim, four objectives were set for each case study following discussions between Frontier Economics and the OFT Pharmacy Investigation team:

- Objective 1:* An assessment of the impact of pharmacy entry on pharmacies in the local area.
- Objective 2:* An insight into the behaviour of customers in response to new entry.
- Objective 3:* An understanding of the responses by existing pharmacies in the face of new entry.
- Objective 4:* An understanding of other factors that might be important in considering the competitive dynamics of the case study.

These objectives were used as a framework for selecting and carrying out the case studies.

¹ In developing this methodology, a useful reference text was Yin, R., (1994) "Case Study Research, Design and Methods".

2.2 Selection of case studies

Case studies cannot provide findings from which statistical generalisations can be made. Rather, they provide fine-grained information on the competitive dynamics of individual examples. In particular, case studies may potentially provide a greater understanding of the influence of the regulations surrounding the award of NHS contracts on the operation of existing pharmacies. In addition, they may also allow the development of hypotheses that to test using alternative, more complete data sources.

The OFT asked for three case studies to be carried out, to allow for an exploration of the potential diversity of entry situations. Table 1 outlines the characteristics of the chosen case studies. Case 1 considered the entry of an independent pharmacy in a semi-rural area, where pharmaceutical services were provided in part by dispensing doctors. Case 2 considered the entry of a supermarket in an edge of town location. Case 3 investigated the entry of an independent pharmacy in an urban area.

Table 1: Key features of case studies

	Case 1	Case 2	Case 3
Population density	Low	Medium	High
Entrant	Independent	Supermarket	Independent
Main competitors	Dispensing doctors	Community pharmacies and national chains	Community pharmacies and national chains
Year (of opening)	1998	2000	1997
Type of application	Full	Full	Full

Source: Frontier Economics

A number of conditions were applied to the selection of the three case studies:

- *Full applications only*: Entrants will have recourse to this type of application when, in broad terms, their proposed pharmacy is likely to be viewed as an additional pharmacy in a given local area. Entries resulting from a minor relocation, or a change of ownership of an existing pharmacy, were not considered.

- *Timeframe*: Local areas were only considered where a new entrant was awarded a NHS contract in the last five years. This timeframe maximises the likelihood that case study participants would have a reasonable recollection of events and were likely still to be working in the area.
- *Prior beliefs about diversity*: The selection of case studies was informed by a number of prior beliefs about factors that were likely to be important. These were the type of entrant (e.g. supermarket or independent) and the characteristics of the location (e.g. edge of town, rural, or urban).

The process for the selection of these case studies raised a number of practical issues. These are discussed in Annex 1.

2.3 Analytical framework

In relation to each objective, generic evaluation questions were developed to frame discussions with participants.

- Objective 1: Participants were asked whether the entry of a new pharmacy had an impact on the existing pharmacies, and the nature of that impact.
- Objective 2: Participants were asked whether the entry had led to a change in customer behaviour, and, if so, how much switching had taken place.
- Objective 3: Participants were asked about any changes in business operation which had been made by existing pharmacies in response to entry, and, whether these had been effective in retaining or regaining customers.
- Objective 4: Participants were asked about other important factors that they anticipated would significantly affect their pharmacy businesses.

For each objective, more detailed questions were developed and combined into separate questionnaires for the new entrant, doctors, rival pharmacies and regulatory bodies on the basis of these objectives. Further information on these questionnaires may be found in Annex 2.

The case studies consisted of mainly face-to-face interviews which were supplemented by some telephone interviews with participants. Relevant material submitted by the participants to the interviewers were also used to establish an evidence base. The framework for each interview was the appropriate detailed questionnaire, although these were used as a guideline for the discussion rather than being a rigid straightjacket. The researchers

took notes during the discussion. Interviewees were subsequently invited to confirm that the interview notes reflected their views and comments.

3. Case Study 1: Entry in a semi-rural area

Sections 3 to 5 present the detailed results of each case study. In each case the discussion has the following structure. First, salient features of the local competitive situation are outlined and the participants described. The views of the participants are reported and summarised under each objective. Finally, our view of the key insights from each case study is reported.

Case study participants were made aware from the outset that their views would be treated in confidence. Consequently, the case studies do not identify the town in which entry has taken place, nor does it identify participants' names.

3.1 Introduction

The first case study considered the entry of a new pharmacy in a semi-rural area on the outskirts of a major town in the south east of England. The area is prosperous and the residential population has a high proportion of high earning professionals with families. The village that the entrant opened in has been earmarked as a village capable of accepting major housing developments as greenfield extensions or through infill within the village boundaries².

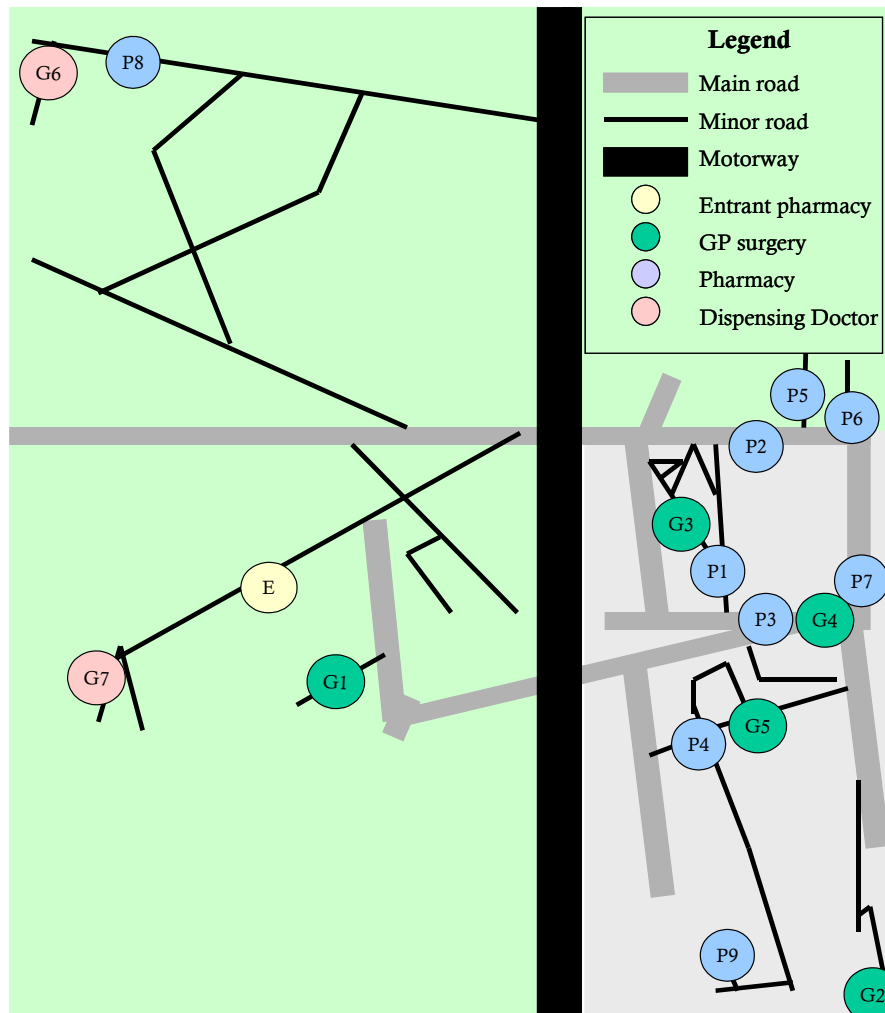
The competitive situation facing the entrant is presented in a stylised geographical context on the map in Figure 1. Until the entry of the new pharmacy (E), the village had no existing pharmacy. A dispensing service, whereby doctors are entitled to dispense NHS scripts, was provided by the local medical surgery (G7), situated approximately 2km away³. This surgery has five doctors. In another village across a main road, there is another dispensing doctor's surgery with six doctors (G6) and an independent pharmacy (P8).

The town itself is located on the other side of the motorway. The provision of pharmaceutical services is more concentrated in the town, reflecting the higher residential density of the area. National chains are located at P4 and P2. The other pharmacists are independent or local chains. These are all some 3km away from the entrant.

² Source: Local planning officer.

³ A number of regulations surround the decision as to who can provide pharmacy services to local residents. Please see Box 1 for details.

Figure 1: Local area of case study 1, schematic representation, not to scale



3.2 Case study participants

In addition to the entrant, three pharmacies in the local area took part in the study. Other participants included local dispensing surgeries and representatives of regulatory bodies. On 19th & 20th June 2002, the following people were interviewed:

- the entrant (E);
- the pharmacist and owner of an independent pharmacy P7;

- a recently retired pharmacist, also secretary of the Local Pharmaceutical Committee and a pharmacy adviser to the NHS Ombudsman, ex-owner of pharmacies P1 and P8;
- a representative of a national chain pharmacy at P2, who responded in writing;
- the dispensing manager and a partner doctor at the dispensary surgery G6;
- a doctor (and member of the Local Medical Committee) from the dispensary surgery G7;
- the team manager of the Pharmacy Contracts Department⁴, the Patient Administration Manager⁵, and the Patient and Clinical Services Manager⁶ at the Primary Care Trust (PCT); and
- a senior planner at the district Council, who responded in writing.

3.3 Application

The entrant made an application in early 1996. The application was the subject of two open hearings in the autumn of 1996 and in early 1997. An NHS contract was granted in 1997 under preliminary consent, and the entrant opened his pharmacy in early 1998. No objections were raised to the opening, except by the dispensing doctor surgery at G7.

The Health Authority granted the NHS pharmaceutical contract as, in its view, there were no providers of pharmacy services in the neighbourhood. Either alternative pharmacies were some distance away (3km) or they were not within easy reach given the road configuration. Whilst patients in the surroundings of the village were believed to get their prescriptions primarily from the nearest dispensing doctor (G7), the Health Authority's opinion was that a dispensing doctor was not viewed as supplying the full range of pharmaceutical services.

Further description of the regulations surrounding pharmacy entry in rural areas, in the context of this particular application, is set out in Box 1.

⁴ Responsible for collecting and disseminating the information required for an application, and a member of the decision-making committee for urban applications.

⁵ Responsible for notifying patients and the Community Health Council of changes in pharmaceutical provision.

⁶ Responsible for overseeing all dealings with patients affected by changes in pharmaceutical provision.

Box 1: Detailed background to the application and regulations regarding applications in rural areas**A. Rural applications and the regulation 11 loophole**

At the time of the application in 1996, the area in which the applicant wished to locate was defined to be “of rural character” by the Health Authority. This rural classification means that, under the Regulations, a pharmacy application is in a “controlled locality” and is subject to two tests. The first test is with respect to whether a new pharmacy would prejudice the provision of existing medical and pharmaceutical services in the area (Regulation 12(13)). The second test looks at whether the opening of the new pharmacy is necessary and desirable to secure adequate provision of pharmacy services in the neighbourhood (Regulation 4(4)).

In the case of this entrant, only the second test was applied. This was because the entrant was exempt from the first test as the owner also owned other pharmacies within the area covered by the Health Authority and was therefore already on the pharmaceutical list. This consideration is set out in Regulation 11. This is the so-called loophole in the regulations for those applications for inclusion made in a controlled locality.

B. Dispensing services and “gradualisation”

The dispensing service provided by dispensing doctors is only available in controlled localities (rural areas) to patients who do not have access to a pharmacy within a mile radius of their residence. These patients constitute the “dispensing list” of the dispensing doctors. Patients who do have a pharmacy within 1 mile of their residence are only on the “prescription list” of doctors and must obtain their scripts from pharmacies.

From the date of opening of a new pharmacy, there is period of “gradualisation” over typically twelve months or so, during which those dispensing patients that live within a one-mile crow-flies radius of the new pharmacy location are migrated from the dispensing list to the prescribing-only list. The dispensing doctor provides the dispensing list to the health authority and the latter then writes to each patient to inform them of the change (corresponding to several thousand patients in this case). The dispensing doctor is responsible for policing the system although the Health Authority will also monitor the gradualisation process.

Source: Discussions with the Primary Care Trust

3.4 Views of participants

Views of the participants are presented in relation to each objective.

3.4.1 Objective 1: Impact of entrant on existing pharmacies

The entrant stated that its entry would have affected the dispensing business of G7. It noted that whilst the majority of its prescription items dispensed were to customers who would previously have received these from the dispensing doctor in the village, there may also have been some shift in prescriptions that were previously dispensed by the pharmacy at the supermarket P9.

The dispensing doctor G7 has been affected. It stated that its dispensing list was reduced by a third over the twelve months of gradualisation, as some patients could now access a pharmacy within a mile of their residence. There was a resulting loss of nearly a quarter of its dispensing business⁷. This came at a point in time when the dispensing business was perhaps operating slightly above capacity and when it was difficult to recruit dispensing staff. Consequently, the loss did not translate into redundancy, as existing staff were multi-skilled and could be given new tasks, although in other circumstances, redundancy might have been unavoidable. Whilst the staff level was unaffected, however, this reduction in business had a direct impact on the take-home pay of doctor partners in the practice. The impact was felt in full within a year or so, by which point gradualisation was complete.

The other dispensing doctor (G6) located in a nearby village was not affected by this entry. None of the community pharmacies interviewed (P7, P2 and ex owner of P1 and P8), reported that it was affected by the entry. In addition each thought that other relatively local pharmacies (that were not themselves interviewed) would also not have been affected. This was attributed to the geographical distances involved.

3.4.2 Objective 2: Customer behaviour

The main effect reported by the participants was the change in customer behaviour required by the regulations. Some dispensing patients became prescribing-only patients and therefore had to alter their purchasing

⁷ In other words, those patients who were removed from the dispensing list accounted for a lower than average number of prescriptions.

behaviour for scripts. The entrant felt that most of the ex-dispensing patients would have switched to the new pharmacy.

G7 thought that customers (dispensing and prescribing patients) would not necessarily have switched to the entrant at the start. Many would have chosen to get their scripts elsewhere in the town, which might have been financially problematic for the entrant. G7 also noted that the change caused some disruption and confusion for patients. Some patients asked that they continue to be treated as dispensing patients, but the practice was not allowed to dispense to these patients under the regulations. G7 felt that the entrant now served local people who benefited from its proximity, but the pharmacy was not viewed as having a unique selling point as such or having a customer base made up of particular types of customers.

P7 was of the view that the some of the current customers of the entrant would have in the past obtained their scripts in the town, combining their trip with other shopping. Such customers would have changed their behaviour as they valued convenience. This applied to all customer types, and P7 reported that it was not possible to distinguish one customer type from another as for the selection of a pharmacist was concerned.

3.4.3 Objective 3: Response by existing pharmacies

In response to this loss of business, the medical practice G7 considered the sale of over-the-counter (OTC) medicines. This option was not pursued for two main reasons. Firstly, it was judged that OTC medicines were best sold in a shop rather than in a surgery. Secondly, other regulations prevent the dispensing doctors from selling any OTC medicine that can also be prescribed.

An alternative response mentioned by G6, but not specific to this case, was the possibility of employing a pharmacist rather than a dispensing manager to provide a full pharmaceutical service to the now ex-dispensing patients. However, this option appears difficult in practice, since the surgery would need to increase its pharmacy turnover to meet a pharmacist's salary. Such an increase in turnover may be difficult to achieve in the face of a restriction on the number of products which one can dispense⁸. Consequently, the main response made by G7 was a continued effort to run the dispensary more cost-efficiently, keeping a closer eye on stock control.

No other pharmacies reported any response to the entrant.

⁸ The dispensary would not have changed its status with the employment of a pharmacist.

3.4.4 Objective 4: Other factors

Participants offered other views relevant to the case studies.

- *Dispensing business as a source of income:* The dispensing business is a source of income that is helpful in attracting GPs into an area with high house prices. G7 indicated that this source of income could add up to 10-15% to the take home pay of doctor partners.
- *The distinction between dispensing and pharmaceutical services:* In addition to dispensing services, pharmacies also provide further services, such as OTC medicines, blood pressure screening, advice on how to use medicines and, more generally, advice on minor ailments.

3.5 Conclusions from case study

There were a number of key lessons that, in our view, could be drawn from the case study.

- *Impact on existing pharmacies:* Catchment areas for pharmacies are highly localised and the geographical distances involved in this case meant that the only discernable impact was felt by the dispensing doctor in the village. This impact was imposed by the regulations in relation to 'gradualisation'.
- *Customer behaviour:* The change in customer behaviour was again imposed by the regulations. Customers value local convenience.
- *Pharmacies' responses to entry:* Pharmacies that were unaffected by entry did not respond. The dispensing doctor responded by making cost savings, as its ability to expand demand was limited by the regulations.

The main conclusion of this case study is that the regulations are the driving force behind the observed competitive impacts in this semi-rural area.

4. Case study 2: Entry of a supermarket pharmacy

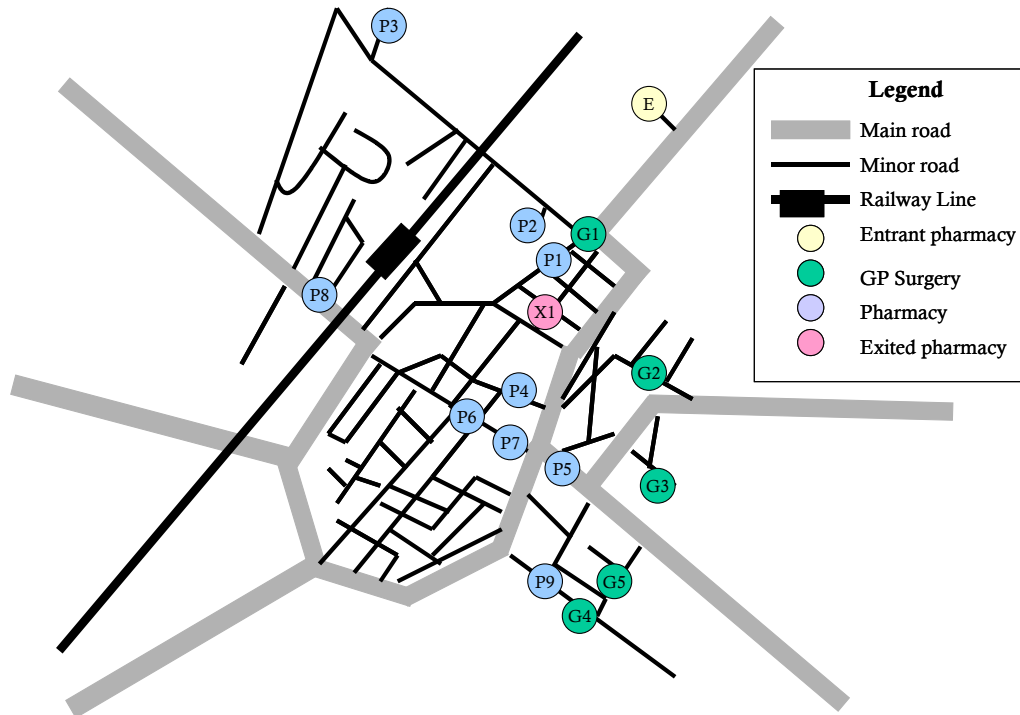
4.1 Introduction

The second case study considered the entry of a supermarket in an affluent, historic market town in the South-East of England. The supermarket is located in a deprived area on the outskirts of the town (shown with the letter E on the map below). Residents in this neighbourhood include a large proportion of young families and elderly people without their own means of transportation.

Figure 2 below depicts the main road features of the area together with the pharmacies and medical practices in that area. The nearest medical surgery to the supermarket is one kilometre away (G1) and consists of eight general practitioners. The other medical centres are located nearer the centre of town and are also large practices of five GPs or more (G2 to G5 on the map).

The nearest competitor pharmacies are a local chain (P1), located next to the medical surgery (G1), and another supermarket (P2). Other pharmacies are concentrated in the centre of town. Two national chains have pharmacies in the main high street (P6 and P7) or nearby (P4). Another supermarket (P5) and a national chain pharmacy (P9) are located nearer the medical practices of D3 to D5. Pharmacy P8 and pharmacy P3 are separated from the town centre by the railway line.

Figure 2: Local area of case study 2, schematic representation, not to scale



4.2 Case study participants

The interviews took place on 29th & 30th July 2002. One participant responded in writing. Of the nine pharmacies in the local area of the entry, four agreed to take part in the study in addition to the supermarket entrant⁹. A number of other interested parties were also interviewed. The full list of interviewees was:

- the pharmacy manager of the supermarket pharmacy (the entrant E on the map) and the national pharmacy development manager;
- the owner of the pharmacy located next to the medical practice nearest to the entrant (P1), who responded in writing;

⁹ Two pharmacies declined to take part. The pharmacist and owner of one pharmacy was too busy. The manager of the other pharmacy was new and not in a position to comment. Of the three others, two pharmacies were not invited to take part in the study primarily because they were not especially near the entrant and the other proved difficult to reach.

- the area manager of a national chain with two local pharmacies, both of which were located in the centre of the town (P6 and P4);
- the pharmacist and a colleague at headquarters of a pharmacy in the centre of town (P7) that belongs to a national chain;
- a doctor and also member of the Local Medical Committee at the Medical Practice nearest to the entrant (G1);
- the chairman of the Pharmaceutical Regulation Committee (PRC)¹⁰ for the area; and
- the secretary of the Local Pharmaceutical Committee for the area¹¹; and
- a phone discussion with a representative of the Health Authority's Support Agency.

4.3 Application

The application by the supermarket was granted by the PRC following a series of events resulting from the relocation of the medical centre G1.

- The Pharmacy P1 was originally located next to the medical surgery G1 in the centre of town. Following the relocation of G1 to its new premises, Pharmacy P1 wanted to move next to the new location of the surgery and made a change of premises application.
- The new location of G1 already had a pharmacy in its vicinity (X1). X1 applied for a minor relocation to be nearer the relocated surgery.
- A third application to a location near this surgery G1 came from P3. Pharmacy P3 submitted both a minor relocation and a change of premises application. This move stemmed from the fact that the local GP had retired and thus P3 had lost patients.

¹⁰ Until recently the current Pharmaceutical Regulation Committee was made of three voting members: two non-executives from the relevant Health Authorities plus a chair. Since April 2002, the new Health Authority holds the responsibility of awarding pharmacy contracts until September 2002. The chair of the PRC has been delegated this function.

¹¹ The LPC for the area has nine members. Six are independent contractors, one is a chemist from one of the national chains, one is an employed pharmacist and the last is a Co-op chemist. These positions are held for four years or less if the NHS structure changes in the interim. One member of the LPC sits on the Pharmaceutical Committee but has no voting power.

- A fourth application came from the supermarket, P2, which applied for a new contract.

In response to these applications, a total of three new NHS contracts were awarded. One pharmacy licence was granted on the basis of a change of premises application (P1), one on the basis of a change of ownership application (P2) and the supermarket entry on the basis of a full application (E). The supermarket P2 acquired the business (through a change of ownership) from a pharmacy (X1) that was in the area well before the move of the medical centre, P1, P2 and E.

Further details of the process that led to these decisions are reported in Box 2.

Box 2: Detailed background to the application process**An account by the Pharmaceutical Regulation Committee**

In the PRC's view, two pharmacies were "necessary or desirable" under regulation 4(4) to serve the demand in the location of the new medical centre G1. On this basis, the PRC accepted the minor relocation application under regulation 4(3)(a) of X1 as it was already in the area and chose the application of P1, on the grounds that it was the first to submit its change of premises application. (Both were granted "preliminary consent" under regulation 14 until they found premises). On the other hand, P3's minor relocation was rejected since the new location was not in the same neighbourhood as its existing location. The other applications (that of the supermarket P2 and the change of premises application by P3) were rejected on the grounds that with two pharmacies in the neighbourhood (existing pharmacy X1 and relocated P1), the area would have an adequate level of provision, thus making any further consent under the regulations neither necessary nor desirable.

P1 came to an agreement with the medical practice to build new pharmacy premises next to the medical practice. P1 also obtained an extension of time for their preliminary consent under regulation 14(5). X1's minor relocation consent lapsed and a renewal was not applied for at that time.

At the end of the extension to the preliminary consent of P1, its new pharmacy facilities were not in operation. Since only one extension to a preliminary consent can be given by the PRC, the pharmacy licence lapsed, creating a gap in provision. P3, the supermarket P2 and P1 applied for a new pharmacy contract. However, an application from the supermarket entrant (E) for a pharmacy had been received in advance of the end of the extension of the preliminary consent of P1, making this supermarket the first applicant to have submitted its application. The PRC therefore granted the NHS contract to that supermarket. All other parties appealed against this decision but the Appeal Authority upheld the PRC's decision after a formal Oral Hearing.

The PRC also judged the application of the entrant E to be beneficial on other grounds. Firstly, it was further away from the existing pharmacy X1 and thus likely to have a less detrimental impact. Second, it was serving a deprived community, which until this application was without a pharmacy nearby.

P1 completed the construction of its new premises next to G1 and operated this pharmacy initially as a non-dispensing NHS contract pharmacy. It was still able to dispense NHS prescriptions, using the NHS contract held for its pharmacy that was still operating in the centre of town by faxing prescriptions from the non-contract to the contract pharmacy, where they could be dispensed and returned.

In parallel, Pharmacy P1 applied for a minor relocation to a location towards G1 within the centre of town. The PRC granted this application, but P1 lost the premises as the appeal by X1 delayed the process. P1 then applied for a change of address to alternative premises close to the premises they had just lost. This was granted and P1 traded for one day at this new location before making another minor relocation, this time to the location of the non-contract pharmacy next to G1. After appeal, this application was granted.

X1 subsequently applied for another a Minor Relocation to the supermarket P2, and this was granted by the PRC. The pharmacy traded for one day at the supermarket P2, and sold the pharmacy to the supermarket. The supermarket applied for a change of ownership. This application was granted. The overall process took almost 2 years.

4.4 Views of participants

Views of the participants are presented in relation to each objective.

4.4.1 *Objective 1: Impact of entrant on existing pharmacies*

The entrant felt that there will have been an impact of its entry on other pharmacies in the area, but that this will have been wide and diffuse, with no pharmacy having been unduly affected.

The pharmacy P1 next to the surgery G1, and also the nearest to the entrant E, reported that this entry had had no impact on its business, and that its business was growing (see Box 3 for its view of the governing success factors of a pharmacy). It noted that the supermarket entrant had tried to recruit directly two of their staff members before opening, but staff loyalty together with P1's own terms of employment meant these people felt better off in staying with P1. P1 indicated that working relationships with the entrant were good.

The national chain pharmacies located in the centre of town, P4, P6 and P7, reported not having detected any impact from the entry of the supermarket. One noted no impact on either their OTC business or the number of NHS scripts. The other, P7, indicated that the entry of supermarkets had, more generally, put some pressure on the prices of the health and toiletries products, although this was not attributed to the entry of E in particular.

The PRC thought that the entry of the supermarket would have been likely to have had the greatest adverse effect upon X1, in that it would not have gained as much new/additional NHS dispensing business as might have been anticipated with the relocation of the surgery G1. It would also have lost the chance to attract patients now living nearer the supermarket entrant. The PRC indicated that this pharmacy would also been affected by the arrival of P1 next door to the medical centre. These two factors would have persuaded that pharmacy to sell to the supermarket at P2. The secretary of the LMC shared this view. In contrast, pharmacy P1 did not attribute the decision of X1 to sell to supermarket P2 to these factors but mentioned the opportunity to retire for the pharmacist.

Both the PRC and LMC thought that the entry may have had an impact on P3 – in the sense of not gaining “new” business after the relocation of the medical centre. Pharmacy P3¹² had already suffered from its local

¹² Pharmacy P3 declined the invitation to take part in the case study because of work pressure.

surgery closing down following the retirement of the GP and the patients transferring to the new medical centre G1. The entry of many new pharmacies (including that of the entrant) would also have contributed to the difficulties of P3.

Box 3: Factors governing the success of pharmacy P1

- Closeness to a surgery.
- Large customer base of elderly patients.
- Continued service over 30 years.
- Delivery service to patients homes.
- Dedicated, committed, helpful and friendly staff.

Source: Views of pharmacy P1

4.4.2 Objective 2: Customer behaviour

The supermarket entrant observed that it had not attracted a particular group of customers specifically to the pharmacy. The pharmacy customer base instead reflected the customer base of the supermarket. It noted that it had a large catchment area, with customers from local towns as far away as 10km who needed pharmacy services but had no local pharmacy open after 6:30pm.

Customers were generally in favour of the supermarket having a pharmacy, according to the results of the supermarket's customer listening groups. Customers valued convenience (the linked trip with other grocery shopping), the friendly and approachable staff, and the longer opening hours.

The pharmacy chain in the centre (P7) was of the view that patients do not regularly switch to other pharmacies. This was to be attributed to the loyalty of patients to their pharmacist, and to the value attached by patients to the advice they receive from their pharmacy. Repeat customers are particularly loyal leaving their repeat prescriptions with their pharmacist.

P1 did not notice a change in customer behaviour and, in its view, none of its customers had switched. Its regular customers were the elderly, housebound patients and families with children.

4.4.3 Objective 3: Response by existing pharmacies

The product offering of the entrant is reported in Box 4 below. The entrant had not observed any direct responses from other pharmacies. It

did suggest that potentially it may have provided a stimulus to other pharmacies to “raise their game”. As supporting evidence, the entrant indicated that it was keen to take part in local projects with the PCT to promote services such as emergency hormonal contraception. It expected to be one of the first pharmacies to be accredited by the PCT for quality of premises and clinical governance¹³.

Other pharmacies did not report having changed the way they operate their business due to the entry of the supermarket. In terms of opening hours, P1 and the national chain P7 did not change their opening hours to match those of the entrant. P1 felt it was good to have several pharmacies covering a range of opening hours in order to provide a full service to the community. P7 indicated that the provision of the entrant had meant that late night opening, carried out on a rota among the pharmacies in the town was no longer a necessity¹⁴. The other national chain’s stores (P6 and P4) started opening on Sundays and have introduced longer opening hours on Saturday – but this was not linked to the entry of the supermarket.

Product offerings did not appear to change as a result of entry. All participants reported offering collection services from doctor’s surgeries. National chains typically reviewed their product range at national level. The chain operating P6 and P4 introduced new products in the areas of vitamins and mineral supplements, self diagnostics, homeopathy, incontinence, and footcare, although again this is unrelated to the entry of E.

¹³ The accreditation scheme that will be running in the near future will cover aspects such as standards of premises, dispensing and complaints procedure. The LMC indicated that good pharmacies already meet these standards. Small pharmacies may find it more difficult to reach this level as typically the single person running these businesses is under substantial time pressure.

¹⁴ A rota is now in place only for bank holiday weekends and includes all local pharmacies.

Box 4: Features of pharmaceutical services offered by the supermarket entrant

Opening hours: Monday–Friday 09:00-22:00, Saturday 09:00-21:00; Sunday 10:00-16:00.

The range of OTC products (Pharmacy-only) available from E is very similar to other pharmacies (this being the core pharmacy range).

E sells a wide range of diagnostic testing equipment such as blood pressure monitors and blood glucose measurement devices. E promotes these products during national awareness campaigns. A number of OTC products are provided at usually around half of the normal retail prices charged by competitors.

4.4.4 Objective 4: Other factors

The participants raised a number of other issues, which were not specifically related to direct objectives of the case study.

- *Other market pressures were affecting pharmacies in the town centre.* One chain observed the footfall in the town centre had been declining over time due to the opening of a shopping centre outside the centre and a reduction in tourists in the last couple of years. The other was of the view that out-of-town pharmacies were more likely to affect multiples based in estates as residents in these areas can now combine their food shopping with that of prescriptions.
- *Quality of provision of pharmaceutical services by supermarkets.* The doctor at G1 thought that the provision of pharmaceutical services by a supermarket may be inferior to that of an independent pharmacy, as there is limited continuity of care since such pharmacies are often staffed by locums and face a high staff turnover. In addition, his view was that supermarket pharmacies do not hold much information on patients, who may obtain their scripts from different sources, making it difficult to detect potential drug interactions. The PRC expressed a similar concern.

However, the entrant did not agree with this view. It stated that there had been no turnover in staff and staff had been able to get to know the medical history of their patients. Moreover, its view was that the longer hours of opening of supermarket pharmacies are a definite benefit to patients. Convenience can be thought of in terms of proximity to the GP but also in terms of the extension of the regular opening hours¹⁵. Customers also valued the lower prices. The LMC

¹⁵ The PRC noted that on some occasions supermarket indicated their extended hours over the statutory opening hours as part of their applications, but then once granted, reverted to the minimum hours. This change in offering could be partly explained by difficulties in recruiting pharmacists. It did not appear to be an issue in the current case.

agreed that good supermarkets run good pharmacies and observed that they can have higher presentation and business standards¹⁶.

4.5 Conclusions from case study

There were a number of key lessons that, in our view, could be drawn from the case study.

- *Impact on existing pharmacies:* The entry of the supermarket pharmacy had no particular impact on any individual pharmacies. Its impact was wide and diffuse across all local pharmacies. Whilst it was mentioned that X1 may have been forced to sell to supermarket P2 following the new pharmacy entry, in our view it is hard to associate this action solely or mostly with the entry of E. We believe it is probable that the relocation of the pharmacy P1 next to the medical centre had a greater impact.
- *Customer behaviour:* The entrant has drawn its customers from a large catchment area – from local residents to people living further afield. Customers value convenience in terms of proximity to their GP but also in terms of shopping patterns (linked trip and opening hours). However, it is not clear whether the offer of a pharmacy by the supermarket led customers to switch pharmacy and supermarket simultaneously.
- *Pharmacies' response to entry:* Existing pharmacies changes in the way they operate their business cannot, in this case, be linked to the entry of the supermarket pharmacy in particular. This is consistent with the view that there was limited impact from the entry itself. National chains tend to respond nationally, and there is little evidence that particular local features of competition influence these national decisions.

The case study revealed a number of further issues of interest.

- *Regulatory burden:* The detailed description of the sets of applications, appeals and extensions demonstrates that the regulations can result in substantial cost and time implications for pharmacies, for example in opening for one day in a new location before a subsequent change of ownership/change of address application.
- *Substantial changes in local area are possible:* Through consecutive minor relocation applications, it is possible to move a pharmacy from one neighbourhood to another.

¹⁶ The secretary of the LMC also added that dispensing doctors provide an emergency service and standards are lower.

- *Disparity between GP and pharmacy freedom on location:* Doctors can freely relocate their practice, but the same freedom of location decision is not available to pharmacies.

5. Case Study 3: Entry of a pharmacy in an urban area

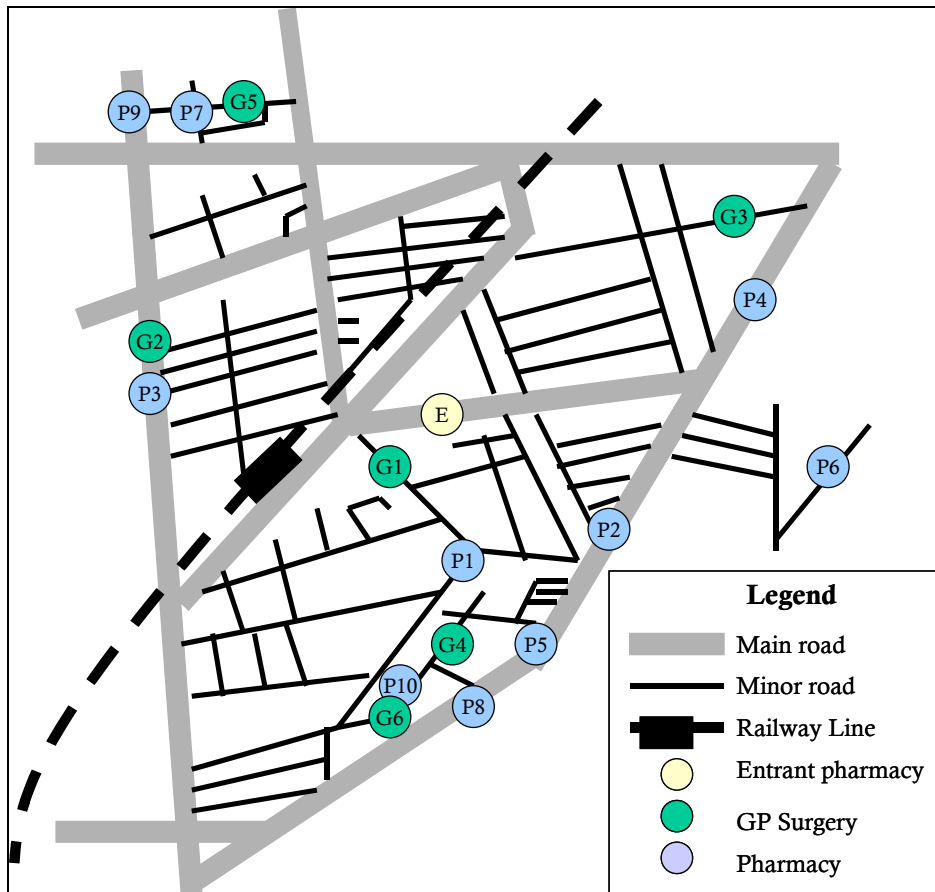
5.1 Introduction

The third case study considered the entry of an independent pharmacy in a suburb of a city in the north west of England. Figure 3 depicts the main features of the area including the pharmacies and medical practices. The entrant is located in a deprived area (shown by the letter E in Figure 3), with a higher than average proportion of vulnerable groups and low levels of car ownership. The area is mainly residential and is divided between two health authorities. The road along which pharmacies P2, P4, P5 and P8 are located is a busy shopping street.

The nearest medical surgery to the entrant is 0.1km away (G1) and has 3 general practitioners. Three other medical practices (G2, G3 and G4) are located within 1km of the entrant, and have one, four and five general practitioners respectively. A further medical practice (G5) is located just over 1km away and has three general practitioners.

There are ten pharmacies within approximately 1.2 km of the entrant. The nearest competitor pharmacies are P1 and P2 located at a distance of 0.6km from the entrant. Both are part of a small local chain (which also contains P8 and P10). Pharmacy P4 is from a national chain of pharmacies. The other pharmacies are independents.

Figure 3: Local area of case study 3, schematic representation, not to scale



5.2 Case study participants

Interviews took place between 12th & 16th August 2002. Three of the interviews were conducted by phone and another responded in writing. Three pharmacies agreed to take part in addition to the entrant. Representatives of the Local Medical Committee, Local Pharmaceutical Committee and the Health Authority were consulted. Interviews were carried out with: the original owner¹⁷ of the independent pharmacy from 1997 to 2002 (entrant E on the map);

¹⁷ In 2002, the original owner of E sold the pharmacy to the owner of pharmacies P1 and P2. The current owner of E and P1 and P2 was invited to take part in the case study but declined because of work and time constraints.

- the owner of pharmacy P3;
- the Deputy Superintendent of the national chain of pharmacies, one of which is located at P4 – who responded in writing;
- the pharmacist and pharmacy manager of P5;
- a representative of the Local Medical Committee;
- a representative of the Local Pharmaceutical Committee; and
- two representatives of the Local Health Authority whom were responsible for pharmacy applications in the area.

5.3 Application

The Pharmacy Practice Sub Committee of the Local Health Authority granted a new NHS contract in 1996 after reviewing the full application of the independent pharmacy. Box 5 outlines the process undertaken by the local Health Authority in receiving an application.

The applicant had previously owned a pharmacy in the local area (but not the defined neighbourhood) of the new pharmacy site. The applicant had been forced to close this pharmacy as its nearby general practitioner, whose patients were the main customers of the pharmacy, had been forced to retire due to ill health. The applicant had previously applied for a minor relocation of her pharmacy to the current site, but this application had been rejected by the Pharmacy Practice Sub Committee. The Committee judged that this was not a “minor relocation” since it meant a change in neighbourhood.

The applicant had put forward a case for the opening of a new pharmacy in the area for the following reasons:

- there was an inadequate provision of pharmacies in the chosen area; and
- it was a deprived area characterised by dense terrace housing and low car ownership.

There were six objections to the application for the opening of the pharmacy including objections from P1, P2, P3 and P5. Five appeals were made after the pharmacy application was granted but were dismissed by the Family Health Services Appeals Authority. Both the Local Medical Committee and the Local Pharmaceutical Committee have policies of making no comment regarding applications for new pharmacies in their area. These policies applied to this case.

The independent pharmacy E has since been sold to a small chain that already operates other pharmacies in the area including P2, P8 and P10. This was because it was only dispensing approximately 2000 prescriptions per month¹⁸, and was therefore not considered viable by the original owner¹⁹.

Box 5: The application procedure in the Health Authority

When a full application for a pharmacy is received in this part of North West England the following procedure is adopted:

- the fact that the applicant is a qualified pharmacist is verified;
- a list of those with a potential interest in the application is drawn up;
- each receives a letter informing them of the application and is given 30 days to respond with his or her view;
- after the 30 days have expired, an oral hearing is arranged to which all interested parties are invited to put their case;
- on the morning of the oral hearing a site visit is made to the site of the proposed application and the distance to competitors is measured and recorded;
- the oral hearing is heard by the Pharmacy Practice Sub Committee (PPSC) assisted by employees of the health authority;
- the applicant and objectors to the application make their respective cases to the committee which then withdraws to debate the application in private;
- the applicant and the other interested parties are notified of the decision of the PPSC within 5 days of the hearing; and
- appeals can be made to the Family Health Services Appeal body.

Source: Local Health Authority

¹⁸ This pharmacy may be expected to have a turnover of between £250,000 to £300,000, which is at the lower end of pharmacy turnover throughout the GB.

¹⁹ The new owner of the pharmacy refused to talk to us due to pressures of time so we were unable to get an alternative view.

5.4 Views of participants

Views of the participants are presented in relation to each objective²⁰.

5.4.1 Objective 1: Impact of entry on existing pharmacies

The original owner of E suspected that there had been an adverse impact on pharmacy P1 as a result of the opening of E, but thought it was unlikely that the opening had had an impact on any of the other pharmacies in the area. In her view, P1 had been badly affected as E and P1 were forced to share the patients from surgery G1. The division of the patients between the two pharmacies meant that they were not both viable so the owner of E sold the pharmacy to the owner of P1 after approximately 5 years in business²¹.

Pharmacy P4 reported that the entry of E had a negligible effect on their business. However, other pharmacies reported impacts as a result of entry. Pharmacy P3 reported a very strong adverse impact of the opening of the independent pharmacy E. The business had suffered a severe reduction in the number of prescriptions dispensed and this reduction materialised within a month. The owner of P3 also felt that other pharmacies in the area were likely to have been adversely affected.

The pharmacist and manager of P5 also reported a reduction in the takings and prescription numbers following the entry of E. Pharmacy P5 also lost some business provided to the local residential home to the entrant E. Pharmacy P5 has also noticed a reduction in the number of oxygen patients but thought this might be a general trend rather than as a result of the entry of E.

The Local Health Authority and Local Medical Committee were unable to comment officially on the impact of the entry of E. In contrast to the views of rival pharmacies however, the representative of the Local Pharmaceutical Committee felt that it was unlikely that there was an impact on any of the other pharmacies in the area as the catchment area was very small and concentrated. The LPC did consider that there may have been an impact on P1 but, because the owner of P1 also owns a number of other pharmacies in the area, this impact is likely to have been easy to absorb.

²⁰ No other relevant factors were raised by this case study.

²¹ The entrant indicated that P1 also considered selling to E.

5.4.2 Objective 2: Customer behaviour

The entrant suspected that following the opening of pharmacy E patients from G1 had been divided between pharmacy E and Pharmacy P1. However, in her view P1 had not attracted as many customers as E because E was slightly closer to G1 and in addition, E had parking spaces outside making it slightly more attractive. The entrant felt it was unlikely that other pharmacies would have been affected by customers switching to E.

The owner of pharmacy P3, however, felt that the entry of E had caused a reduction in the number of customers because the pharmacy had lost its customers who previously came from G3. P3 had previously served G2 and G3 mainly but after the entry of E, customers from G3 had been lost. The owner of P3 felt that the reason for the switch of customers to E was that the distance required to travel to E was much shorter than that required to travel to P3. The owner of P3 did not feel that the composition of customers had changed since the opening of E, just their total number had fallen.

Pharmacy P4 did not feel that the type of customers served had changed since the opening of E.

The pharmacist and manager of P5 felt that the convenience of pharmacy E was the main reason why customers had switched towards it. Since P5 was located on a busy shopping road it had not noticed a change in the composition of customers as a result of the entry of E. P5 was also of the view that part of the reduction in its turnover was the result of the entry of a local Kwiksave which had had an impact on the sale of other pharmacy products sold by P5.

5.4.3 Objective 3: Response by existing pharmacies

The original owner of E was unable to comment on the precise responses of the other pharmacies in the area to the entry. She thought it was likely that the other pharmacies offered delivery services. The owner was of the view that there was very little a pharmacy could do to respond to a new entrant as it was not possible to reduce the price of OTC products unless they are sold at a loss. In her view, there was too much competition in the area from low-priced supermarkets, which are able to sell such products for less than an independent pharmacist is able to buy them for.

Pharmacy P3 stated that it had tried a number of measures to try and respond to the loss in customer numbers as a result of the entry of E, including offering a collection service for customers. No measure, however, was sufficient to recover the customers lost.

Pharmacy P5 had also made changes in response to the entry of E. As E opened until 7pm, pharmacy P5 was forced to reduce its opening hours from 7pm to 6pm in the evening as it was no longer viable to remain open for the extra hour given the reduction in number of prescriptions dispensed. The pharmacy also moved away from selling the standard range of pharmacy goods and added cleaning products to its range. The manager and pharmacist of P5 had observed that the owner of P1 had bought a number of pharmacies in the area in recent years but was unsure as to whether this was due to the entry of E.

Pharmacy P4 had not changed the way in which the business was operated in response to the entry of E.

The Health Authority was unable to comment officially on any response made by the other pharmacies in the area to the entry of E as an application is not monitored once it has been approved. However, the Health Authority was of the view that the buying of E by the owner of P1 was because the owner was trying to build up the number of pharmacies he had in the area. Neither of the representatives of the Local Medical Committee or the Local Pharmaceutical Committee were able to comment on any responses made by the other pharmacies in the area. The representative of the LPC thought that initiatives introduced into community pharmacy in the area in recent years such as collection and delivery of prescriptions and the introduction of new products were unlikely to be related to the entry of E.

5.5 Lessons from Case Study

There were a number of key lessons that, in our view, could be drawn from the case study.

- *Impact on existing pharmacies:* The view of the impact of the entry of E appears to have been varied across the participants in the case study. The views of pharmacies (P1, P3 and P5) in the area appear to indicate that the entry of E had an impact on their businesses. Pharmacy P4, in contrast had experienced only a negligible effect. There appears, however, to be some inconsistency between the views of the individuals in the area.

An impact of E on pharmacy P1 seems likely given their geographical locations and their division of the patients from G1. In our judgement, it seems less likely that the impact on pharmacies P3 and P5 attributed to the entrance of E is of the scale suggested by these

participants, although we do not rule out some impact²². The small number of prescriptions that pharmacy E was dispensing (leading the business to be unviable) appears unlikely to have seriously reduced those dispensed by other pharmacies in the area, other than for P1, the nearest competitor.

- *Customer behaviour*: Customer behaviour seems to have been largely location driven. The proximity of a pharmacy to either a GP or a shopping area seems to be the key factor determining the choices made by customers as to where to get their prescription dispensed.
- *Response to entry*: Pharmacy P1 has responded by buying pharmacy E from its original owner. However, the owner of pharmacy P1 has also been buying other pharmacies in the area and although this may be the result of entry from E it may also be for other reasons. The responses of other pharmacies in the area have also been varied. One of the pharmacies (P3) increased the services it offered including providing a collection and delivery service. However, another pharmacy in the area (P5) responded by reducing its opening hours. Overall, the most striking response is that of the entrant, who whilst they observed a potential customer need, found that the business case for this entry was not strong.
- *Regulatory burden*: As in Case Study 2, the regulations provide an incentive for existing pharmacies to object to the award of new contracts, to prevent a potential loss of income. Pharmacies will incur costs of time and effort in so doing.
- *Difficult decisions*: A variety of different views were expressed as to the likely impact of the new pharmacy on existing pharmacies in the area. This suggests that the local decision makers can have finely balanced judgements to make, taking into consideration a number of points of view.

²² Such a discrepancy may perhaps reflect a situation where the owners of these pharmacies did not fully disentangle the impact on their business from the opening of the new entrant from other factors that may have affected their business over the last five years.

Annex 1
Case study selection

Annex 1: Case study selection

Case study selection took place in two stages. In the first stage, a pilot case study was chosen – Case Study 1. Subsequently, lessons from the pilot case study were incorporated in the choice of the Case Study 2 and Case Study 3.

Selection of pilot case study

A shortlist of locations for the pilot case study was developed reflecting data availability and time constraints. The first attempt at selecting a pilot case study involved identifying a new entry from a supermarket, for which information was available, in or around London. This proved unsuccessful, as none of the supermarket's pharmacies had set up business following a full application, but instead were acquired through a change of ownership application.

The search was therefore widened to include non-supermarket entries. This consisted of identifying Health Authorities across England which had granted full applications over the period 1996 to 2001²³. Nine health authorities in London and the surrounding area had granted a reasonable number of full applications. These nine health authorities were invited to provide their name and addresses. One Primary Care Authority (PCT) in the south east of England responded promptly and positively to our request. In the light of time constraints, it was decided to pursue the cases available in this health authority.

A case study was proposed and the entrant approached. Once the entrant had agreed to be the subject of the study, it was possible to search for possible further participants in the area. These were identified using the electronic map developed as part of Study 1²⁴, and with the NHS website (<http://www.nhs.uk/localnhsservices/pharmacies/default.asp>). These were first contacted by phone and, subject to their being happy to be interviewed, were then sent background information about the project with confirmation of the details of the interviews.

Selection of case studies 2 and 3

The selection of case studies 2 and 3 was carried out simultaneously following the pilot study, using information on full applications granted by

²³ Information available from the Department of Health.

²⁴ Frontier Economics, Creating an electronic map of pharmacy locations.

a number of Health Authorities²⁵. The choice of case studies 2 and 3 built on lessons drawn from pilot case study.

- *A good rapport with the health authority was helpful.* The health authority had been friendly and willing to take part from the start to the pilot case study, which was invaluable in finding contacts and background information. Similarly, the Health Authorities for case studies 2 and 3 responded positively and promptly to our information request with a genuine interest in the proposed work.
- *Areas with a relatively large number of entries allowed a richer set of comments.* During the pilot case study, participants could make useful references to other entries. We noted that we could expect a similar outcome in the area of Case 2 where 13 full applications were granted an NHS contract over the last five years.
- *Case studies should be considered where response was possible.* The pilot case study looked at the impact of a pharmacy entry on dispensing doctors. Dispensing doctors, as described in Section 3, were not in a position to respond to entry to retain patients on their dispensing list. Case studies 2 and 3 were chosen to be in locations where the main existing providers of pharmaceutical services were pharmacies.
- *Does the impact vary if the entrant was a supermarket or another type of pharmacy?* Participants in the pilot case study expressed some concerns about the entry of different types of pharmaceutical provider. We thus proposed a case study (3) where competition was between the same type of pharmaceutical service providers (i.e. independent or multiple pharmacies) and a case study where competition was between independent or multiple pharmacies and a supermarket (case study 2)²⁶.

²⁵ The department of health information related to Health Authorities. With the launch of the new structure of the NHS in March 2002 and the move to Primary Care Trusts, it became difficult to identify the appropriate people in charge of granting NHS pharmaceutical contracts. Some health authorities indicated that they could not take part in the study partly because the incomplete nature of the restructuring made it difficult to locate people and files.

²⁶ There were a limited number of multiple chain pharmacy entries (through full applications) in the eleven health authorities we consulted.

Annex 2:
Questionnaires

Annex 2: Questionnaires

As described in Section 2, questionnaires reflecting the overall objectives of the case studies were developed for each different type of participant. The reasons for developing such questionnaires were threefold. Firstly, they allowed the collection of the information in a systematic fashion. Secondly, the questionnaire helped interviewers to avoid being sidetracked by an unrelated issue of interest to the participant. On a more practical note, it helped to firm up the estimated of the time required per interview.

These questions were to be treated as guidelines rather than rules to follow. The interviewers were aware of the importance of remaining flexible and adapting questions to each interviewee as appropriate.

All the questionnaires that were developed followed the same broad structure. An example, for the Health Authority, is attached below. The questionnaires for other types of participant were similar.

Questionnaire for health authority

The four objectives of the case study are:

- Objective 1:* An assessment of the impact of recent openings of pharmacies on the local pharmacy market.
 - Has entry from Pharmacy X had an impact on the performance of the existing pharmacies in the local market?
 - How was the impact felt?
- Objective 2:* An insight into the behaviour of customers.
 - Has entry from Pharmacy X led to a change in customer behaviour?
 - How much switching took place?
- Objective 3:* An understanding of the responses by existing pharmacies.
 - What were the responses judged necessary by existing pharmacies and why?
 - How effective are/ were they?
- Objective 4:* An understanding of other factors that might be important.

Questions for scene setting

“To begin with I’d like to ask you a few questions about yourself, your role with respect to NHS licence applications and the local area where Pharmacy X opened a pharmacy .”

1. Please describe your job and your responsibilities within the health authority.
2. What do you/the health authority do when you receive a NHS licence application?
3. What is the process for application?
4. Is there a template as part of the submission? (get a copy)
5. How long does an application take?
6. How many applications do you receive each year?

7. What characteristics of a local area make it attractive for an application?
 - a. In terms of demographics, number of GPs in the local area?
 - b. High street/shopping centre?
8. We understand that you received an application from Pharmacy X in [●] Road. The Pharmacy X opened in October 2000. What led you to grant that application?
9. How did the consultation process take place for this specific application?
10. Who did you notify?
11. What was their response at the time?
12. Was there an appeal against this decision? By whom?
13. What applications has the Health Authority received for this area since then?
14. What was the outcome and why?

Questions for Objective 1

“I would like ask you about your view of the impact of the recent entry of Rankin Chemist on the other pharmacy businesses in the local area.”

15. Which pharmacies, in your view, could be considered to be competing with the Pharmacy X?
16. What were your views on the potential impact of this new pharmacy on the existing pharmacy businesses?
17. How was the impact to be felt?
18. Were you expecting different impacts by product groups of a typical pharmacy (NHS scripts, OTC and health and beauty sales)?
19. Were some pharmacies exposed to higher risks and why?
20. How has this impact materialised in practice?
21. Was it in line with your expectation?

22. Have some pharmacies performed better than others and why?
23. Have any pharmacies closed down since the entry of Pharmacy X?
24. Have there been any other significant changes in local area over this period, which have affected existing pharmacies?

Questions for Objective 2

“I’d now like to talk to you about customer shopping patterns.”

25. How successful has Pharmacy X been in attracting customers?
26. Has the entrant attracted a certain type of customers?
 - a. Old/young?
 - b. Mothers with children?
 - c. Workers?
 - d. People linking with other shopping?
27. In your view, what are the reasons for customers selecting the new entrant?
28. What are the attractive features of the service of Pharmacy X?
 - a. Price?
 - b. Location?
 - c. More services?
 - d. Convenience?
 - e. Other products?

Questions for Objective 3

“I’d now like to explore whether the entry of Pharmacy X has affected the way the existing pharmacies operate.”

29. To your knowledge, how have existing pharmacies changed the way they operate their businesses after the entry of Pharmacy X?

30. How have they tried to offset any losses in the sale of NHS prescriptions?
31. How have they tried to offset any losses in the sale of OTC or other products?
32. How have they changed prices and for which products (including special offers)?
33. Have they introduced with value added services for the provision of pharmaceutical products (e.g. home delivery)?
34. Have you seen different responses according to the type of pharmacy?
35. How effective have these measures been?

Objective 4: Other factors

36. What are the most important factors that you anticipate will significantly affect community pharmacies in the next 1-2 years?
 - a. Changes in the local market? (e.g. increase in demand, change in demographics)
 - b. New entrants?
 - c. Changes in regulations?
 - d. Changes in pharmacy responsibilities?
37. We are also talking to pharmacies, dispensing doctors, and GPs. Is there anyone else who you think it would be useful to talk to for our study? If so, who?

“Thank you for giving your time and experience to this interview. The next step is that we will summarise this interview in a note. We will send you a copy of it and will invite you to comment on it in the next week to ensure that you are happy that our note reflects your views appropriately.”