

Competing for an independent future

By Noel Baumber, an independent community pharmacist from Grantham, Lincolnshire

Many of the things that will deliver a stable and increasing income are not yet in place. The relaxation of supervision is not yet embodied in regulation. Ten thousand checking dispensers cannot be trained overnight to release pharmacists for medicines use reviews. The impact of a switch to new oxygen contractors, repeat dispensing and the electronic transfer of prescriptions is a looming threat.

Primary care trusts are on the same unscheduled timetable as community pharmacies and are not yet able to offer specifications and agreements on many items that have been suggested for enhanced services. So, having read the new contract booklet from the Pharmaceutical Services Negotiating Committee, we might begin to doubt whether the new global sum will pay out an extra £1bn on top of the old global sum. Are we going to double our income? What is our share going to be?

An average contractor was simple to define last year as a pharmacy dispensing 5,141 items per month, and the average gross income from dispensing under the old contract was around £82,000. An average contractor is now a mythical beast not knowing quite what to expect, and the new average comes out at £170,000 (from £1.64bn in England). Essential services income roughly equates to the old dispensing income and for a pharmacy dispensing 5,000 items per month fee income should rise to around £100,000. To become that average pharmacy, this still leaves a shortfall of £31,000 per pharmacy to make up from PCT services (its share of £300m savings on the drug bill) and £36,000 from retained profit.

Officially, we have not had profits on purchasing before, and neither have they been expressed as being part of the global sum for pharmacy. Will a pharmacist dispensing 3,000 items per month be intimidated by the thought that expected fee income of £69,500 is still £98,000 short of the new average income? It is not that long ago that I was busy dispensing 3,000 items per month providing services in a developing area. Now I would feel threatened.

There is certainly enormous political pressure on smaller pharmacies to close since establishment and practice payments for those dispensing fewer than 2,000 items per month are much reduced or non-existent. Pharmacies dispensing fewer than 3,000 items per month are still a target for closure by the multiples since they represent 9 per cent of prescriptions and 12.4 per cent of all fee income, but they also provide access to good local services. Ironically, those chains that provide wholesale services can benefit from that group of pharmacies and retain an

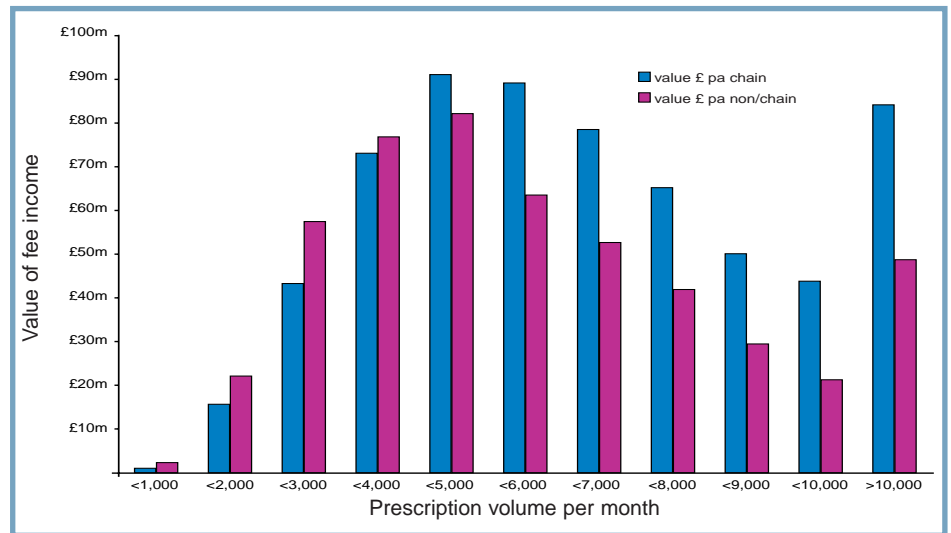


Figure 1: Comparison of fee income (estimated) for 2005–06, chains v other pharmacies

extra margin of profit; an advantage that Boots The Chemists denies to itself.

In the Statistical Bulletin revised in March 2005 there are two interesting maps: one showing which PCTs and local health boards contain pharmacies dispensing under 1,600 and another showing those dispensing under 1,100 items per month. It is in these where that pressure will be felt most and will result in closures.

Over the last 10 years, the large multiples have thrived and grown by 57 per cent, shedding 353 small pharmacies (dispensing fewer than 3,000 items per month) and gaining 2,371 larger ones in the process.

Since the total number of pharmacies in England and Wales has stayed almost the same, most of these represent transfers from the independent sector. Why have they not sold on to young independents? In my view that comes down to the sustained underfunding of pharmacy, lack of vision and resistance in high places and the financial strength of a growing corporate sector with non-pharmacy capital to spend.

A closer look at the available government figures and a little arithmetic based on the PSNC's expectations of fee income shows that those acquisitions by the multiples will generate over £300million per annum from the new contract, while I would expect the large multiples to gross £633 million (56 per cent) in fee income for this year. The rest of community pharmacy, ie, regional chains and independents together, should expect fee income to be around £497 million (44 per cent) in total.

For all pharmacies dispensing below 6,000 items per month (see Figure 1), the total value of NHS income to be earned between large chains and others is roughly the same and this is where around 54 per cent of all fee income

is divided up "equally" between sectors. However, the large companies clearly outstrip the rest of the field in pharmacies above 6,000 items per month where they have been investing heavily and 51 per cent of prescriptions are dispensed. Here the multiples will take home 62 per cent of the remaining fees.

For the first time in eight years I have been looking at the distribution of pharmacies, prescriptions and NHS income. Only one prescription in four is dispensed in independent pharmacies. There is also an astonishing trend for prescriptions to be dispensed by "prescription factories", 21.6 per cent of all prescriptions are now dispensed in pharmacies dispensing over 9,000 items per month (9.8 per cent of all pharmacies). This contrasts sharply with only one fifth of prescriptions items (20.7 per cent) being dispensed by the bottom 40 per cent of pharmacies. I estimate that these would receive, or should I say survive on, 25.7 per cent of the money for dispensing. In the dispassionate terms of efficiency, but not necessarily effectiveness, that 40 per cent (dispensing fewer than 4,000 items per month) should be looking to compete strongly for NHS services perhaps through amalgamation with others to improve their dispensing volumes, location, investment and customer service levels.

Competition is what the new contract is all about. That means competing through business initiatives for more customers, and through political initiatives for payment mechanisms that work in support of the independent sector, not against it. That political battle for independence is being lost through indifference and yet it is still a financially strong sector that needs organisation, closer ties with buying groups and independent wholesalers. It has a corner to fight for and strategies to develop for the future.