APPENDIX 3.3

(referred to in paragraphs 3.64 and 3.66)

MMC questionnaire to full-line wholesalers

1. We sent a questionnaire to 29 full-line wholesalers, including all members of the BAPW but excluding UniChem. We received responses from 23 wholesalers, representing a response rate of 79 per cent. Details of each of the wholesalers responding (including location of depot and turnover and pre-tax profit from pharmaceutical wholesaling) are given in Table 1.

TABLE 1 **Full-line wholesalers**

	Location of depots	*Financial year end*	*Turnover* £'000*	*Pre-tax profit* £'000*
AAH Pharmaceuticals Ltd	27 depots (see Figure 3.3)	March 1991	876,000	13,800
Ayrshire Pharmaceuticals Ltd	Kilmarnock	June 1990	17,727	195
Barclay & Sons (London) Ltd	London	July 1990	6,154	35
Daniels Pharmaceutical Ltd	Derby, Manchester, Chesterfield	June 1990	29,651	13
East Anglian Pharmaceuticals Ltd	Norwich	February 1990	22,343	387
Folidays Wholesale Chemists	Trowbridge	February 1990	3,600	48
George Foster (Burnley) Ltd	Burnley	March 1991	37,002	237
Graham Tatford & Co Ltd	Portsmouth	March 1991	22,578	(90)
Hall Forster & Co Ltd	Newcastle-upon-Tyne	March 1990	27,538	323
I & N Rabin Ltd	London	December 1990	7,500	N/A
John Hamilton (Pharmaceuticals) Ltd	Glasgow	May 1991	39,364	612
J M Loveridge plc	Wimborne	September 1990	3,898	0
F Maltby & Sons Ltd	Lincoln	October 1990	8,244	453
Mawdsley-Brooks & Co Ltd	Salford, West Bromwich	March 1991	41,323	307
Medicopharma	8 depots (see Figure 3.3)	December 1990	217,247	2,974
Munro Wholesale Medical Supplies Ltd	Scotland	March 1991	25,816	(32)
Norchem Ltd	Ferry Hill, Middlesbrough	May 1990	11,771	57
Philip Harris Medical Ltd	Norwich, Bury St Edmunds, Bristol	March 1990	41,255	526
Robert Smith & Co (Derry) Ltd	Londonderry	March 1991	9,264	47
L Rowland & Co (Wholesale) Ltd	Wrexham	March 1990	30,094	66
Sangers (Maidstone) Ltd	Maidstone	March 1991	25,744	77
Sangers (Northern Ireland) Ltd	Belfast, Omagh	March 1991	42,616	690
Sants Pharmaceutical Distributors Ltd	Stoke-on-Trent	June 1991	18,825	73

Source: MMC.

*Turnover and profit figures relate to United Kingdom pharmaceutical wholesale business only.

Competition in the United Kingdom wholesale pharmaceutical market

2. We asked wholesalers for their opinion of the state of competition in the United Kingdom wholesale pharmaceutical market. All the wholesalers which responded said that the ethicals wholesale market was very competitive and most also thought this of the OTC pharmaceutical wholesale market (see Table 2).

TABLE 2 **Opinion of state of competition in the United Kingdom pharmaceutical market**

	Very competitive		*Moderately competitive*		*Uncompetitive*	
	Number	*%**	*Number*	*%**	*Number*	*%**
Ethicals	23	100	0	0	0	0
OTCs	19	86	3	14	0	0

Source: MMC.

*Percentages are calculated after excluding non-responses.

3. We also asked wholesalers to explain what form competition between pharmaceutical wholesalers took and which factors they considered to be most important. The majority of wholesalers commented that the most important form of competition between pharmaceutical wholesalers was price competition. However, the overall level of service was also very important. This covered factors such as the range of products stocked, stock availability, frequency and reliability of delivery, the provision of computer systems, marketing and promotional support and financial assistance (eg loan guarantees and extended credit). Some wholesalers commented that the relative significance of these various competitive factors was likely to vary between retail pharmacy customers, with the level of service being more important for independent pharmacies than for retail pharmacy chains.

Range of services provided

4. Wholesalers were asked to give us details of the range of services which they offered to retail pharmacies. The majority of wholesalers provided twice-daily delivery, emergency deliveries and computer ordering (see Table 3). Some wholesalers also offered technical support, marketing services, financial support and loan guarantees.

TABLE 3 **Range of services provided**

	Yes		*No*	
	Number	*%**	*Number*	*%**
Emergency deliveries	21	95	1	5
Computer ordering	20	91	2	9
Twice-daily delivery	19	86	3	14
Technical advice on drugs etc	16	73	6	27
Financial support	14	64	8	36
Marketing services	11	50	11	50
Loan guarantee schemes	9	41	13	59
Franchise schemes	1	5	21	95

Source: MMC.

*Percentages are calculated after excluding non-responses.

Barriers to entry

5. Wholesalers were asked whether they considered that there were any barriers to new companies entering the United Kingdom wholesale market or any barriers for existing pharmaceutical wholesalers wishing to expand their operations. Nearly all the wholesalers commented that there were barriers to entry (see Table 4). These included:

(a) the decreasing size of the retail market open to independent wholesalers as a result of the growth of retail chains and vertical integration by the national wholesalers (through ownership of outlets, franchising and loan guarantee schemes);

(b) the low level of profitability and low returns on capital combined with the high investment costs which would be incurred by a new wholesaler;

(c) the reluctance by ethical manufacturers to supply new wholesalers; and

(d) the discount structures offered by wholesalers which tie retail pharmacies to a single main supplier.

TABLE 4 **Barriers to entry**

	Number	*%**
Barriers	21	91
No barriers	2	9

Source: MMC.

*Percentages are calculated after excluding non-responses.

Problems in obtaining pharmaceutical supplies

6. We asked wholesalers whether they had experienced any problems in obtaining pharmaceutical supplies in the last five years. Ten wholesalers reported such problems (see Table 5) which included:

(a) difficulties in obtaining supplies of ethicals from some manufacturers;

(b) difficulties arising from the minimum order or minimum pack sizes required by some manufacturers;

(c) difficulties in obtaining parallel imports; and

(d) exclusive distribution agency arrangements (particularly in relation to hospital products).

TABLE 5 **Problems in obtaining pharmaceutical supplies in last five years**

	Number	*%**
Problems	10	43
No problems	13	57

Source: MMC.

*Percentages are calculated after excluding non-responses.

Effects of the proposed mergers on competition

7. Wholesalers were asked whether they thought that either of the proposed mergers would have any effect on the level of competition between pharmaceutical wholesalers in the United Kingdom. In both cases, nearly all the wholesalers commented that the proposed merger would have an effect on competition.[1]

8. As regards the proposed merger with UniChem, the following effects were suggested by wholesalers:

(a) UniChem's position in the wholesale market would be strengthened by an increase in its bargaining power and by an increase in the number of its captive retail outlets.

(b) The size of the `free' market available to independent wholesalers would be reduced. The viability of the independents would decline and this would possibly lead to some wholesalers withdrawing from the market and, therefore, to a reduction in competition.

[1]Most of the questionnaires were completed and returned before Medicopharma announced its withdrawal from the United Kingdom market. We wrote to each of the wholesalers which had responded to ask whether they wished to add to or amend their responses to these particular questions in view of this development. None of the wholesalers told us that they wished to amend their responses.

(c) The viability of Medicopharma would be undermined and it would be forced to close depots and possibly withdraw from the United Kingdom wholesale market, resulting in a loss of competition.

9. With respect to the proposed merger with Lloyds, the main effects suggested by wholesalers can be summarised as follows:

(a) The merger would lead to an increase in self-supply and thus reduce the size of the `free' market available to wholesalers. This would threaten the viability of independent wholesalers and lead to a reduction in competition.

(b) The viability of Medicopharma would be undermined.

10. Detailed views expressed by wholesalers are given in Chapter 5.