# RETAIL DISTRIBUTION OF OTC PHARMACEUTICALS: GROWTH RATE HYPOTHESIS

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Abstract

Just as the internet has transformed how we communicate and share, it is now transforming how we work, and of course, how we shop and particularly, in the healthcare sector, this theme is becoming prominent. Starting from two observed events: 1. the growing market demand of healthy products toward internet channels and 2. the importance to safely regulate *that* market, to prevent the danger naturally associated to the drugs sale on the net, the article has been drawn up to analyse the future *Italian* scenario where the OTC pharmaceuticals will be traded online (Vagnozzi, 2015) as sustained by the new normative evolution. The environment of the pharmacy is undergoing a change due to both the recent possibility to adopt the net as a channel to sell pharmaceuticals (prescription ones are not taken into consideration) and the necessity to provide responses to the new type of pharmacy-Clients who are more attentive toward the topic. In this situation develops an Internet Pharmacy which is different in the structure as well as in the new functions of the pharmacist who should assume a new managerial role, to be able to manage his own point of sale .

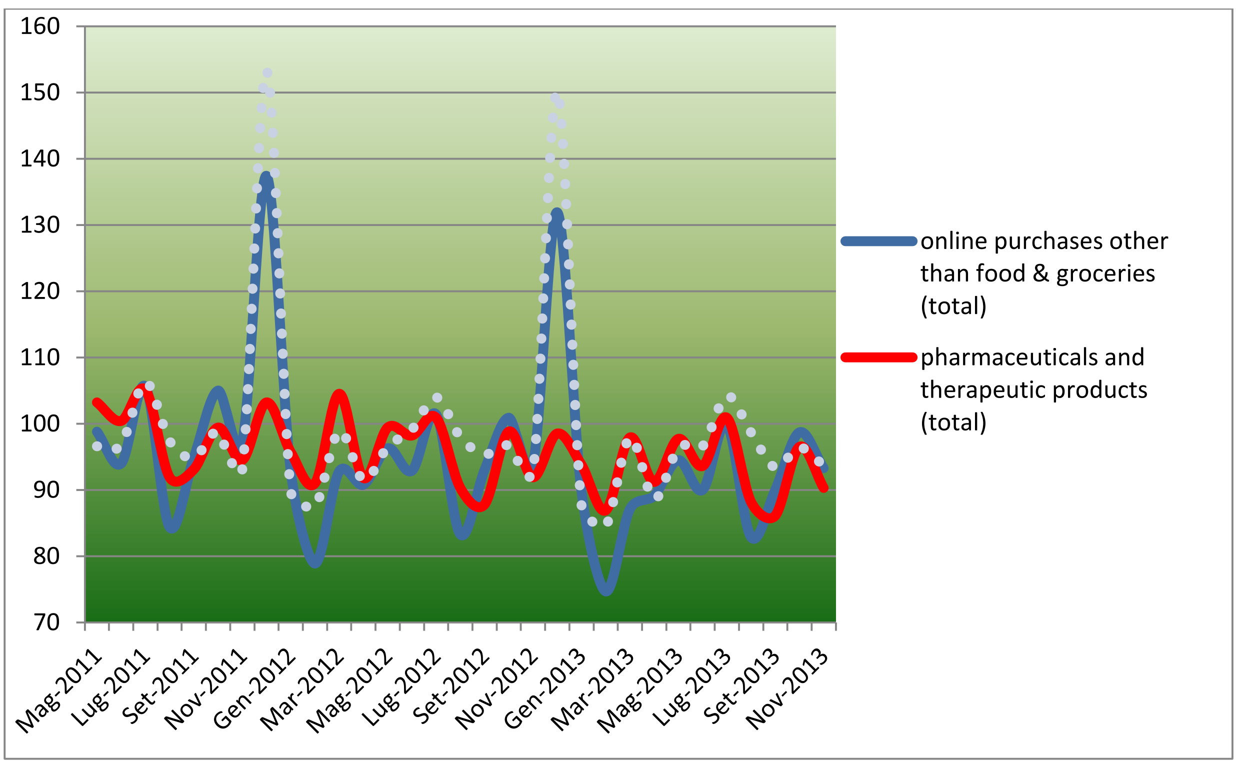
## TERMS AND CONDITIONS OF THE NEW LEGAL ONLINE PHARMACY

In Italy, online pharmacies will be soon a reality; they will be absolutely legal and regulated by the government, on the authority of parliament and in harmony with the European directives. In the draft decree for the transposition of Directive 2011/62/EU, approved by the Council of

Ministers, it is expected, under certain conditions and subject to authorization, the possibility to sell pharmaceuticals, without prescription ones (OTC) only allowed, on the internet through pharmacies or drugstores. Behind the website, then, there will be always a “physical" shop, recognizable and authorized. To come into compliance with the new provisions, and start selling online pharmaceuticals, the websites of pharmacies and drugstores will contain a link connected to the Ministry of Health website itself, which in turn must contain a list of all entities or persons authorized to sell drugs on the net. A special logo, the same for everyone, makes instantly recognizable the websites licensed to sell[1]. Concerning the tasks of the Italian Drug Agency (AIFA), measures to increase public awareness about the risks associated with the use of unsafe drugs, are needed.

MARKET TRENDS: Health-related & Pharmaceutical expenditure

**Figure 1 Retail Trade Variations in Italy; Focus on Non Food Products ( 2011- 2013). Data Istat**



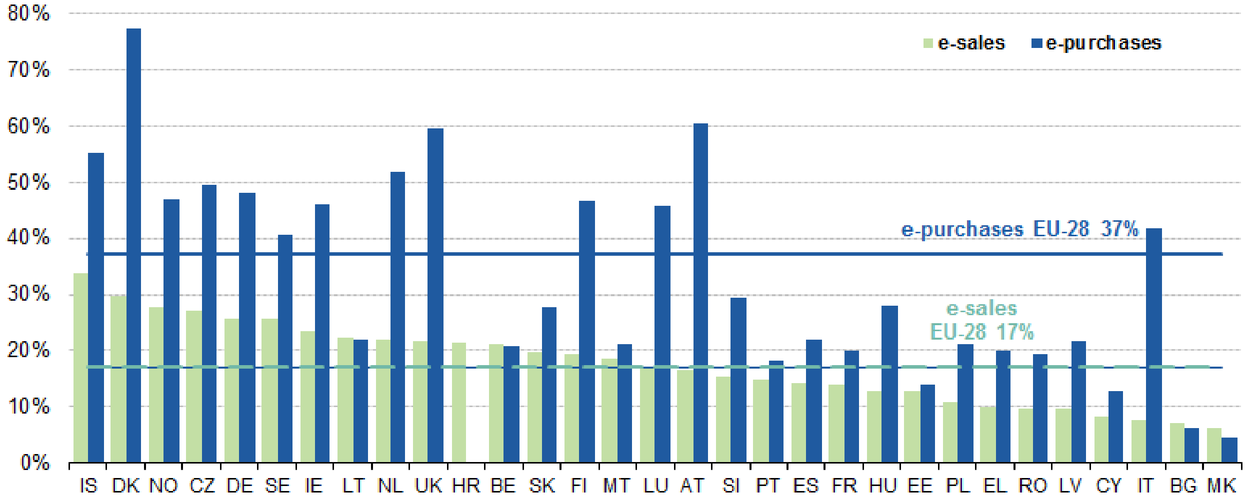

[1] On June 24th, 2014, The European Commission implemented the regulation in the context of the Directive on falsified pharmaceuticals (Directive 2011/62/EU), which establishes a common logo for the pharmacies online, as well as the technical requirements to ensure its authenticity. The logo will be available from the second half of 2015. http://europa.eu/rapid/press-release_IP-14-712_it.htm

**Figure 2 Retail Trade 2013 . Data Istat**

| | Nov 13--Nov 12 | Jan-Nov 13--Jan-Nov 12 |
|---|---|---|
| Food & Beverages | 1,5 | -1 |
| *Non Food* | *-0,6* | *-2,7* |
| Pharmaceuticals products | -1,7 | -2,6 |
| Clothing | -0,3 | -2,6 |
| Footwear, Leather goods and luggage | -0,1 | -2,9 |
| Furniture, textile | -0,8 | -3,3 |
| Appliances, radio, TV and Recorders | 0,1 | -3,1 |
| Computers, Telephones, Telecommunications | -0,3 | -1,4 |
| Photo-optical, Films, Magnetic Media and Musical instruments | -1,2 | -3,4 |
| Household goods, durables and non- durables | -0,1 | -2,3 |
| house tools and other | 0,2 | -1,8 |
| Perfumery and personal care goods | 1,2 | -1 |
| Books, magazines and newspapers | -2,8 | -4,1 |
| games, toys, sport and camping | 1,1 | -2,6 |
| other products (Jewelry, watches) | -2,3 | -2,9 |
| **total** | **0,1** | **-2,1** |

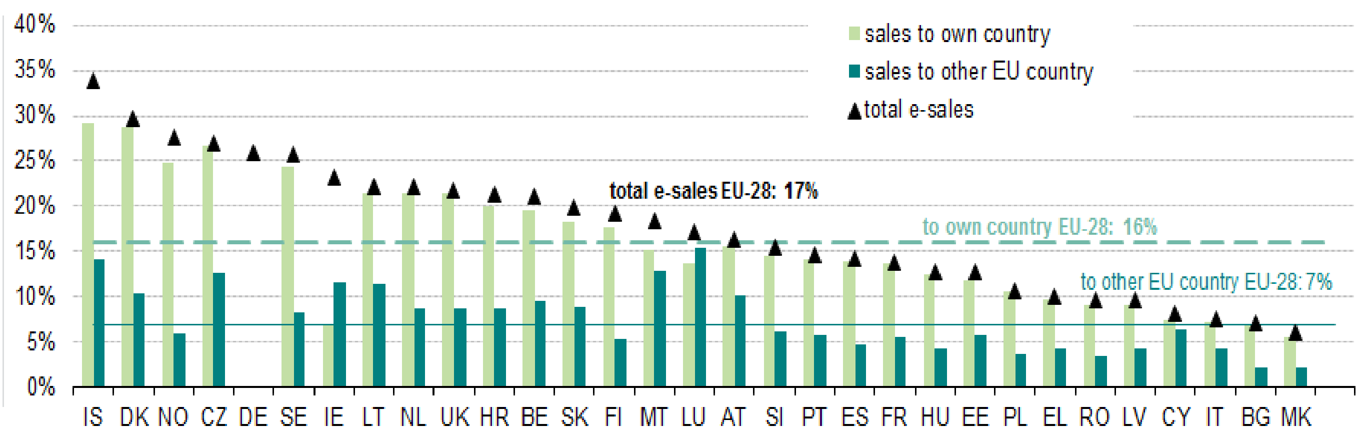
The indicators showed in the above Figures 1 and 2 (Istat, January 24, 2014), are useful to analyze and understand market trends especially in the pharmacy retailing. November 2013 showed diversified trends for different groups but a more sustained increase concerns groups of products like perfumery and personal care (+1.2%). The value of pharmaceuticals items sales, in November 2013 compared to the previous year, shows a decline in sales of 2,6 ; while comparing the single month of November there is a negative value of 1,7 which is lower but always minus signed. Considering the time of international crisis and decline in consumption sales, the choices the pharmacy makes become fundamental. The opportunity offered by e-commerce in this sector, assumes a strategic value. Moreover, the statistics show that, although retail sales of pharmaceuticals have experienced a significant decline, this does not concern the field of personal care and perfumery items which, in fact, recorded a sales increase of 1.2 in November. That demonstrates the increasing customer's attention towards these kind of products which should be exploited through the Net to improve the performance of service delivered.

Figure 3 E-commerce sales and purchases, 2012 (% of Enterprises) . Source of Eurostat




HR: e-purchases not available

Figure 4 E-commerce sales to own country and other EU countries, 2012 (% Enterprises). Source of Eurostat




DE: data unreliable

Figure 5 Individuals having ordered/bought goods or services for private use over the Internet (% 2014) Data Eurostat

| geo\time | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EU (28 countries) | : | : | : | : | : | 23 | 24 | 28 | 31 | 33 | 35 | 38 |
| EU (27 countries) | : | : | 15 | 18 | 20 | 23 | 24 | 28 | 31 | 34 | 35 | 38 |
| Euro area (changin | 9 | 12 | : | 17 | 20 | 23 | 24 | 27 | 31 | 33 | 35 | 38 |
| Belgium | : | : | : | 11 | 14 | 15 | 14 | 25 | 27 | 31 | 33 | 36 |
| Bulgaria | : | : | 1 | : | 2 | 2 | 2 | 3 | 3 | 5 | 6 | 8 |
| Czech Republic | : | 3 | 3 | 3 | 7 | 8 | 13 | 12 | 15 | 16 | 18 | 21 |
| Denmark | 24 | 16 | 22 | 26 | 31 | 43 | 47 | 50 | 54 | 57 | 60 | 65 |
| Germany | 17 | 24 | 29 | 32 | 38 | 41 | 42 | 45 | 48 | 54 | 55 | 60 |
| Estonia | : | : | 4 | 4 | 4 | 6 | 7 | 12 | 13 | 16 | 17 | 16 |
| Ireland | : | 5 | 10 | 14 | 21 | 26 | 30 | 29 | 28 | 34 | 35 | 37 |
| Greece | 1 | 1 | 1 | 2 | 3 | 5 | 6 | 8 | 9 | 13 | 16 | 17 |
| Spain | 2 | 5 | 5 | 8 | 10 | 13 | 13 | 16 | 17 | 19 | 22 | 23 |
| France | : | : | : | : | 19 | 25 | 28 | 32 | 40 | 40 | 42 | 44 |
| Croatia | : | : | : | : | : | 5 | 5 | 6 | 9 | 11 | 16 | 19 |
| Italy | 3 | 4 | : | 4 | 5 | 7 | 7 | 8 | 9 | 10 | 11 | 14 |
| Cyprus | : | : | 3 | 4 | 5 | 8 | 7 | 13 | 14 | 16 | 17 | 20 |
| Latvia | : | : | 2 | 3 | 5 | 6 | 10 | 8 | 8 | 10 | 18 | 21 |
| Lithuania | : | 1 | 1 | 1 | 2 | 4 | 4 | 6 | 7 | 10 | 14 | 19 |
| Luxembourg | 13 | 18 | 32 | 31 | 35 | 37 | 36 | 46 | 47 | 52 | 57 | 59 |
| Hungary | : | : | 2 | 5 | 5 | 7 | 8 | 9 | 10 | 13 | 15 | 17 |
| Malta | : | : | : | 10 | 9 | 16 | 16 | 27 | 32 | 35 | 37 | 38 |
| Netherlands | 15 | 18 | 24 | 31 | 36 | 43 | 43 | 49 | 52 | 53 | 52 | 59 |
| Austria | 8 | 8 | 13 | 19 | 23 | 26 | 28 | 32 | 32 | 35 | 39 | 46 |
| Poland | : | : | 3 | 5 | 9 | 11 | 12 | 18 | 20 | 20 | 21 | 23 |
| Portugal | 2 | 2 | 3 | 4 | 5 | 6 | 6 | 10 | 10 | 10 | 13 | 15 |
| Romania | : | : | 0 | : | 1 | 2 | 3 | 2 | 2 | 4 | 3 | 5 |
| Slovenia | : | : | 4 | 8 | 8 | 9 | 12 | 14 | 17 | 20 | 22 | 25 |
| Slovakia | : | : | 6 | 6 | 7 | 10 | 13 | 16 | 19 | 23 | 30 | 30 |
| Finland | 11 | 14 | 24 | 25 | 29 | 33 | 33 | 37 | 41 | 45 | 47 | 49 |
| Sweden | 24 | 21 | 30 | 36 | 39 | 39 | 38 | 45 | 50 | 53 | 58 | 57 |
| United Kingdom | 25 | 24 | 28 | 36 | 38 | 44 | 49 | 58 | 60 | 64 | 64 | 71 |
| Iceland | : | 20 | 25 | 28 | 31 | 32 | 32 | 27 | 29 | 31 | 35 | 34 |
| Norway | : | 24 | 31 | 35 | 47 | 48 | 46 | 54 | 53 | 57 | 62 | 56 |

## HEALTH & WEB, CONSIDERATIONS ON THE SECTOR

Today the possibilities offered by Internet to the Pharmaceutical Industry are numerous, both in Research and Development processes optimization (production and distribution) and in the communication improvement, as well as in the business as a whole. The entire pharmaceutical sector is evolving towards a model of market in which is in place a substantial change in the supply and demand as well in the roles of main actors involved: health authorities, patients, doctors, and industry. The offer will be increasingly marked by new drugs and in the future, probably customized. The demand will continue to grow because of an older population and the spread of a different concept of health, also understood as wellbeing. The mix generated ,will find hard compatibility with the limited public budgets, often inadequate; this will transfer the whole pharmaceuticals spending to the consumers, increasing their decision-making role , so as to assume a more central and crucial role in the system. The so-called "empowered " patient will find on the Internet an informative, communicative, participatory and, sometimes , commercial tool i.e. an ideal vehicle for the growing needs, creating significant opportunities for the pharmaceutical industry. But today the use of Internet constitutes, for the sector, an opportunity to optimize the efficiency of R&D and production processes, allowing better results at lower costs. Analyzing the main processes of the pharmaceutical industry, Internet can contribute to make those more effective and efficient, even though in different ways. Even for the pharmaceuticals, a real virtual marketplace is growing, the so-called vertical portals or " vortals ", which bring together supply and demand of goods and services, aggregating suppliers and customers in a logic of greater efficiency and competitiveness . In the supply chain, for example, it is believed that the pharmaceutical industry for the supply of raw materials or the production and packaging ,will use internet more than the average use of the whole manufacturing industry. It is undoubtedly an emblematic phenomenon of this new and growing role of the Net applied to Health.

- User’s Identikit

However, the type of user who navigates the Net for health related reasons differs significantly between the U.S. and Europe, showing how, despite growing empowerment of the patient, the doctor still constitutes, in Italy, one of the primary users of Internet for health purposes. In Europe the Internet is used especially by doctors for the health of the patient; generally men surf and access the net, from their workplace, more frequently than women. In contrast, in the United States, the network is used by patients/ users for personal or family health. The access, in fact, takes place especially from their home and equally between men and women.

- E-pharmacies’ growth hypothesis

As regards the direct sale to the patient is now premature to imagine a distribution process from the manufacturer directly to the final consumer, given the logistical and organizational implications that would entail. The existing e-pharmacies are in fact pharmacies that use the web, more or less exclusively, to sell drugs bought from wholesalers or directly from manufacturers , as well as in the traditional distribution channel, although in Europe and in Italy the initiatives began to be numerous.

Most of the experiences come from the USA. It is interesting to notice that a pure online sale business model it has not been particularly profitable, penalized by the costs incurred to advertise and to make known their sales sites on the web. Greater success, however, are experiencing the hybrid business models, also called *click and mortar* , consisting in the use of web joined with real pharmacies. Nowadays there is an ongoing redesign of web-pharmacies, with the introduction aggregation processes intended to reach a critical mass unit which allow bigger market positions and investments. Forecasting the volume of e-commerce business in the pharmaceutical industry is not easy, given the duplicity and the rapid evolution of the variables involved, linked both to Internet and to the sector itself . Many analysts expect a sustained growth; even in Italy, given the materialization of the conditions for a price competition, which is currently not feasible, the online sale would then become really attractive for the user as well as for the third party payer, in the case of drugs dispensed by the NHS , being able to have drugs at lower prices through better economies of scale and managerial advantages in the distribution chain.

## CONCLUSION

The development of the Internet has seen the birth of online commerce. Each sector has been overwhelmed by the wave of Web 2.0, and even in the pharmaceutical world the e-commerce has revolutionized the trend of traditional pharmacies, who for years have been the only "home" where you could buy the pharmaceuticals or health related products like food supplements, innovative cosmetics, sanitary items and everything related to health and beauty. The transposition of the European Directive will allow the Italian citizens to be more sure when buying drugs online, being able to identify which sites are legal, by means of identifying logo, and avoiding the many illegal sites which over the years have caused concern and distrust among the users. The digital health is also exploding: app, visits and consultations via web, corporate sites, online magazine, blog, social network etc.. but it is important to point out that some conditions should be created for the feasibility of an online pharmacy: 1.*Confidence*, the site must benefit from the trust that the customer agrees to the pharmacy and to the pharmacist, in order to prevent fear related to eventual illegal behavior, then the site should convey the atmosphere and essence of the pharmacy, so it should be appropriate to bring back in full view the address and maybe post some pictures of the same pharmacy or its staff.

2. *Information*, the consumer must be informed of the presence of a website linked to the pharmacy. It should also reassure the legality and legitimacy of the online sale. Adequate communication, through portals and sites can encourage the consumer to try the service remotely.

3.*The complementarity*, to exploit the good results of certain segments of the commercial area (supplements, cosmetics and so on) to boost online sales with an offer of complementary products based on practicality (time saving, speed, etc.) or to meet needs that do belong to the normal pharmacy shopping.

All the considerations advanced so far, are based on the growth rate hypothesis regarding the online purchase/sale in the pharmaceutical sector presented before, and they represent an encouraging incentive for both the pharmacists and the clients, with a broad view of optimal advantage for the society as a whole

## Bibliography

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