

OMNCELL/SURGICHEM MERGER INQUIRY

Summary of hearing with Celesio UK on 7 May 2014

The organisation

1. Celesio UK (Celesio) was the UK brand name for Lloyds Pharmacy Limited (Lloyds Pharmacy) and AAH Pharmaceuticals Limited. Lloyds Pharmacy was a community-based pharmacy retailer and AAH Pharmaceuticals was a pharmaceutical wholesaler. The Celesio companies were owned by Celesio AG, a German company.
2. Lloyds Pharmacy procured adherence packaging for its pharmacies. AAH Pharmaceuticals provided other pharmaceutical products to Lloyds Pharmacy and any other pharmacy that held an account with AAH Pharmaceuticals. Celesio did not think it likely that AAH Pharmaceuticals procured significant volumes of adherence packaging for other customers.
3. Lloyds Pharmacy provided services to approximately 1,600 retail pharmacies. From these, it supplied medication to care homes through single-dose adherence packaging and domiciliary patients through multi-dose packaging. It also provided medication to NHS trusts, prisons and other business customers.

Lloyds pharmacy and adherence packaging

4. Lloyds Pharmacy dispensed approximately 150 million prescriptions per year. Of those, approximately 4.5 million prescriptions were for the care home market and approximately six million prescriptions for the domiciliary market required adherence packaging.
5. Almost all Lloyds pharmacies provided medication in adherence packaging to domiciliary patients, whilst approximately 600 branches serviced care homes.
6. Lloyds Pharmacy used MTS and SurgiChem packaging for its care home and domiciliary based patients. For care homes, approximately 90% of the adherence packaging used was from MTS and 10% was from SurgiChem. In 2012, Lloyds Pharmacy held a tender for the supply of adherence packaging which was won by MTS.
7. MTS adherence packaging was also used for domiciliary patients. Approximately one year ago, the branding and the size of the product was changed

following a successful trial in southern Ireland. MTS continued to be the supplier.

8. Lloyds Pharmacy preferred the MTS product in both care home and domiciliary settings. It had, when requested by a care home, used other adherence packaging such as SurgiChem's Nomad product or the Manrex product.
9. The cost to purchase adherence packaging from MTS had fallen over the period that Lloyds Pharmacy had been using MTS as a supplier.
10. Lloyds Pharmacy also purchased automated filling machines from MTS for the MTS multi-dose adherence packaging. The packaging was filled at the larger pharmacy branches and AAH Pharmaceutical warehouses and then distributed to other pharmacy sites.
11. It had previously purchased adherence packaging trolleys and cabinets from SurgiChem and Bristol Mead. Following a strategic review of service, quality and price, it decided to switch to a UK-based company called Norseman Direct. While it viewed the SurgiChem products as good quality, it had reservations about the lead time for an unexpected order as the products were manufactured in the Far East. With Norseman Direct, the process for ordering, reviewing the product and delivery was much quicker.

The adherence packaging market

12. Lloyds Pharmacy's purchases of adherence packaging products had remained fairly static over the last four years. The wider market for adherence packaging had also not grown significantly over a similar period.
13. Lloyds Pharmacy reviewed the adherence packaging products it used every three to four years. It had tested other types of packaging such as the Biodose product for usability. It noted that any new product must meet its governance, safety and quality criteria as well as being suitable for use by the carer administering the medication. It preferred the single-dose packaging as it reduced the risk for the pharmacy team when assembling the packaging. It also preferred card-based adherence packaging as this could be stored more efficiently and recycled. Once a product had passed these tests, the Lloyds Pharmacy procurement team would then negotiate with the supplier on pricing.
14. Since 2007, cost had become an increasingly important factor when selecting adherence packaging products. This was as a result of the reduction in the drug tariff reimbursement price for medicines resulting in the additional cost of consumables and adherence packaging becoming more of a consideration.

15. The factors that would lead Lloyds Pharmacy to switch supplier included a rise in price or a service failure. It was relatively easy to switch from one supplier of adherence packaging to another but it noted that communication with individual pharmacists and patients was important to ensure that patients were happy with their medication packaging. It typically took one to two months to switch a care home from one supplier of adherence packaging to another.

Developments in the market

16. Lloyds Pharmacy believed that the adherence packaging market might decline given the increasing demand for medication to be dispensed in original packaging. It also noted that the increase in original packaging was supported by the development of electronic medicine and care plans. Lloyds Pharmacy would support such market trends and considered there was no need to search for a new adherence packaging product as there were sufficient options already available in the market.
17. With regards to its current tender arrangements for the care home market, Lloyds Pharmacy would continue to follow normal procurement procedures of deciding whether to continue with its existing supplier or start a new tender process. It did not think it likely that it would switch supplier for its domiciliary patients.
18. Lloyds Pharmacy thought it unlikely that it would ever source adherence packaging directly from a manufacturer as adherence packaging was not a large part of its business. In the event of a price rise, it would consider sponsoring a new entrant into the market only if the new offering was particularly innovative or if an existing supplier agreement was coming to an end.

Barriers to entry and expansion

19. There were limited barriers to entering the adherence packaging market as the product was relatively easy to produce. The biggest barrier was inducing customers to switch from existing products that they were happy to use.

Impact of the merger

20. Lloyds Pharmacy did not have a positive or negative view about the merger.