

# Market Response To Deregulation Of Swedish Pharmacies : An Empirical Study On Consumers' Opinion In Stockholm City

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## INTRODUCTION

✿ **Pharmacies In Sweden:** The history of pharmacy in Sweden goes back to 1552, when King Gustav Vasa employed the first pharmacist, Master Lucas from Germany and the first pharmacy outside the royal palace was established in 1575. The reason for opening the pharmacy to the public was to assure the quality of ingredients in the products, as it was important to vital life care (Lindberg and Adolfsson, 2007). The first regulation on pharmaceuticals came into existence in 1557. The regulation was between the monarch and the individual pharmacists. However, such regulation controlled neither the competence, nor the price - though it was recommended to sell drugs at reasonable prices (Oberg, 2003). Then during the 17th century, organized Swedish pharmacies were established, and the prices were regulated. Since then, Sweden saw many changes in regulations pertaining to production and distribution of pharmaceuticals (Lindberg and Adolfsson, 2007). From 1945 to 1970, Sweden saw an expansion in the number of pharmacies, primarily in the urban sector. More pharmacies grew in the urban areas due to increase in market demand. However, a few new pharmacies opened up in the rural areas despite a decline in rural population (Oberg, 2003). In 1969, the Swedish government decided to nationalize the pharmacies after a negotiation with The Swedish Academy of Pharmacies. The government established the National Corporation of Swedish Pharmacies (Apoteksbolaget AB), which was then renamed as Apoteket AB in 1998 (Blondal, 2009). Since then, Sweden had a 100% government owned pharmacy monopoly. Sweden was the only country (until 2009) in the industrialized world to have a state-owned monopoly over the pharmacy market.

✿ **Government Inquiry On Deregulation :** The one channel retailing of the pharmaceuticals by a state-owned monopoly no doubt helped in providing healthcare equity to the Swedish public and also helped in the supply of high-quality drugs. The level of expertise, security, coordination and quality of pharmaceutical trade was considered to be high. However, improvements were inevitable, in particular, in the consumer accessibility of medical products. So, the Swedish government considered deregulating the pharmacy market in 2006.

The government appointed an inquiry headed by inquiry chair Lars Reje at the end of 2006 on the possible deregulation. The objective of the proposed deregulation was “*greater efficiency, improved accessibility for consumers, price pressure, and safe and appropriate use of medical products.*” (Health and Medical Care Policy Publication, 2008)

The inquiry examined the possibilities for the proposed objectives as mentioned above. The inquiry was delivered as a final report on the reform of the pharmacy market (SOU 2008:4) to the Minister for Health and Social Affairs on January 8, 2008 (Health and Medical Care Policy Publication, 2008). It gave a proposal that would enable business entities other than Apoteket AB to join retailing of both prescription and non-prescription medicinal products. The chief prerequisite as proposed in the inquiry was that a permit must be obtained from the Medical Products Agency (MPA) by concerned parties who wish to retail in these products, and that the business would need to have required pharmaceutical expertise. The inquiry also proposed making the IT infrastructure independent of Apoteket AB for making it accessible to all pharmacies, irrespective of the owner. Recommendation for a new pricing model for medicinal products was also made. The report was circulated for comments by concerned individuals until April 11, 2008. The inquiry also examined proposals for allowing the sale of a limited range of non-prescription medicinal products at locations other than pharmacies such as supermarkets and gas stations (Health and Medical Care Policy Publication, 2008).

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✳ **Government Decision And The Deregulation Bill :** Following the enquiry submitted by Inquiry Chair Lars Reje in early 2008, the government submitted a bill on the deregulation of the pharmacy market on February 20, 2009 at the Riksdag (Swedish parliament) (Govt. offices of Sweden publication, 2010).

As per the press release of the Ministry of Health and Social Affairs, the aim of the reformation bill was “*to create the conditions for more pharmacies with longer opening hours.*” The proposal aimed at bringing a liberalization of the rules on operation of pharmacies in Sweden. It was expected to give more business actors the chance to contribute to the supply of pharmaceutical products while maintaining safety, accessibility and customer-oriented business practices. The salient features of the bill presented in February 2009 were:

✳ Liberalization of the Rules.

✳ Retention of Apoteket AB as a key actor.

✳ Opening the retailing of Over The Counter (OTC) pharmaceuticals to other shops.

Following this, the Swedish parliament voted for the deregulation on April 29, 2009 and the Swedish government finally abolished the monopoly of the Apoteket AB in the pharmacy market, introducing a competitive market on 1<sup>st</sup> November 2009, although provision for stringent regulation to assure safety and quality was maintained (New Europe, 2009).

## OBJECTIVES OF THE STUDY

This paper aims at understanding the Swedish consumers' opinion about the deregulation of the pharmacies, consumers' behavior in the pharmacy market and expectations from pharmacies after the transition from monopoly of Apoteket AB to a free market. The researcher aimed to elicit the following specific questions:

a) How do Swedish consumers respond to the deregulation of the pharmacy market?

b) What are the consumers' primary expectations in the pharmacy market?

## METHODOLOGY AND COLLECTION OF DATA

This research was undertaken from January to June, 2010 after the deregulation bill was passed in 2009 and mainly utilized descriptive research method to address the study objectives. As the issue of “*Deregulation of the Swedish Pharmacies*” is very recent and the final bill was passed only in 2009, enough statistical data were not available to determine solely quantitatively, the changes the deregulation has brought. The researcher used secondary sources of information for highlighting the rationale behind deregulation of the pharmacy market and primary data for examining the issues mentioned in the objectives of the paper. Primary data used in this study were based on a survey of Swedish consumers. The primary data in this study were collected through a survey questionnaire distributed to a random sample of about three hundred and fifty consumers in ten Apoteket AB shops, three shopping malls and two gyms in Stockholm city in March, 2010. One hundred and eight completed questionnaires were returned to the researcher. Eight of the questionnaires returned were discarded as incomplete. Hence, 100 questionnaires were used for the final analysis.

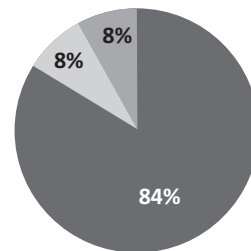
## FINDINGS AND ANALYSIS

The survey revealed several interesting facts about the opinion of the Swedish public regarding their Government's public policy in healthcare and nature of purchasing behavior in the pharmacy market. The findings of the survey are analyzed below :

✳ **Awareness And Public Opinion About Deregulation:** The survey asked the customers about their personal opinion on deregulation. Majority of the participants agreed that deregulating the market was good both for public health and the business (i.e. companies), while a negligible percentage of the respondents opined that it was good only for the companies. It shows the propensity of the consumers in the pharmacy market towards the good impact market competition could bring in the public health sector. Further, a sizeable percentage of the consumers surveyed expressed willingness to buy medicines from foreign pharmacy chains when they enter the market following the deregulation, which can be discerned as openness of the market for pure competition ( see Figures 1 and 2).

**Figure 1: Consumers' Personal Opinion About Deregulation**

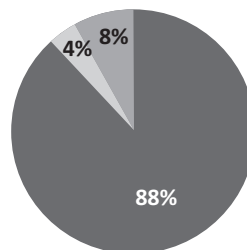
■ Good for both public health and companies ■ Good only for companies  
■ Good only for the Government ■ Indifferent



**Figure 2 : Consumers' Acceptability Of Foreign Companies**

Would you buy medicines from foreign pharmacy companies if they enter the pharmacy market after deregulation?

■ Yes ■ No ■ Don't Know

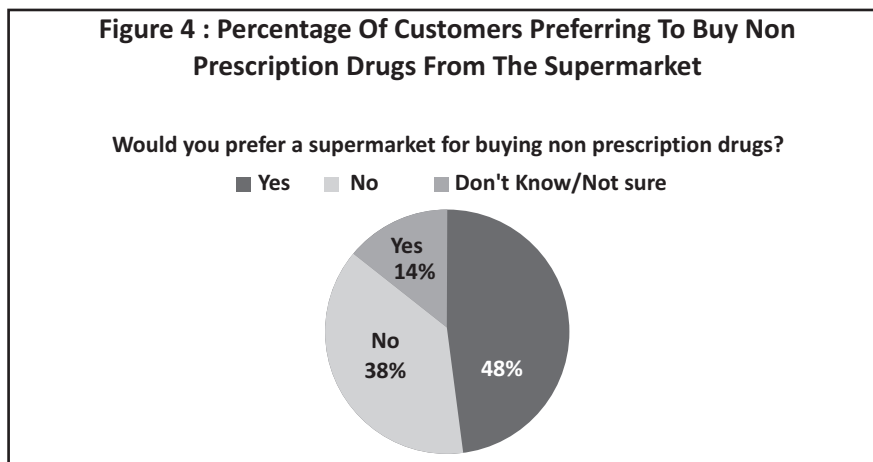
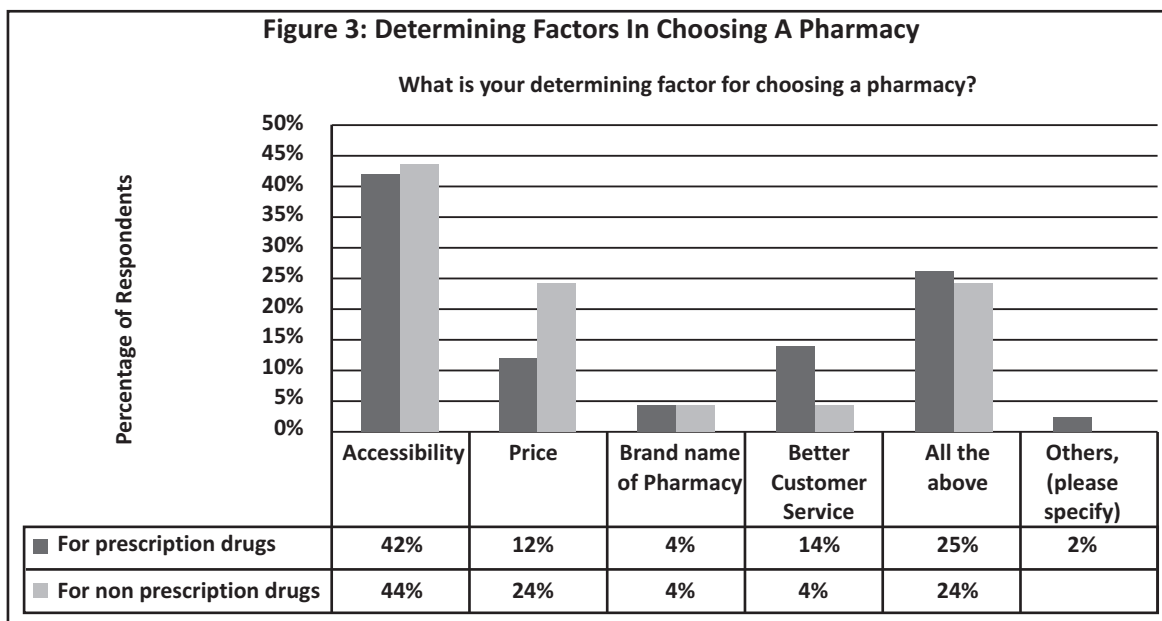


**Key Factors Determining Customers' Choice of A Pharmacy:** As the Swedish pharmacy market opened to competitors, it is essential for both Apoteket AB and the new entrants to know the customers' need and priorities for developing a strategy of service improvement and designing a suitable marketing mix. The customers were surveyed on various purchasing behavior and the findings on their perceptions about determining factors for purchase of pharmaceutical commodities are described below :

First, it was interesting to know what would be the most important factor in determining a store for purchase of drugs in the market. This is evidently important as the customers now had more options to choose from. Some important determining factors that a market player should heed to include accessibility, price, brand name of the pharmacy and customer service. Interestingly, the survey sample overwhelmingly emphasized on accessibility, which corroborates the government's rationale that the monopoly system could not fulfill the need of better accessibility and dearth of accessibility calls for more purchasing options for the public. Though the sample responded similarly to the accessibility factor for choosing a pharmacy store in case of both prescription and non prescription drugs, yet, the same respondents showed a difference in the price sensitivity in the market segment of prescription and non prescription drugs. While only 12 % of the customers chose a pharmacy based on price when buying a prescription drug, double the number of customers (24%) chose a pharmacy (or shop) based on price for buying a non prescription drug. The price elasticity of demand is evidently higher in the non prescription segment of the pharmacy market. Customers, however, emphasized more on the quality of service in case of prescription drugs than non prescription drugs. 14 % of the sampled customers responded that customer service would be a determining factor for them in choosing a pharmacy for prescription drugs, while only 4% respondents chose a pharmacy store based on customer service while buying a non prescription drug. For both market segments, a quarter of the respondents said that all the afore - mentioned factors determined their choice of a pharmacy, indicating that customers expect the highest care at all possible levels. A very negligible percentage of the customers emphasized on the brand name of the pharmacy in both segments, which shows little brand consciousness in determining a pharmacy retailer. A small percentage of the customers, however,

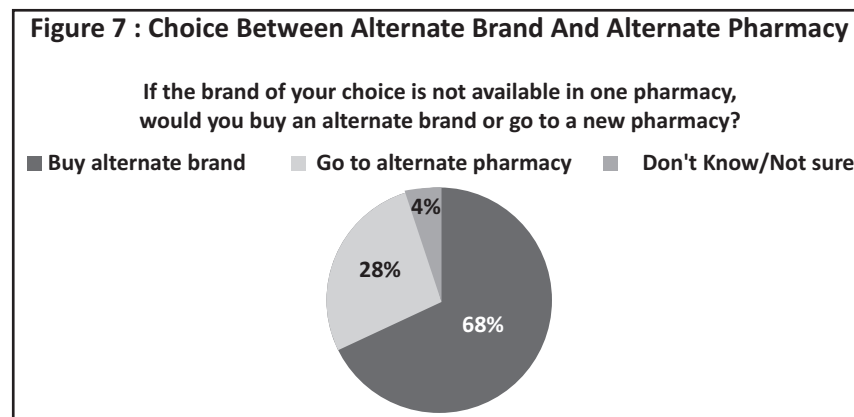
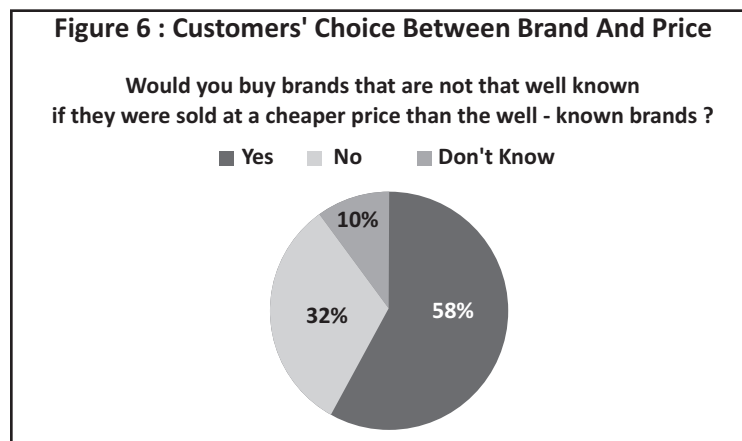
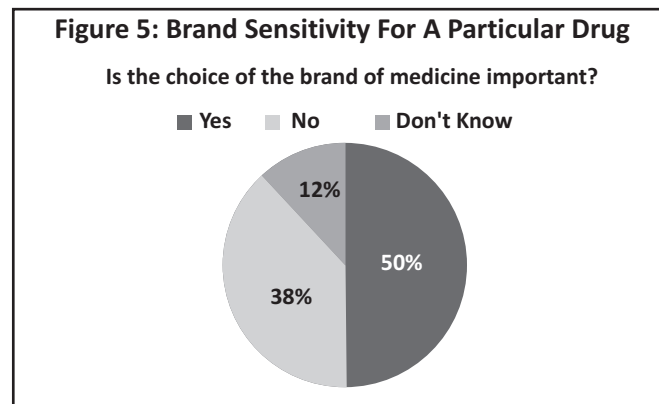
determined their choice based on factors other than the ones described here. Some significant factors that the customers mentioned were “*Quality of the Products*” and “*High Standard for Medicines*” (see Figure 3).

It is not just that the consumers were more price sensitive in case of non prescription segment of the pharmacy market, but they also expected more flexibility to buy non prescription drugs. Majority of the customers wanted to buy non prescription or Over The Counter (OTC) medicines from a supermarket or a convenient store, than going to a pharmacy. 48% of the respondents in the survey expressed their preference for a supermarket over a regular pharmacy for buying non prescription drugs, while 38% preferred to stick to a traditional pharmacy even for the non prescription drugs. It is evident from both - the price sensitivity and preference of a supermarket for buying non prescription drugs that pharmacies would have to face tough competition from the supermarkets in the case of the non prescription segment (Figure 4).

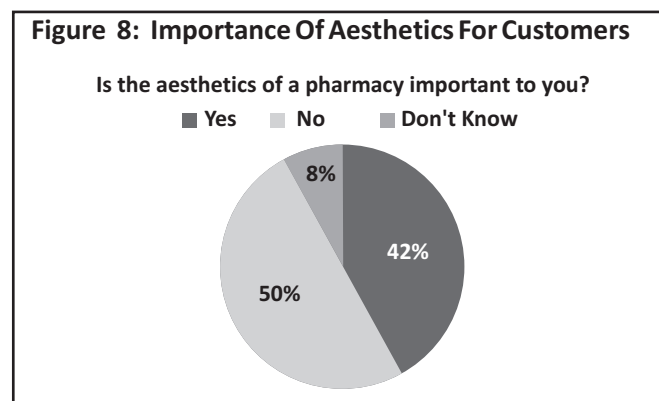


✿**Brand Sensitivity** : Customers were also asked about the importance of the brand name of a drug. Half of the customers were found to be brand sensitive, while a little over a third of the survey sample expressed no importance for the brand of the drug. However, when asked if they would buy a lesser-known brand of the same medicine at cheaper price, 58% of the respondents expressed willingness to buy even a lesser-known brand of the same medicine. On asking whether they would go to a new pharmacy if they didn't have the brand of their choice, or would they buy the medical equivalent brand from the same pharmacy, two third of the customers responded they would buy the alternate brand of the medicine rather than going to another pharmacy. This accedes to the finding that the customers were not

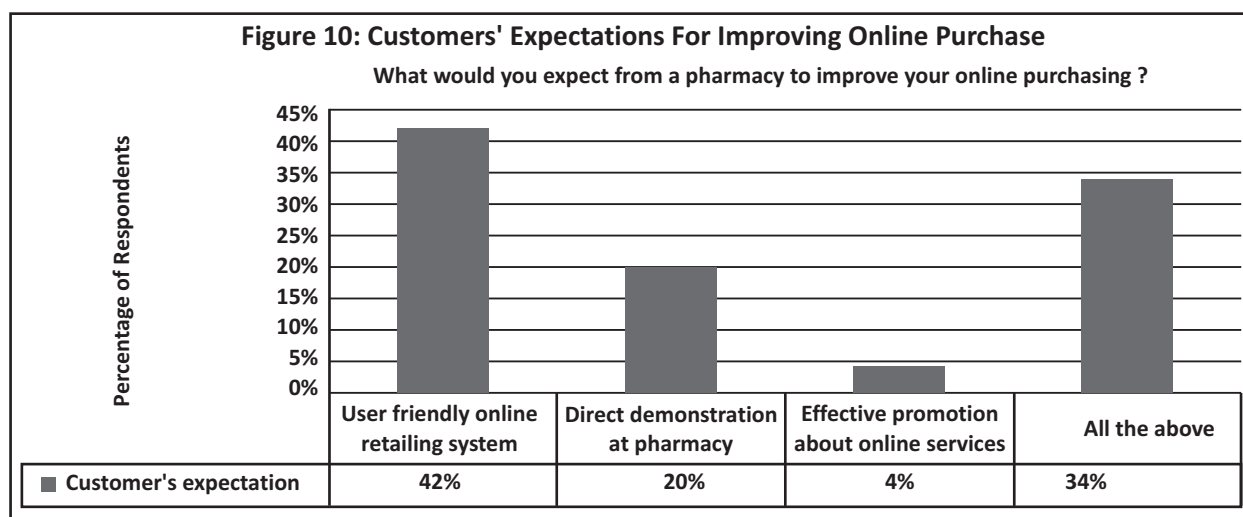
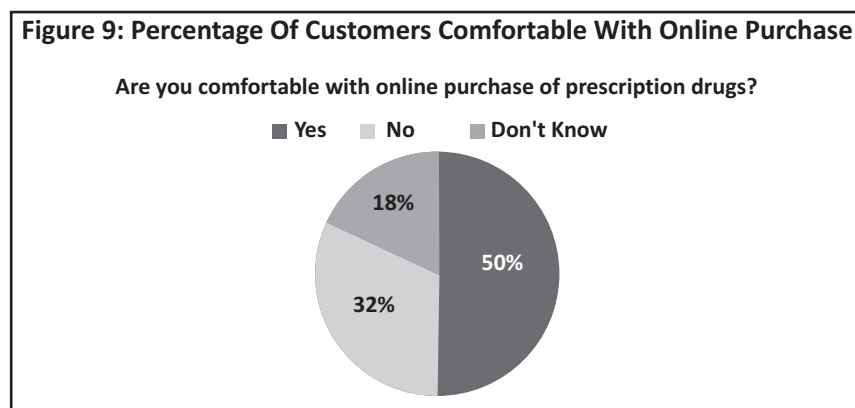
brand sensitive when viable alternative of the same generic medicine was available ( see Figures 5, 6 and 7).



✿ **Aesthetics And Online Services** : Aesthetics may be an interesting differentiating factor among competing stores in many markets. However, the relevance of aesthetics in the case of pharmacy seems to be dubious, so the customers were asked in this study about their opinion on the importance of aesthetics of the pharmacy while making a purchase. Half of the respondents denied any importance of aesthetics of the pharmacy in their decision of purchase. Only 42% said aesthetics mattered to them, 50% expressed that it did not matter to them, while the remaining respondents were unsure. This shows that while aesthetics might not be a huge determining factor in providing a competitive edge, yet, a considerable segment of the market considered aesthetics to be important (see Figure 8).



Information Technology has brought a tremendous change in business process reengineering. Retailing has seen its own use of IT and the internet. The internet could be used for both providing information on products, prices, API of different drugs, health-related knowledge, and also for online sale of non prescription drugs and health-related products. A good online retailing system is essential to grab that segment of the market who would rather buy the non prescription drugs, health care products, health-foods, etc. using the internet rather than going to the real store. However, the convenience of the online sales process is an important factor for making online retailing a success. Only 50% of the surveyed respondents were found to be comfortable shopping online, which leaves scope for the pharmacies to take initiatives to make the online purchases convenient. The customers also expressed how their online





purchases could be improved. Some of the initiatives to improve the online purchase were identified as: user friendly online retailing system, direct demonstration of online retailing at the pharmacy, and effective advertisement about the online retailing system. Majority of the customers felt that a user friendly system for online purchases is the best way to improve the process (see Figures 9 and 10).

## RECOMMENDATIONS

Now that the pharmacy market is a free market in Sweden, pharmacy companies would need excellence in both product quality and service delivery. Strategic decision in functioning and promotion would determine the success of a pharmacy chain in a very health conscious and educated market such as Sweden. Based on the observations and customers' opinion, a general trend can be construed, and the market can be categorized as a service and quality conscious one. Right customer service management is the key differentiating factor for such a market. In light of the trends explained in the above section, the following recommendations are suggested for the pharmacy companies :

✿ **Understanding Price Elasticity of Demand** : A good percentage of the consumers were price sensitive in case of non prescription drugs, while very few were sensitive in case of prescription drugs. The reason could be the fact that prescription drugs' price would still be regulated by the government, and most of the expenses are covered by copayment of the government. So, the pharmacy companies would need a separate pricing strategy for prescription drugs, (which would be covered by copayment) and for the non prescription drugs (which aren't covered by copayment). Further, the survey showed consumers' inclination to buy non prescription drugs and other health-related products from a supermarket over a pharmacy. Hence, a pharmacy would need to compete with traditional retailers, and a price war is bound to swing in the future in the non prescription segment. It would be useful to statistically study the level of price elasticity and accordingly determine prices in the non prescription segment. Suggestions may be made on cutting cost by better management of sourcing and logistics, and efficient inventory management. Inventory management in pharmacy is a key aspect of cost management as the products need careful handling and have specifications for temperature, shelf life, etc. Efficient demand projection can reduce inventory cost, cost due to obsolescence and expiry of medicines and stock out costs.

✿ **Branding And Related Marketing Strategy** : For both pharmacy name and brand for generic medicines, the customers seemed to be less sensitive towards brand identity. Either branding of pharmacies was a non determining factor for the target customers, or the existing company Apoteket AB failed to create an appreciation for a good pharmacy brand . Now that the customers have more choices, excellence in service and competitive prices can create brand differentiation among the pharmacy chains. However, since the brand of the medicine is not the primary determining factor for choosing a pharmacy, the companies need to focus more on price and service levels, than on brand management and advertising. Good service levels automatically would create a positive brand image of a pharmacy at lower cost , than aggressive brand campaign used in many consumer industries.

✿ **Process Improvement Through Six Sigma** : Customers expressed a high level of importance on the quality of the service. Continuous improvement of the service, especially in reduction of dispensing errors, right counseling, improved information sources and customer relationship management is called for. While CRM resources and efficient IT usage can improve both customer relations and fulfill the information needs of customers, reducing dispensing errors in both hospital and outpatient pharmacies need advanced methodological approach. With an ever growing consciousness regarding safety of medicines and dispensing accuracy, it is pivotal to continuously reduce dispensing errors in the pharmacy. Application of Six Sigma for reduction of errors and service improvement could be a viable option, as quality is pivotal in a health-related service.

## NEW FRAMEWORK FOR PHARMACY CSM

Pharmacies can't have much influence on the product component of the marketing mix of drugs. Since price for prescription drugs is regulated, and the pharmacies don't determine the quality of the Active Pharmaceutical Ingredients (API), the most important differentiating factor for a pharmacy brand would be its Customer Service Management (CSM) practices. Right CSM practices can retain the existing customers and gain new loyalties. A new CSM framework, ICTAS (Information-Care-Timing-Accessibility-Service Mindset) Framework can be propositioned for improving the quality of service by any pharmacy chain. The ICTAS framework is aimed at holistic improvement of

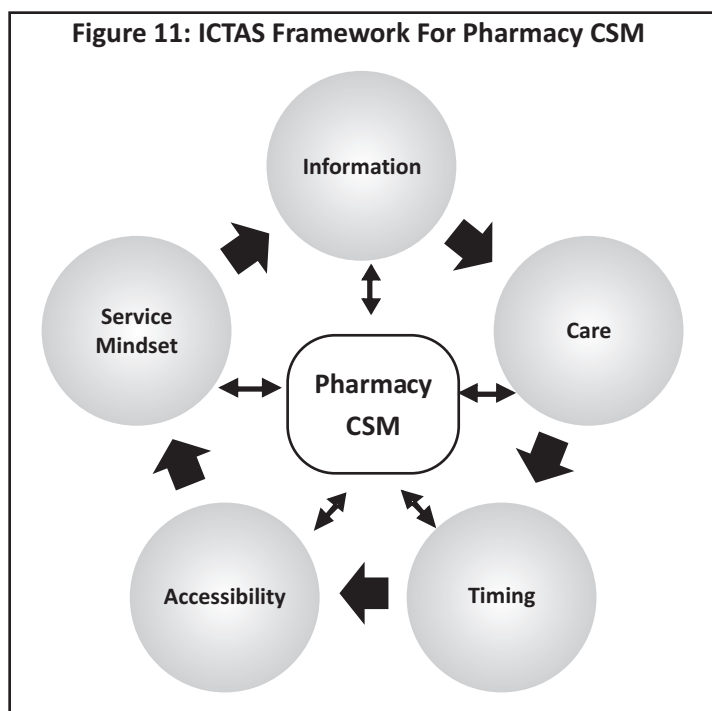
service delivery for a pharmacy. Its individual composition is described as follows:

✿**Information:** Information in the ICTAS framework refers to any form of medical and clinical information that customers seek from the pharmacist or pharmacy technician. Availability of qualified pharmacist, pharmacy technicians and active assistants is important to make information flow effective. They ought to provide relevant and accurate information on any Over The Counter (OTC) drug and basic information on the API of a prescribed medicine. Each pharmacy can be recommended to have a knowledge database on prescribed or OTC drugs sold. However, the information flow in a pharmacy would be bidirectional. The pharmacy would need to manage the information coming from the patients as well. There is a need for developing customer database to make basic health information and prescription history of regular customers available instantly. Introduction of “*Pharmacy Membership Cards*” and right CRM software to enter, manage and utilize data pertaining to each member is suggested.

✿**Care :** Customer care is *sine qua non* for gaining loyalty in any market. However, it is more sensitive in the healthcare sector. The people working at the pharmacy need to be empathetic while listening to patients, reading through prescriptions diligently, and should have sound communication and people skills. Personalized care can add to the value chain of customer service management. The more personalized the care in a pharmacy is, the more customer loyalty it can expect.

✿**Timing :** Pharmacy opening hours is critical for dispensing drugs and providing the essential services to the customers. Patients may need drugs at any moment of the day. Long opening hours during the day and “*on-call emergency services*” during night hours are suggested to ensure effective and time bound service. The cycle time for drug dispensing needs to be minimized as well. It will ensure reducing or eliminating queues.

✿**Accessibility :** Accessibility is a major issue in a pharmacy market. Target population needs access to a pharmacy in the most convenient location. In a competitive market, each pharmacy chain needs to have pharmacies present such that their target market doesn't have to struggle to reach a pharmacy. For the non prescription segment, use of vending machines and e - pharmacy can improve accessibility.



✿**Service Mindset:** Creating a service mindset as an integral part of the value chain of a pharmacy is required to offer the best possible services. For a right service mindset to become a part of the culture at a pharmacy, the management requires to focus on the “*People*” segment of the marketing mix. In the pharmacy market, where the pharmacy doesn't



have much control on the production of drugs, right service mindset in providing the right drugs would differentiate a pharmacy as successful in customer service. Some suggestions for developing the right service mindset among the human capital in a pharmacy chain could be as follows :

- 1) The pharmacy employees need to focus on discussing the positive interactions more with the customers than the negative ones.
- 2) The workforce requires appreciating the pharmacy profession as a noble one.
- 3) The employees need to work with patience and empathy i.e. understand that customers are people who suffer from ailments and require help.
- 4) Most importantly, the company needs to have a cultural control system to develop a helping mentality among the employees.

## CONCLUSION

As desired by Swedish policymakers and public, deregulation of the pharmacies introduced new players in the market in addition to Apoteket AB. This brought positive changes and high customer expectation in the market performance. Increase in the number of pharmacy chains has resulted in increased accessibility to consumers and greater choices in buying. The consumers can now choose pharmacy chains based on differentials in quality, service efficiency, price, brand and useful information. As found in this research, the consumers are highly conscious about quality, accessibility and service delivery in the Swedish market. This makes the deregulated market a competitive one for any pharmacy chain to flourish. Professional management of the pharmacies with a right pharmacy CSM, emphasis on increased accessibility and quality of service would be the chief driving factor for any pharmacy chain to survive and thrive in this market.

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