

OMNICELL/SURGICHEM MERGER INQUIRY

Summary of hearing with Venalink on 14 April 2014

The organisation

1. Venalink was a provider of adherence packaging and monitored dosage systems (MDS) to customers across Europe. In 2006, Venalink became a wholly-owned subsidiary of the Canadian company, Jones Packaging, which supplied Venalink with adherence packaging.
2. Venalink produced MDS in single- or multi-dose formats that were sold to pharmacies. Pharmacies then supplied these products to care homes, hospitals or community-based patients.
3. It also provided a range of ancillary products such as binders, medication cards and heat sealers. It also distributed trolleys and carts [✂].

Venalink's competitors and customers

4. MTS was Venalink's main competitor as it supplied a very similar product. SurgiChem was a secondary competitor as it supplied mainly to care homes whilst Venalink supplied to both care home and community-based patients. Other competitors included Biodose (Protomed), Multimed (Medication Systems Limited) and Medipack. Manrex was a lesser competitor but its use in the market had declined due to the perceived unreliability of its reusable blister packs.
5. Venalink competed with MTS for large pharmacy customers such as Boots or Lloyds. In 2013, it sought to win a tender to produce the Boots Medisure card but lost the tender to MTS as it chose not to compete on price.
6. Venalink had also responded to an invitation to tender from Lloyds Pharmacy to provide materials for an automation machine. MTS was successful in this tender as it was able to offer a volume-based pricing structure.
7. Following the loss of the Boots tender, [✂].

The adherence packaging market

8. Venalink said that the price for adherence packaging had fallen as more competitors had entered the market and pharmacists sought the best price. Pharmacists would often try to negotiate when purchasing a Venalink product by disclosing the prices offered by competitors such as SurgiChem and MTS.
9. Venalink had set prices but noted that all suppliers were flexible on price depending on the volumes required or the level of competition in the market at that time.
10. Price was the most important factor that customers took into account when choosing a supplier. Other factors included reliability, product quality and end user preference.
11. The purchasing process varied across different-sized pharmacies. Small independent pharmacies would often purchase from a choice of products from one supplier. Larger independent pharmacies would negotiate on price on a specific existing product whilst large organisations such as Boots or Lloyds Pharmacy would put a tender out to the wider market.
12. The supply of adherence packaging to care homes was heavily influenced by the care home with the pharmacist complying with their choice at the risk of losing a customer.
13. There was little difference between plastic and card packaging with preference for either type based on what the end user had traditionally used and felt comfortable with. There was also little to prevent pharmacists switching between the two types of packaging as they were similar products to use and required little staff training within the pharmacy. There was little switching by end users from card to plastic and vice versa.

Barriers to entry and expansion

14. A new entrant seeking to introduce a new product to the market would need to convince pharmacists of the reliability and quality of its product. Another barrier was the need for a significant marketing resource to promote the product and establish a level of sales that would cover the cost of production.
15. Self-supplying adherence packaging, sponsoring a new entrant into the market or purchasing directly from manufacturers as opposed to suppliers such as MTS, SurgiChem or Venalink were options available to large customers who wanted to avoid using existing providers of adherence packaging.

16. The manufacture of plastic and card-based packaging required different machinery so it would not be easy for a manufacturer to switch to producing a different product. The cost of materials to manufacture adherence packaging had increased over time.
17. If a manufacturer had the required resource to produce significant volumes of adherence packaging, the only barrier to expansion was establishing the necessary customer base.

Future developments in the market

18. Venalink said that there was an increasing need for patients to take their medication correctly and it was likely that a new electronic adherence system would be developed that limited patient access to medication until the correct time. It noted that numerous companies in the adherence packaging market were conducting research into the development of an electronic adherence solution.
19. The supply of the pouch-based MDS had not grown in the UK market due to the resistance of care homes and the Care Quality Commission to the multi-dose regime which was perceived as less reliable in terms of delivery to patients.

Impact of the merger

20. Venalink thought that the merged company would be able to offer both product ranges at discounted prices for a period of time, thereby diminishing competition in the market. The merged company could then raise prices due to the subsequent lack of competitors.
21. The merger could also benefit Venalink, however, [X].