Neighbourhood Pharmacy Association of Canada

pharmacy 360

THE RETAIL PHARMACY BUSINESS IN CANADA

OVERVIEW

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ACKNOWLEDGEMENTS

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Information: What Does it Mean to Me?

What do Canadian pharmacy companies need to prosper in today's rapidly changing retail pharmacy environment? There are many answers, but all of them depend upon reliable information on which to make informed decisions - and that is the challenge we set out to begin to answer with this Neighbourhood Pharmacies 2016 Pharmacy 360 Report. The retail pharmacy business is experiencing seismic change in long-established ways of doing business and is characterized by ongoing price compression in drug reimbursements, the challenge of expanded scope patient services, new kinds of therapeutic medications and new technologies.

And, as if all that weren't enough, the nature of retailing itself is changing, as consumers/patients see, react to, adopt and expect the same anywhere/anytime convenience and flexibility in accessing pharmacy products and services as they get in other retail environments, from clothes shopping to ordering dinner.

If there is one simple take-away from this report it is that retail pharmacy in Canada today is not 'one thing,' but a complex and highly diversified industry, with multiple business models and formats.

Inevitably, **'What does it mean to me?'** will have different answers, depending on the specifics of the business where the question is being asked. So, instead of providing a single, one-size-fits-all answer, our approach to this initial report has been to create an information baseline that members and associates can use to help them get a strong sense - combined with their own expertise and understanding of the industry - of where they are today and to navigate successfully through the big questions about where they're going tomorrow.

One fundamental challenge in preparing a report such as this is obtaining meaningful data - on sales, expenses, salaries and employment and more - and being able to relate that information in aggregate both to other industry participants and to other industries for comparison. More information helps reduce uncertainty and makes for a better, more useful report.

This report doesn't tell the whole story, but it does provide valuable insight into the Canadian retail pharmacy industry.

Justin J. Bates
Chief Executive Officer • Neighbourhood Pharmacy Association of Canada

EXECUTIVE SUMMARY

The Pharmacy Business in Canada

Three key themes came out of this year's study:

Nº 1

While dispensing remains the core of neighbourhood pharmacy in Canada - and can be expected to remain so - the importance of patient services, and value-added services, such as over the counter (OTC) product recommendations, is more critical than ever in driving pharmacy growth.

Nº 2

The need for a strategic approach to labour allocation will be key to ensuring that the proper resources are present to enable stores to provide their desired offerings and to do so cost effectively.

Nº 3

The impact of technology is important as both a customer experience enabler and as a business management tool.

As they change, neighbourhood pharmacies will confront many of the same challenges and complexities as other retailers, including responding to and managing customer expectations of online access to services and professional advice, ongoing excellence in support and a seamless consumer / patient experience. Better understanding of today's consumer / patient is certainly one key to understanding retail pharmacy in Canada tomorrow.

METHODOLOGY & STUDY DESIGN

This document reports the results of a national survey of retail pharmacy organizations and individual outlets, undertaken by the Neighbourhood Pharmacy Association of Canada (Neighbourhood Pharmacies) and administered by PricewaterhouseCoopers Canada (PwC) during spring 2015. PwC also collected the data, analyzed it and provided it to Neighbourhood Pharmacies on an anonymized basis.

The study was conducted by online questionnaire sent to pharmacy owners and pharmacy managers of Neighbourhood Pharmacies' members and non-members. The survey posed nearly 60 questions, ranging from aspects of clinical practice, to front store operations.

In all, 385 responses were received, of which 40 per cent represented retail organizations with multiple stores and 60 per cent represented individual pharmacies. Additionally, 54 per cent of the responses were from corporately owned pharmacies, 35 per cent were from independent owners, and the remaining 11 per cent were a mixture of other ownership formats. All information in this report is expressed on a per pharmacy basis. Incomplete surveys were not disqualified, and results are based on the number of pharmacies that responded to each question. Due to the sample size, readers are cautioned against relying on these data or any conclusion based on this information without independent verification and confirmation of suitability.

Additional high-level information on dispensing was sourced from IMS Brogan, as well as from additional sources, noted here, and compiled and analyzed by Neighbourhood Pharmacies.

This report provides baseline data for comparison and analysis on dispensing and OTC product recommendations, patient services, labour, the impact of technology and respondents' suggestions for product packaging improvements.

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Sources

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NEIGHBOURHOOD PHARMACY IN CANADA

Strong Growth in Prescription Drug Demand

Canadians continue to show strong demand for prescription drugs. In 2015, Canada's neighbourhood pharmacies dispensed approximately 637 million prescriptions, an increase of 4.7 per cent over 2014, while Canada's population increased just 0.9 per cent over the same period[3]. Canadians acquired approximately 17.6 prescriptions per person.

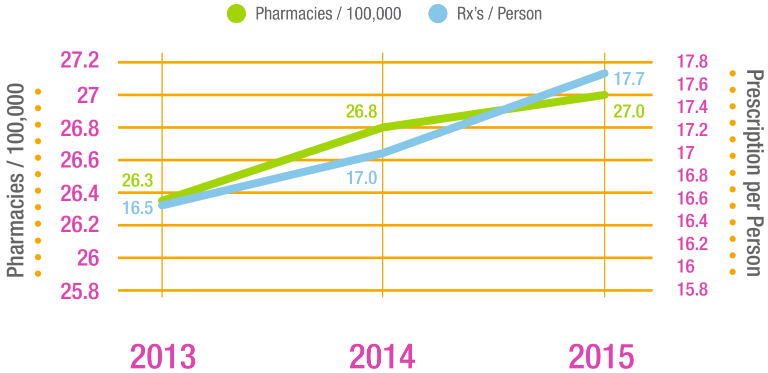
Other trends are evident. The percentage of generic prescriptions dispensed has grown steadily over the past three years to 65 per cent from 63 per cent and the average cost of a generic prescription has declined to $11.26[1] from $12.01, reflecting the introduction of new generic molecules and the efforts of provincial governments to reduce generic drug prices. At the same time, there has been small growth in the number of brand prescriptions, but significant growth in the dollars spent on brand drugs. The average cost of a brand prescription has risen to $69.13[1] from $61.77 over the past three years, reflecting the growth of high-cost specialty drugs aimed at relatively small patient groups.

The number of neighbourhood pharmacies[2] increased to 9,750 at January 1, 2016, an increase of 1.0 per cent, reflecting growth in line with the increase in the population. Due to the increased number of prescriptions Canadian neighbourhood pharmacies dispensed, on average, 2.6 per cent more prescriptions in 2015 than in 2014, or about 65,300 total prescriptions per pharmacy.

Please see the Pharmacy Labour section (page 25) for more detail on how pharmacies responded to the increased demand for their services.

Approximately 80 per cent of Canada's $25 billion 2015 drug spend was dispensed through neighbourhood pharmacies[1].

GROWTH RELATIVE TO POPULATION



Source: 1,2,3

Commentary

Like many parts of our healthcare system, neighbourhood pharmacy is under pressure to perform more productively:

one	**The number of prescriptions dispensed is increasing at almost five times the rate of population growth;**
two	**Opportunities to deliver patient services, such as medication reviews, smoking cessation counselling, vaccinations and other expanded scope services - all require investments in workflow enhancements, training and pharmacy layout changes;**
three	**Payors are struggling to manage the growing costs of healthcare, and constantly seeking to cut costs.**

On the basis of population, Canadians have access to prescription and patient healthcare services at more pharmacies than residents of other commonly compared countries[5]:

COUNTRY	PHARMACIES / 100,000 POPULATION	COUNTRY	PHARMACIES / 100,000 POPULATION
Canada	27.0	United Kingdom	17.6
Germany	25.9	United States	17.2
New Zealand	20.8	Netherlands	11.6

Significant Variations from Province to Province

Canada is a nation of contrasts - in population dynamics, dispensing and pharmacies. As indicated in the accompanying table:

Atlantic — Low population growth and an older population; rapid prescription growth (ex. NS) due to the elderly population; pharmacies processing significantly more prescriptions;

Quebec — Below-average population growth; fewer pharmacies per capita, each processes more prescriptions;

Ontario — Average population growth, above-average prescription growth;

Prairies — Fastest population growth; young; below average per capita prescriptions;

BC — Average population growth; healthiest population; second lowest per capita prescriptions, but growing faster than average; pharmacies processing 4.2 per cent more prescriptions

Province	Population % Change	Prescription % Change	# of Pharmacies % Change	Prescriptions / Pharmacy % Change
BC	0.9	5.8	1.5	4.2
AB	1.7	5.7	3.1	2.5
SK	1.2	2.2	0.9	1.3
MB	1.2	4.3	1.9	2.3
ON	1.0	5.8	2.8	2.9
QC	0.7	3.5	1.3	2.2
NB	0.0	6.3	-1.8	8.3
NS	0.2	1.7	-0.3	2.0
PE	0.4	6.5	2.1	4.3
NL	-0.1	11.2	0.0	11.2
Canada	**0.9**	**4.7**	**2.0**	**2.6**

Source: 1,2,3

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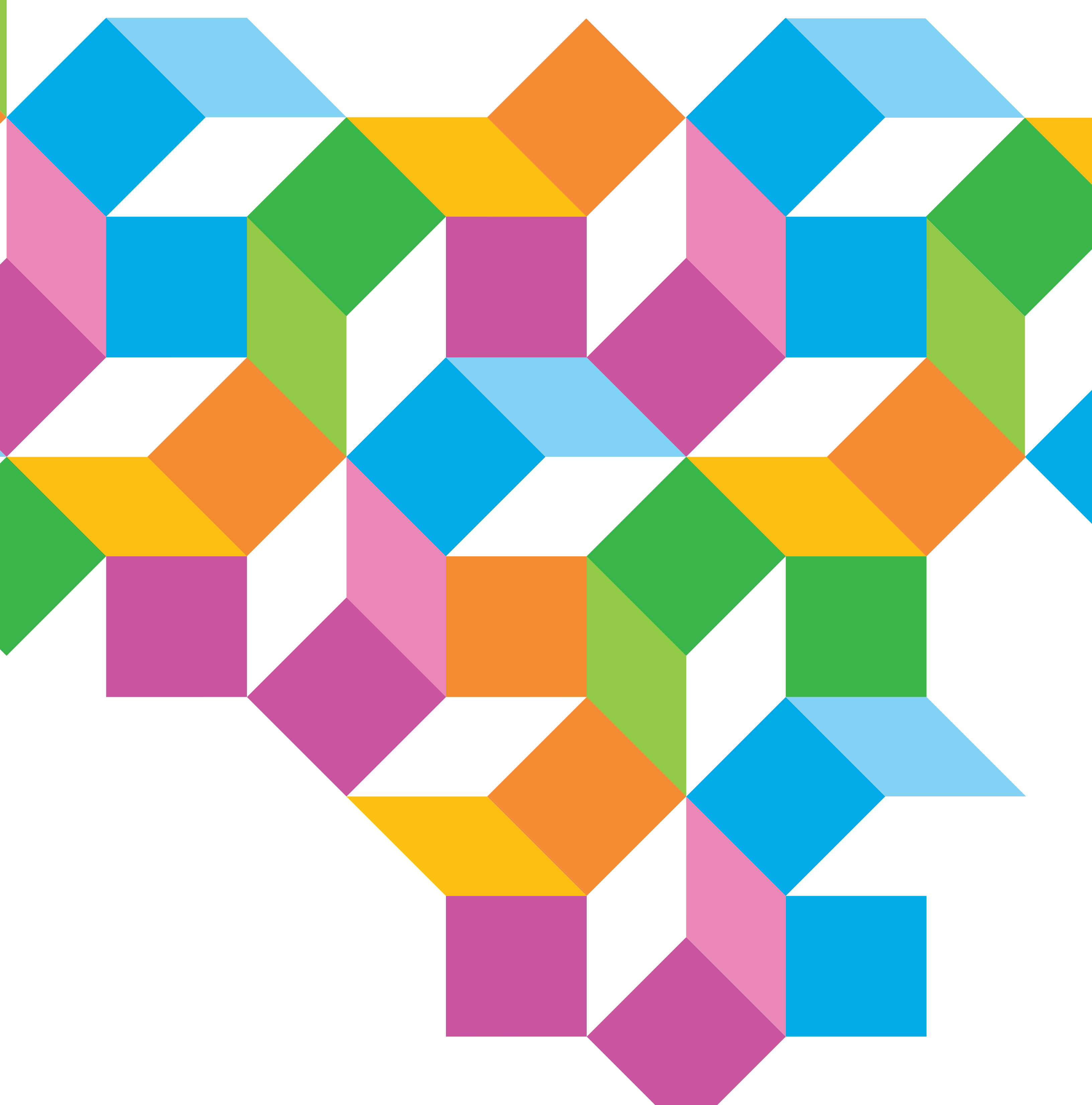

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