

OMNICELL/SURGICHEM MERGER INQUIRY

Summary of hearing with Protomed Limited on 16 April 2014

Protomed and Biodose

1. Protomed Limited (Protomed) produced a multi-dose product called Biodose for both care home and domiciliary patients. Biodose could store pre-measured doses of liquid medication and had pods that could be removed individually. Biodose could also hold more tablets than other packaging solutions.
2. Biodose was created to improve adherence to liquid medications where previously care home staff had under- or over-administered the medication. Biodose was marketed to both pharmacists and care homes.
3. Protomed began in 2008 and had grown quickly with a turnover of £1 million in 2010 and £3.3 million in 2013.

The adherence packaging market

4. Adherence packaging was used in two ways: to assist the administering of medication in care homes and for individual patients in the community. Different types of packaging such as multi dose and single dose or card and plastic could be used for the different types of end user.
5. Protomed believed that care home patients represented the majority of the market. It said there were approximately 500,000 patients in UK care homes and that approximately [redacted] of those patients were receiving medication in Biodose trays ([redacted]).
6. It had no reliable data for its share of the domiciliary market. It said that the market for domiciliary patients was potentially huge and therefore it was looking to work with pharmacies that supplied domiciliary patients and companies such as [redacted] that provided care services to patients in the community in order to increase its market share.
7. The Biodose product had been well-received by pharmacists and end users. The product was more expensive than others in the market which [redacted].

8. Care homes typically had a fairly consistent number of patients on established and regular medication patterns. Most of these residents would likely qualify for free prescriptions. A local pharmacist typically supplied all of a care home's medication requirements as well as perhaps providing additional free-of-charge services (eg collection and delivery services or fridges or cabinets for the storage of medication). Whilst the pharmacy benefited from this regular and stable custom, there was little incentive on care homes to pay the additional amount required for the Biodose product.
9. The price for the Biodose product had not changed significantly since 2008 and was currently priced at [£] per tray. The cost of producing the Biodose tray had also increased in that time as the cost of raw materials such as polypropylene and polyester had risen. Protomed was able to offset this rise by obtaining discounts from its key suppliers by requesting larger volumes.
10. Boots, through its supply of the Manrex product and its wider service offering, was Protomed's biggest competitor in the care home market. Lloyds Pharmacy was also a competitor as it provided a similar service of which adherence packaging was a part. SurgiChem was a competitor as pharmacies often used SurgiChem's Nomad product. Protomed was also in competition against Medication Systems Limited whose product had a similar design with removable pods.

Switching suppliers

11. Protomed said that there were various reasons why a customer might switch suppliers. For example, if a customer were to switch to the Biodose product, this was likely to be because of the product features rather than price. However, if a customer were to switch between MTS and SurgiChem, this would most likely be due to price. A customer would always need to be aware of the preferences of patients before switching.
12. Pharmacists that switched to Protomed products incurred certain set-up costs, such as the purchase or rental of a heat sealer and a software package to print the packaging seals and Medicine Administration Record (MAR) charts. The heat sealer cost approximately [£] to buy or approximately [£] per month to rent. The cost to a pharmacist for the software licence was [£] per year.
13. Protomed said that whilst pharmacies were generally price sensitive, the extent of this depended on the size of the pharmacy and the relative importance of adherence packaging to its business.

14. Protomed gave discounts to pharmacies [✂], to pharmacies that bought large volumes of adherence packaging (eg those serving care homes) and to pharmacies that might provide longer-term business.

Barriers to entry and expansion

15. The main barrier to entry for Protomed had been to develop a system that could effectively seal liquid medication and then be opened by care workers or residents at the appropriate time. It was also important to develop a product that would seal effectively and quickly with a sealing machine. Protomed had a patent for this form of adherence packaging.
16. The second major barrier for Protomed was the reluctance of customers to embrace its design as it was more expensive than other types of packaging.
17. The price at which a new entrant sold adherence packaging would be a factor if it produced packaging similar to that of MTS or SurgiChem. The costs associated with starting a business and sourcing the right products might also prevent new entrants from gaining significant market share. Protomed thought that there was little difference in the barriers to enter the markets for the supply of either card- or plastic-based packaging.
18. There were no significant barriers that would prevent Protomed from expanding its current market share. However, it noted that the future adherence product offerings of Boots and Lloyds Pharmacy could influence Protomed's ability to gain a greater share of the care home market.
19. Protomed had no current plans to change its pricing structure but observed that it might be able to increase sales by reducing the price of the Biodose product.

Future developments in the market

20. Protomed was using an electronic MAR (eMAR) system called Biodose eMAR in a small number of care homes. This product was in the process of being redesigned [✂]. Protomed understood that Boots and Lloyds Pharmacy were developing their own eMAR systems for care homes but noted that the system was not yet the norm in the market and would be introduced to the wider care home market in the next two to three years.
21. Protomed was also developing a form of Smart Packaging which would record and monitor patient compliance electronically. It noted that whilst other organisations were also developing this technology, it would remain a niche product due the expense associated with its development and production.

22. The design of adherence packaging was unlikely to change significantly over the next two to three years. A development that would affect the use of adherence packaging within care homes was an increasing desire of pharmacies to move to original packaging in order to reduce the costs associated with using adherence packaging.

Impact of the merger

23. Protomed said that it competed with both Omnicell and SurgiChem in the care home market but was much less active in the market for domiciliary patients and supplying the National Health Service which the merging parties were active in. It noted that SurgiChem's plastic packaging and Omnicell's card packaging largely fulfilled the same purpose and so the merger could remove some competition from the adherence packaging market and perhaps lead to a rise in price for customers.