

CELESIO / SAINSBURY'S PHARMACY BUSINESS MERGER INQUIRY

Summary of hearing with Boots UK Ltd on 15 January 2016

Background

1. Boots stated that it had a wide range and number of stores. It stated that its stores existed in different locations according to where people live, shop and work. Subsequently, it had some stores located in GP surgeries, some on high streets, and some in large shopping centres and some hospital pharmacies.
2. Boots said that it had categorised a proportion of its stores as local pharmacy stores; that is, stores where the business is predominantly that of healthcare and dispensing.
3. It went on to say that the remainder of its stores were divided into different formats. Some stores were edge-of-town stores; these were usually located in retail parks. Some stores were flagship stores; these were usually located on popular high streets or large shopping malls. Then there were health and beauty stores; these were located on high streets, in airports or train stations. Boots added that nearly all of these stores would have some form of dispensing or healthcare business contained within them. Boots stated that some of its stores did not have a pharmacy within them.
4. Boots stated that despite its merger with Walgreens last year, it operated as an autonomous business within the UK market.
5. Boots stated that the main driver of change in the pharmacy market was the growing ageing population who were increasingly becoming more chronically sick. It added that the financial burden of the NHS, which has led to a decrease in funding for pharmacy services, would be a major driver of change within the pharmacy profession in the future.

Market definition

6. Boots said the UK pharmacy market was broadly made up of 50% independent ownership and 50% chain pharmacy ownership. Of the independent pharmacies, almost all were community pharmacies, meaning

they were relatively small footprints and were usually located near doctors' surgeries or close to where people live.

7. It added that the remainder of the market was then made up of chain pharmacies that have a pharmacy footprint in either a supermarket or hypermarket store and also smaller chain pharmacies (eg Day Lewis, Lloyds Pharmacy, etc), which were predominantly made up of community pharmacies, although those footprints would be somewhat larger than those of the independent pharmacies.
8. Boots said customers broadly fit into one of two categories, namely chronic patients and acute patients. It said that it understood that acute patients were more likely to choose the pharmacy closest to the GP surgery, whereas chronic patients were more likely to choose a pharmacy that was more convenient to their lifestyle. Boots stated that it tried to attract these different customer groups and implemented a customer focussed approach.
9. Boots stated that in its smaller pharmacies, a larger proportion of the business generated came from dispensing prescriptions or services. In contrast to this, it stated that larger flagship stores generated more business from over-the-counter and pharmacy-only products. Boots said that customer traffic at specific stores was dependent upon the primary shopping mission of the customer.
10. Boots stated that it aimed to offer a range of pharmacy-only medicines at a range of prices. Boots added that generally it had a common pricing policy right across the UK, although the selection of products may differ.
11. Boots said its range of pharmacy-only medicines may differ locally. This was largely driven by square meterage and footprint of the store. If there was a local store where range was very limited, Boots would use customer data to ensure that it had the right range of pharmacy and GSL medicines within those stores to meet customer need.
12. Boots stated it ran promotions both on healthcare and non-healthcare products. Within healthcare, it had promotions of both pharmacy-only medicines and general sales list medicines. It said that its promotional programme was consistent across the UK.
13. Boots said that there was information freely available that showed the capture rate of GP surgeries on prescriptions. It said a pharmacy could use this information to determine how much of its business was coming from each GP surgery. Thus, the pharmacy could assess its market share locally.

Competitors and competition

14. Boots said that each store had monitored any volume change in its local market. Stores could see the scripts that came in from a surgery and, therefore, would see if it suddenly got less scripts from a particular GP surgery.
15. Boots stated that if a new pharmacy wanted to open it would require an NHS contract to do so. Under the application process that would take place, competitors would be informed that the new pharmacy planned to open in the area. If a competitor felt that the new pharmacy would damage its business or it did not believe that a new pharmacy would be in the best interests of patients and customers in the community, it could object to a pharmacy contract being granted. Boots added this was also the case if a pharmacy tried to relocate its contract to move closer to a GP or closer to a competing store, for example.
16. Boots said that if it discovered, by way of a pharmaceutical needs assessment, that there was a service that was not being offered in a location that had a need, it may look to provide that service. Boots said that sometimes this was controlled locally, by what the CCG would fund, but sometimes it could provide those services independently.
17. Boots said its opening hours varied widely and was dependent upon both customer and local needs. It further stated that it monitored the opening times of competitors at a local level.
18. Boots held that supermarket pharmacies were competitors as these pharmacies still held a share of the UK pharmacy prescription market. Boots added that it believed supermarket pharmacies acquired the main bulk of its customers from shoppers who had done a domestic food shop. It said that it thought that, compared with the rest of the market, a greater proportion of supermarket pharmacy sales were of prescription items, and there were less sales of services, general sales list medicines and pharmacy-only medicines compared with the rest of the market.
19. Boots said that there were no universal competitors. It said competitors varied from location to location; consequently, it would not consider one particular pharmacy chain to be more of a threat than another.
20. Boots acknowledged the online pharmacies within the UK as competitors within the wider market; albeit a relatively small business in the UK at the moment.

Outpatient dispensing pharmacies

21. Boots said value was one of the main characteristics that was important to NHS providers when tendering out OPD services. It elaborated further, saying the pharmacy provider should have demonstrated that it would create value for the NHS Trust, as the respective Trust would have sought to have some of its financial challenges alleviated.
22. In addition, Boots said the NHS Trust would have looked for evidence that the pharmacy could provide good care. Boots went on to say that the NHS Trust would also have looked for a pharmacy provider that would have worked with a Trust and developed new services and created a better patient experience.
23. Boots stated that Celesio had the biggest market share of outpatient dispensing pharmacies, followed by Boots. Sainsbury's Pharmacy Business also provide OPD services. It went on to say that it had not seen Sainsbury's bid for a hospital site recently. Boots stated that ultimately these bids were usually made by either itself, Celesio or the relevant NHS Trust if it chose to apply for the service there.
24. Boots said that when an NHS Trust had set itself up as a private enterprise, it had only ever seen it bid for the hospitals within the particular Trust.

Care homes

25. Boots said usually when a patient became a resident at a care home they delegated responsibility for their medicine administration and management to the care home.
26. Boots stated that care homes approached a pharmacy, either locally or nationally. The chosen pharmacy would manage all of the care home's medicine needs. Boots highlighted that it was very unusual for a care home to be serviced by several pharmacies.
27. Boots added that some pharmacy chains, itself included, had a field team that specialised in care home management. The team had approached care homes and sold its dispensing service.
28. Boots said that care homes and pharmacies agreed service level agreements. There would be an understanding that, if that service level agreement is in place and both parties are meeting their service levels, the pharmacy would have provided the requested medication. Boots said the NHS contract required patients to have a free choice of pharmacy. So, if a care home was

to decide to move from one pharmacy to another, then they would be able to do so.

29. Boots stated that it believed that there were two main factors a care home considered when it selected a pharmacy. These were that the medicines were delivered on time and that the care home had the option to call the pharmacy for advice when required. Often, those who worked in care homes had not undergone any formal training in medicines; hence care home managers relied upon pharmacists for advice.
30. Boots stated that it was the biggest provider of care home medicines in the UK, and Celesio was the second. Therefore, Boots deemed Celesio a competitor in this market. Boots said that it did not believe that Celesio would view Sainsbury's Pharmacy Business as a major competitor within the care home pharmacy market.

Barriers to entry and expansion

31. Boots said that it believed the biggest barrier to entry for a pharmacy was that it required an NHS contract. It said that NHS contracts were regulated, and without an NHS contract a pharmacy could not open to provide NHS dispensing or NHS pharmacy services.
32. Another barrier to entry that Boots highlighted was financial resources. It said that as pharmacies became more challenged financially, a large scale business could prove advantageous to the success to the business. It felt that a lack of scale, in terms of purchasing and UK coverage, became an increased barrier to entry, or at the very least, made business harder for smaller pharmacies.
33. [✂]

The transaction and counterfactual

34. Boots stated that had Celesio not purchased Sainsbury's Pharmacy Business, it believed another large scale pharmacy player would have purchased it, as Sainsbury's proactively sought a partner.
35. Boots added that had the transaction not taken place, Sainsbury's may have decided not to manage its own pharmacies and contract the pharmacy business out.

36. Lastly, Boots suggested that another avenue available to Sainsbury's would have been to stop providing pharmacy services if it had stores that were not profitable.

37. [✂]

Views on the merger

38. Boots said that the merger would result in one less competitor, but one stronger competitor. It emphasised that pharmacy was a local business and subsequently the merger could affect different locations in different ways.

39. Boots stated that outpatient dispensing pharmacy was a specialist market; consequently, it could not see the merger having an impact on this market. It elaborated further, saying it believed that Sainsbury's Pharmacy Business would have encountered great difficulty to operate in this market. It believed that Celesio would continue to operate in this market.