

OMNICELL/SURGICHEM MERGER INQUIRY

Summary of hearing with Rowlands Pharmacy on 7 May 2014

The organisation

1. Rowlands Pharmacy (Rowlands) was a chain of 510 retail pharmacies in the UK. It was owned by Phoenix Healthcare Products Ltd which was the UK division of the Phoenix Group, a European pharmaceuticals wholesale and distribution company. Phoenix Healthcare also included PSUK Ltd, which supplied dispensing doctors, and Numark Ltd, which supplied independent pharmacies.

Rowlands and adherence packaging

2. Rowlands purchased mainly MTS adherence packaging products and some SurgiChem products on behalf of pharmacists who then supplied care homes. The choice of packaging was determined by customer preference, with the majority of Rowlands' customers preferring MTS products. It also purchased cabinets and trolleys from MTS and SurgiChem.
3. The agreement between Rowlands and MTS had been in place for [REDACTED]. There was little formal documentation with regard to the agreement with MTS for the supply of adherence packaging but there was a contract in place for the lease of the two filling machines. [REDACTED]
4. Approximately [REDACTED]% of prescriptions were dispensed using adherence packaging. The purchase of adherence packaging was not a large amount of Rowlands' business in comparison with the other purchases it made such as medication. It was keen that its use of adherence packaging was not a time-consuming process and that the logistics surrounding the supply of adherence packaging to its sites was efficient.
5. Rowlands used two MTS automated single-dose filling machines at two sites. From these sites, approximately [REDACTED]% of its adherence packaging supply was filled and distributed to local branches. The remainder was filled in branch.
6. The efficiencies gained from using the filling machines was the main reason for using MTS products. It noted that whilst SurgiChem's products were [REDACTED], there was no means to achieve a similar level of productivity as using the

MTS product. The MTS automated filling machine for multidose packaging had been considered [REDACTED].

7. Aside from the efficiencies that Rowlands gained from the use of MTS's card-based product, it did not consider that there were any other significant differences between card- and plastic-based packaging.
8. Rowlands could approach other suppliers to obtain a cheaper price for adherence packaging and use this as a tool to negotiate an improved price with MTS. However, it was conscious that [REDACTED].
9. It was in preliminary talks with [REDACTED] about the future purchase of adherence packaging. It had considered pouch-based adherence packaging but had decided to continue with its current supply arrangements.
10. An important factor in how Rowlands selected adherence packaging was that it needed to have confidence in the robustness of the packaging and how the product was sealed. A product that was not properly sealed might allow the medication to move between blisters and there was a potential for patient harm as a result.

Switching suppliers

11. Rowlands had persuaded the majority of its customers to use the MTS product. However, some care homes preferred to use SurgiChem products as they had used them historically following an agreement between SurgiChem and Bupa care homes. It was happy to continue using two suppliers in order to continue to satisfy different customer preferences.
12. Switching was easy for an individual pharmacy but for a business with many pharmacies it would require a lot of effort and would incur significant costs arising from the need to communicate the change to all its staff to ensure an effective change to the new product. Rowlands noted that it would be easier to switch from an MTS product to a Venalink product as the two products looked very similar. It would be more difficult to switch from MTS to SurgiChem as the products looked significantly different.

Barriers to entry and expansion

13. Adherence packaging was a simple product to make and the barriers to enter the market were low. Rowlands noted that the price of adherence packaging was high in comparison with what the product might have cost to manufacture.

14. It also noted that whilst an adherence packaging product was simple to make, a new entrant would require the endorsement of a large pharmacy chain such as Boots, Rowlands or Lloyds to gain the confidence of other pharmacies and establish the product within the marketplace.
15. Rowlands would consider using a new entrant to the market but would need to be confident in the robustness of the product and would therefore consult with regulatory bodies such as the Medicines and Healthcare Products Regulatory Agency.
16. It would also consider products that were significantly cheaper or of better quality than those it currently purchased although any change in product would need to achieve a cost saving or an increase in profit for Rowlands. It would feel more comfortable using a new entrant to the UK market that was well established abroad as it would have greater confidence in a company with experience of producing adherence packaging.
17. It said that there were limited barriers to expansion but noted that because pharmacists were generally reluctant to switch to a new supplier due to the preferences of their care-home customers, it was difficult for suppliers to increase their market share.

Developments in the market

18. Rowlands noted that electronic medication administration records (eMAR), combined with adherence packaging, was the most likely future development in the market. It had been approached by a company in the Netherlands that offered an eMAR solution for domiciliary patients. However, any eMAR solution would not develop sufficiently unless it was economically viable.

Impact of the merger

19. Rowlands felt that the merged company would continue to supply both ranges of products but brand them as one. It also felt that the merger company could raise prices as a result of being the dominant player in the market.
20. Rowlands noted that a benefit of the merger might be its ability to purchase all its adherence packaging products from one company and so achieve operational efficiencies such as having one financial account to administer. However, should the merged company occupy a significant market share and be unable to supply Rowlands for whatever reason, it would leave a significant gap in supply which Rowlands would struggle to fill by using another competitor.