

OMNICELL/SURGICHEM MERGER INQUIRY

Summary of hearing with Numark Limited on 11 April 2014

The organisation

1. Numark Limited (Numark) was a buying group that provided procurement and management support services to over 2,900 community pharmacies in the UK. Its members ranged from sole traders to national chain pharmacies. Its largest member was Rowlands Pharmacy of which 510 outlets were members. Both Numark and Rowlands were owned by Phoenix Medical Supplies Limited.
2. Numark had several sources of revenue. These included a membership fee of £125 per month per outlet, the sale of its own brand products and a sales commission it charged suppliers that sold their products to its members or to members that purchased directly from Numark.
3. Numark members were free to join other buying groups too if they felt they could achieve a better price or level of service.

Numark and adherence packaging

4. Numark had, on average, approximately [X] pharmacy outlets buying adherence packaging per month. These outlets would differ each month. Numark's approved supplier for adherence packaging was MTS.
5. Numark was able to procure other adherence products on behalf of its members from MTS. These included dispensing labels, heat and cold sealing machines and counting and de-blistering machines for care homes. The demand for these products was not big as it was typically only the large pharmacy chains that had the resources to have a centralised medication dispensary.
6. A member could achieve the same price for adherence packaging by contacting a supplier and quoting its Numark membership number or by ordering via Numark. There was nothing preventing a member from seeking a better price by liaising directly with suppliers. The vast majority of members ordered through Numark.

7. Numark charged £69 to its members for a weekly pill pack containing 250 cards and blisters. It bought the pack from MTS [~~£~~] than this price. The MTS list price for that product was [~~£~~]. Numark believed that it could achieve a cheaper price as it had a range of communication channels to its members that suppliers could use as a means of getting their products to the wider market rather than spending money on marketing.

The adherence packaging market

8. The choice of adherence packaging was largely dictated by the end user (a care home, residential nursing home or a domiciliary based patient). A lot of its members were already buying the MTS product to supply care homes and they had joined Numark as a means of getting a better deal through Numark's buyer power.
9. Numark chose MTS as its preferred supplier having reviewed the adherence packaging market. It considered qualities such as expertise in the market, delivery charges and customer service when reviewing potential suppliers.
10. Numark said that pharmacists did not get reimbursed by the NHS for use of adherence packaging which meant that pharmacists were keen to keep the costs down. It noted that an average prescription item cost between £8 and £9 and the drug cost between £7 and £8. As such, pharmacists were paid a dispensing fee of approximately 90p to cover the cost of dispensing the medication. Given that there was no reimbursement for the cost of supplying adherence packaging, pharmacists needed a high volume of business, most likely obtained through a large number of care home customers, to justify the use of additional equipment such as heat sealing machines.
11. Numark was aware of SurgiChem and Venalink as alternative suppliers. SurgiChem had previously been an approved supplier but had chosen to terminate that agreement so that it could sell to pharmacies directly.
12. Adherence packaging supplied by MTS, SurgiChem and Venalink was the most popular. The products offered by each supplier were very similar but as MTS had been active in the market for a long time, its products were used by the majority of care homes. Consequently, a significant number of Numark's members purchased the MTS product to meet this demand.
13. It was the decision of the pharmacy as to whether to stock products in addition to those demanded by its customers. Having reviewed Venalink's products 18 months ago, Numark said that whilst they shared similarities with MTS products, the majority of its members required the MTS product as that was the preference of their care home customers.

Switching suppliers

14. Numark had not switched from MTS in the last five years despite being approached by Venalink. It was aware of occasions where a pharmacy had switched supplier because the care home it supplied required a different product.
15. A barrier to switching for either Numark or its members was the requirements of care home customers who could stop using a particular pharmacy if it did not stock their desired product. Pharmacies also needed to continue to supply the type of adherence packaging products preferred by their domiciliary patient customers in order to keep their custom.
16. Numark dealt with over 250 companies and reviewed its supply arrangements within each market it was active in every quarter to ensure that it achieved the best price. It did not regard its supply arrangements for adherence packaging as a cause for concern.

Barriers to entry

17. Numark said that the main barrier to entry for a mainland Europe based supplier to enter the UK market was the lack of reimbursement to pharmacies from the NHS. This might prevent a new entrant from persuading a pharmacy to buy a product that could be more expensive than existing products.
18. The main barrier for a completely new entrant to the adherence packaging market would be persuading existing customers to change supplier, whether by way of price reduction or an increase in the level of service offered.

Impact of the merger

19. Numark was not aware of the market shares of each of the main providers of adherence packaging and so could not comment on the impact that the merger might have on the market.
20. It noted that should the merger impact on Numark's ability to offer a competitive price to its members, then this could be detrimental as its sales of adherence packaging might fall. However, its supply of adherence packaging was only a small part of its offering and its members joined for a variety of other reasons such as training, management support or its range of own-brand products.