

Chile's Pharmacy Industry

After a scandal over alleged price-fixing, **Chile's pharmacy chains are in the firing line**, but theirs are not the only problems in an industry that has such an impact on Chileans' health and pockets.

By Gideon Long



The storm broke in late March when Farmacias Ahumada (FASA), one of Chile's three powerful pharmacy chains, told the country's anti-trust regulator that it had colluded with its two main rivals, Cruz Verde and Salcobrand, to push up the prices of more than 200 drugs, including treatments for serious chronic diseases like epilepsy and diabetes. The Chilean public was understandably furious.

Cruz Verde and Salcobrand deny the allegations. Meanwhile, as the investigation proceeds, FASA has reached an out-of-court settlement with the regulator, agreeing to a fine of US\$1 million, and has reimbursed customers much of the money it admitted to overcharging them.

But, while the price-fixing scandal has grabbed the headlines, a closer look at the industry reveals that it is not just the pharmacies that are at fault. The laboratories that produce the drugs, the doctors who prescribe them and the shop assistants who sell them are all enmeshed in a system that lends itself to collusion and abuse; the loser, inevitably, is the patient.

"I've spent the last 24 years denouncing the way medicines are sold in Chile," says Raúl Álvarez, president of the Chilean Union of Pharmacy Owners (UNFACH), which represents



the country's small and medium-sized pharmacies. "The system we have at present is irrational, confused and anarchic and limits free competition."

In appearance at least, competition abounds. One of the things foreigners often remark upon when they come to Chile is that there seems to be a pharmacy on every street corner.

Cruz Verde has more than 500 stores throughout the country and FASA and Salcobrand are not far behind. Between them, the three chains have an 80.9% market share in terms of units sold, according to U.S.-based international health consultancy IMS Health. In dollar terms, the figure is closer to 92%, with the other 8% in the hands of an ever-dwindling number of small, often family-run pharmacies.

UNFACH's Álvarez says there are

around 520 such pharmacies in Chile and estimates that "300 of them are in a precarious financial situation". Before too long, they could disappear entirely, leaving the big three chains - none of which was available to talk to bUSINESS CHILE - in control of a market worth around US\$1 billion per year.

In itself, that would not necessarily be a problem. After all, in the United Kingdom, the high street market is dominated by just one pharmacy - Boots the Chemist.

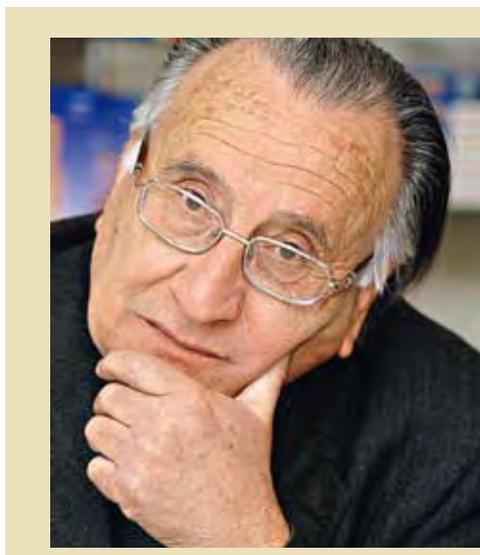
Moreover, experience shows that competition between the three chains can be fierce. The alleged collusion episode followed a price-war that bit deep into their profits.

Behind the counter

So why are Chile's pharmacies the target of so much anger?

Perhaps part of the distrust arises from the fact that when you walk into a Chilean pharmacy, you can't see what it sells. In contrast to the United States or the UK, everything is hidden behind the counter, leaving the customer very much at the mercy of the sales assistant.

In theory, 15% of all medicines sold in Chile are authorized for 'over the counter' (OTC) sale while the remaining 85% should be sold on prescription. But in practice, everything is sold from behind the counter - right down to tubes of sunscreen, cough mixtures and packets of condoms - items which, in the United States and Europe, are



"Many small and medium-sized pharmacies are in a precarious financial situation."

Raúl Álvarez
Unión de Dueños de Farmacias de Chile (UNFACH)

displayed on the shelves.

The government wants to change this to make 'over the counter' sales exactly that. Under a proposed new law, pharmacies would have to put non-prescription drugs on display shelves. However, they argue this would prompt manufacturers to spend more on marketing and packaging to ensure their products get noticed and that this cost would be passed on to the consumer.

Argentina tried the system a few years ago, points out Soledad Velásquez, president of the College of Pharmaceutical Chemists (CQF), which represents more than 2,000 pharmacists in Chile. "It led to an increase in self-medication and a rise in the number of hospitalizations caused by misuse of medicines," she says, "and they eventually went back to the old system."

The small pharmacies are particularly upset by the proposed new law. They say they have neither the space nor the resources to implement the change, and that it would encourage shop-lifting.

A compromise solution may be reached, with pharmacies having to provide customers with a brochure showing photographs of the OTC drugs they stock along with a price list. Customers would then be able to ask for products by name, although they would still be kept behind the counter.



"We think selling OTC medicines on display shelves would lead to an increase in self-medication."

Soledad Velásquez
Colegio de Químico-
Farmacéuticos de Chile (CQF)

Chile's big supermarkets are also pushing for a slice of the OTC trade. In the United States, supermarkets accounted for 28.8% of OTC drugs sales last year and, with Walmart now in Chile, the pressure is likely to increase.

Perks and commissions

But while they are of interest to the supermarkets, OTC drugs account for less than a quarter of retail pharmaceutical sales in Chile - 22.4% according to IMS Health. The really big business lies in the production and sale of prescription-only drugs.

In contrast to many countries in Latin America, Chile has a long and proud tradition of producing its own medicines.

According to the Industrial Association of Pharmaceutical Laboratories (ASILFA), which represents local manufacturers, 70% of the drugs prescribed by doctors in Chile are made by Chilean companies.

But that has created a situation in which the country's drug manufacturers are in fierce competition with one another to ensure their drugs are prescribed. Some are reported to offer incentives to doctors - anything from luxury vacations to free golf club membership, according to industry insiders - in exchange for prescribing their product rather than those of rivals.

"It's not uncommon to walk into a doctor's waiting room in Chile and find a man with a suitcase," says one senior industry source who declined to be named. "He's a salesman from one of the drug manufacturers and, when the doctor has a few free minutes between seeing patients, he'll slip in and try to persuade him to recommend the various products he has in his case."

It's not only doctors who are offered incentives. Indeed, it seems that almost everyone along the sales chain - from drug manufacturers to medics to the staff in high-street pharmacies - is locked in a system of perks and commissions that is difficult for any one player to break.

Take, for example, drug manufacturers. Industry sources say they regularly offer perks to the representatives of the big pharmacies to attract business. When you consider that between them FASA, Cruz Verde and Salcobrand





“Today in Chile, you can buy a vast array of medicines over the counter when they should be sold on prescription.”

Angélica Sánchez
Asociación Industrial de Laboratorios Farmacéuticos (ASILFA)

buy 70% of all the drugs produced by the laboratories, it is evident that their representatives are in a commanding position.

In the pharmacies too, staff are paid largely on a commission basis, which encourages them to promote some brands over others.

One industry insider, speaking on condition of anonymity, described the system thus: “When you go into a pharmacy in Chile and ask for, say, a painkiller, the assistant will try to persuade you to buy the one that offers him or her a 20% commission; if you say ‘no’, they’ll offer you one that gives them a 15% commission, then if you say ‘no’ again, one that offers them a 10% commission and so on in the hope that you’ll eventually say ‘yes’ to one of their chosen products.”

The CQF estimates that commissions account for up to 80% of the earnings of some sales staff in Chilean pharmacies. Small wonder, then, that those workers are so insistent in promoting some products over others; the danger, of

course, is that they will sell customers something they don’t need, won’t cure their ailment and could even be detrimental to their health.

Another potentially worrying development in the Chilean pharmaceutical industry is a move towards vertical integration. The three big pharmacy chains are increasingly producing their own-label drugs, allowing them to break their dependency on Chile’s other manufacturers.

At the moment, own-label sales are modest - around 5% of total sales in dollar terms and 10% in terms of units sold, according to IMS Health - but as the figure grows, that could mean further incentives for offering commissions for their salespeople.

Prescription-only drugs... without a prescription

One big difference between pharmacies in Chile and the United States is their attitude toward prescriptions. If you walk into a pharmacy in the United States

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and try to buy a prescription-only drug over the counter, you will almost certainly be refused.

If you try the same thing in Chile, there is a good chance you'll be served. This leads to confusion over what constitutes a prescription-only drug and what doesn't.

In Chile, the task of deciding the conditions of sale for medications falls to the Institute of Public Health (ISP), a state body. It ensures that prescription-only drugs are clearly labeled as such.

But the ISP has no power to penalize pharmacies if they flout the law. That job falls to the Health Ministry's regional offices (SEREMIs) which, in theory, can fine pharmacies if they sell prescription-only drugs to customers with no prescriptions.

In practice, however, this seldom happens. The SEREMIs simply do not have the manpower to conduct regular checks, says the CQF's Soledad Velásquez.

"In Greater Santiago, there are just seven SEREMI inspectors," she

says, "and you're lucky if you get one inspection a year of each pharmacy."

Angélica Sánchez, executive vice-president of ASILFA, estimates that while 85% of drugs in Chile should be sold on prescription, only 15% or 20% actually are. ASILFA is among several bodies urging the pharmacies to tighten their procedures and stop selling prescription-only drugs over the counter.

The problem is that if the pharmacies did that, it would force thousands of patients to go to their doctors to seek prescriptions, placing an unbearable burden on medical services. "If the pharmacies suddenly started adhering to the rules on prescriptions, the whole system would collapse overnight," says UNFACH's Álvarez.

Some progress has been made in recent years and most psychiatric drugs are now effectively prescription-restricted and the industry is trying to address the issue through gradual reform. To begin with, the pharmacies

will be urged to tighten their rules on selling codeine-based medications, which are particularly addictive.

Then the focus will shift to antibiotics and antivirals, then to anti-depressants, then to corticoids and to less powerful drugs. The idea is that over time, attitudes will change and the practice of selling prescription-only drugs over the counter will be eradicated.

In other words, as the scandal over the alleged price-fixing rumbles on, there is plenty of work to be done. It will involve public education as well as reviewing incentives along the supply chain.

But the scandal has created new pressure and urgency. If it prompts change, it might just turn out to have been the best possible medicine for the industry. **bUSINESS CHILE**

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