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The Franchise Model of Business in the Pharmaceutical Market

Summary

This article is an attempt to determine the possibilities and opportunities for implementation of the developmental strategy with the use of the model of franchise cooperation in the pharmaceutical market. In her research, the author used the desk research method and, in particular, the analysis of industry's data. She presented the degree of development of franchise ties in the pharmacy market in Poland. There are also indicated the determinants of the use of franchise in the pharmacy market in Poland. Next, the author carried out conclusion-drawing relating to the perspectives of development of the market in question in Poland with a particular consideration of franchise ties taking place in it. The article is characterised with practical and social implications as regards extending the knowledge of the possibilities to use franchise in the pharmaceutical industry.

Key words: franchise, pharmaceutical market, cooperation development, pharmacies, franchise ties.

JEL code: M30

Introduction

The franchise system is described as a complex concept of running an enterprise, which is permanently improved and developed, and its essence is originality and uniqueness of the concept for business. This unnecessarily means application of the most progressive and complicated business solutions. The essence of success is in development and implementation of the concept of business that has proved itself in the market and, at the same time, cost-effective for each of the parties of agreement. In principle, the franchise concept consists in licensing by the franchisor to use the trade mark, knowhow, the system of running the business and assistance during the whole period of agreement for the franchisee in exchange for the fixed charge and consent to carry out the economic activity based on the original concept of business. In exchange for money consideration, the franchisee receives the right to use the trade mark, knowhow, experience, consultancy and trade and service methods used in a given franchise system. On the other hand, franchisee's share mainly consists in ability to demonstrate initiative, enterprise potential and ownership of relevant financial resources.

In the form of cooperation of enterprises in question, the share of the franchisee mainly consists in ability to exhibit initiative in implementation of the franchisor's directives, using the enterprise potential, financial assets (Ziółkowska 2010, p. 25) as well as expertise in the local market's determinants and customers' preferences. The use of franchise at an

enterprise, with the simultaneous use of the franchisor's professional assistance and know, allows a considerable reduction of the risk of failure of carrying out fully independent business by the franchisee. The essence of tie entails that the franchisor and franchisee are fully financially and legally independent economic entities. For their universal nature, franchise ties can be applied in any field of the economy, while success and cost-effectiveness of the venture consists mainly in the system's simplicity and standardisation and, thus, in quickness and efficiency of flow of knowledge and information from the franchisor to the franchisee and vice versa as well as between franchisees.

There is a considerable number of franchise systems across the world – it is estimated that there are more than 40 thousand networks and more than 6 million of franchise establishments. The leaders in terms of the number of networks are such countries as China, the USA, Australia, India, Brazil or West European countries. Both in highly developed countries and in the emerging markets, there are already many franchise establishments in operation. In the USA, the number of franchisees exceeded 450 thousand operating in 2200 systems; in China, that number is estimated on more than 260 thousand franchisees operating in almost 4 thou. networks; in India, 120 thou. franchisees are gathered in almost 2 thousand systems, while in Brazil, the number of franchise units approaches 100 thou. clustered in more than 2 thousand franchise chains; in Australia, there operate more than one thousand networks with 70 thou. franchisees, while in Europe the number of franchisees exceeded 600 thou. operating in more than 12 thou. systems (the European Franchise Federation 2013). The above-specified statistical data indicate a significant importance of franchise ties in the global economy and their growing impact on other market subjects.

In her article, the author, deepening her scientific interests, continue considerations on the franchise model of cooperation in Poland. This time, there will be analysed franchise as a method of development of enterprises operating in the pharmacy industry together with determinants of its use; moreover, there will be carried out assessment of the opportunities created by franchise ties for pharmacies. Having in mind the specificity of the described branch and lack of relevant studies, this article may be an important contribution to the development of science of franchise ties.

The essence and changes taking place in the pharmacy market in Poland

In the pharmaceutical market in Poland, there operate almost 14 thou. Pharmacies, of which about 30% are pharmacies operating in various links of the network nature¹, and merely some 800 of them are franchise units (IMS Polska 2014). Franchise in pharmacy is a new phenomenon but having an opportunity for a deeper taking hold in the market due to the alterations taking place in the pharmaceutical branch. The previous solutions aimed at networking of the pharmacy market in the form of loyalty packages and strengthening the

¹ The network includes no less than 5 pharmacies.

position of individual pharmacies have been slowly expiring. Also more and more seldom cost-effective is running the pharmacy completely independent, operating detached from whatever organisation.

In view of the fact that in Poland market saturation with pharmacies is significant, compared to the European average, an opportunity to survive in the market for individual pharmacies may be entering to the market-proven, effectively operating franchise system. Though the number of pharmacies insignificantly grows from one year to another (*Liczba aptek prawie bez zmian 2014*), there is observed the trend of growth of the number of pharmacies clustered in various networks (also franchise-based) or forming purchasing groups. The individually run pharmacies are in the market defensive. The changing number of pharmacies is also determined by location of outlets – there is growing the number of pharmacies in urban centres and in the countryside where the market potential is lower but, at the same time, also lower competition.

Recently the pharmaceutical market in Poland has significantly been influenced by the reimbursement act; additionally, the pharmacies situation is deteriorated from one year to another by aggravating terms and conditions of cooperation with pharmaceutical warehouses which are also tackling the effects of laws amendments. As experts evaluate it, due to the dynamic development of pharmacy networks, their share in terms of value in the Polish pharmaceutical market may within several next years exceed 50%. There is forecasted both emergence of new pharmacy networks and growth of the number of establishments within the already existing networks. Their development plans have, for example, such franchise systems as the Moja Farmacja Group, Apteki Curate Group, Mediq or Bliska Apteka Group.

The above-specified changes determine sentiments prevailing in the branch; pharmacists negatively evaluate the evolution of the pharmaceutical business. Those changes have led to deterioration of the economic situation of both pharmacies operating independently and those functioning in networks. The introduced legal alterations and the changed situation in the pharmaceutical business require from pharmacies management a skilful reorganisation of the way of managing the shelf assortment and stocks in warehouses. It is extremely difficult to achieve this in case of independently operating individual pharmacies. It is just this aspect where one can see benefits of pharmacies operating in network ties, also franchise ones. It must be noted that despite such situation, there constantly are appearing in the market new pharmacies, what means that attractiveness of the branch is still high. However, this does not mean dominance of the network ties in the pharmaceutical market. There are formed new, more diversified forms of cooperation aimed at independent pharmacies; one of them is franchise ties.

The overwhelming majority of pharmacies are developing by the local networks, often they are family businesses being set up systematically from the onset of economic transformation in Poland. Their position in the local market is strong enough (unless they operate in too high geographical dispersion) that there is often no threat to them on the side of emergence of new pharmacies in the neighbourhood, even those with a seemingly stronger position in the country-wide scale. The popularity of a given pharmacy is often decided by

patient's attachment to the pharmacy, pharmacist's care, location, what, with reasonably chosen market tools: price, discount, marketing, does not shatter the position of a given network in the local market. A good position of the locally operating private-label networks is an apparent argument against the theses of forthcoming consolidation threat on the side of large networks which will dominate the market, dictating their own conditions. Moreover, those small in the market scale private-label networks have managed to work out their know-how which in few cases such as, *inter alia*, Apteki Arnika, Juwenta or Tak Dla Zdrowia (Yes for Health) has yielded in emergence of franchise offers which are for the independently operating pharmacies another alternative in the choice of the optimum way of functioning in the market. Whether those offers appear to be enough attractive and efficient to attract (and retain) franchisees time will tell; nevertheless the fact that such offers do occur is an evidence in itself that the market is not going towards consolidation based exclusively on large nation-wide networks.

The first franchise ties in the pharmaceutical market were connected with the network of pharmacies named Dbam o Zdrowie (I Take Care of My Health) in 2006 that had earlier participated in the loyalty programme PGF (the organiser of Dbam o Zdrowie) and they decided to strengthen their cooperation. The next franchise networks are the pharmacies named Mediq, Arnika and Tak Dla Zdrowia.

Therefore, despite pharmacists' fears of loss of their independence, more and more often they decided to cooperate with other entities in the market. So far, they have more readily contributed to formation of the networks being set up within the framework of loyalty programmes offered by medicine distributors. The reason of popularity of this solution is, on the one hand, the fact it offers quite a loose formula of cooperation, and pharmacists do not see in it a threat of loss of their independence. On the other hand, it was the first in the market network solution for pharmacies, hence lack of alternative induced then to make use of it.

Pharmacy cooperation within the network

From the viewpoint of the pharmacy owner or manager, cooperation with network organisers creates the three possible directions of development. The first of them is characterised by adoption of the loyalty programme without further measures aimed at intensification of use of its components in the form, *inter alia*, brand strength, visualisation, standards of commodity merchandising at the pharmacy, etc. originating from the network organiser. The second of them allows use of purchasing terms and marketing support for the loyalty programme for the purpose of implementation of one's own strategy based on the time-period of pharmacy's operating in the market, tradition, brand and local reputation. The loyalty programme is, therefore, in this case, only a tool supporting pharmacy's expansion in the market, which retains its identity as well as quite often private label. The third direction allows for a gradual assimilation of the loyalty programme offer and taking it over as own, hence, identification with the network's assumptions and aims. The relationship with the programme organiser is based, therefore, on the bilateral communication – on the one

hand, we deal with transfer of purchasing terms, strong marketing and offer of managerial training addressed to franchisees; in exchange, the programme organiser obtains knowledge of the operational issues connected with running the pharmacy and the profile's specificity, expectations and ability to attend the patient.

With hindsight it is clearly seen that the formula of loyalty programmes begins to exhaust. Central marketing and promotional measures as well as the organised training programmes for pharmacies' personnel have different effect, mainly due to different commitment of pharmacists as well as quality of pharmacies operating in the programme. Therefore there were initiated measures aimed at transformation of the formula of loyalty programme into a more advanced form of cooperation, including franchise. An example can be here the offer of franchise called *Dbam o Zdrowie*, being created by way of changing the purchasing terms for the pharmacies participating in the programme and the start of the programme called *Partner* in the firm *Neuca* (previously *Torfarm*) which is an organiser of the loyalty programme *Świat Zdrowia*.

An analysis and development of the branch of healthcare products in Poland

While analysing the development of the branch of healthcare articles in 2008-2012, one should note their dynamic growth. In the years in question, there grew more than 6 times the number of systems – from 3 systems operating in 2008 to 19 operating in 2012. In the year in question, there were noted 3 new systems and none of the functioning so far did not end its franchise activity (Table 1). Therefore, there took place growth by 18.8% in 2012 (*Raport o franczyzie w Polsce 2013*).

Table 1

Development of the market for pharmacy franchise and healthcare articles in Poland in the years 2008-2012

	2008	2009	2010	2011	2012
Number of franchise systems	3	7	12	16	19
Number of franchise units	69	110	216	290	487*
Number of private units	166	249	478	503	585

* 337 franchisees; In the statement, there are taken into account the franchise units of the system called *Dbam o Zdrowie* due to denial to provide data.

Source: Author's elaboration based on the data of the *Raport o franczyzie 2013*, Profit System Sp. z o.o.

On the other hand, in the last year, there were 197 new franchise outlets, owing to which there were as of the end of 2012 operating 487 franchise pharmacies; hence, there took place the growth by 67.9%, and it was the highest growth dynamics as regards the entire franchise market (Table 1). In the survey, there was not taken into consideration the biggest in number

franchise pharmacy network called Dbam o Zdrowie having in 2013 almost 500 franchise units and more than 600 private-label ones.

It must be emphasised that franchise units belonging to the network of pharmacies and healthcare products increased their share in the structure of the market for total franchise units by 0.35 p.p., to 0.95 per cent. In the years in question, there was also observed a significant growth of the number of private-label units. Already not as significant as in the case of franchise outlets – merely 3.5-fold.

Interesting is also the analysis of the levels of investments and revenues in the branch in question. All in all, in the franchise market in Poland, on average the net investment incurred by the franchisee in franchise in 2012 amounted to 396.22 thousand zlotys, and in 2011 – to 427.74 thousand zlotys. On the other hand, in the pharmacy branch and in the branch of healthcare articles, amounts of investment were lower than the average in the market and they amounted in 2012 on average to 166.87 thou. zlotys and to 137.91 thou. zlotys in 2011. The element deserving an analysis is also monthly net revenues. On average net monthly revenues in 2012, in the entire franchise market, were shaped in amount of 121.23 thousand zlotys. On the other hand, in the branch in question, there were noted the average monthly net revenues, in the pharmacy franchise outlet, of 79.67 thousand zlotys. There was noted their growth by 2% on the year to year basis in 2012.

It is worth noting that in the light of regulations concerning the introduction of fixed prices for reimbursed medicines, franchise is an excellent solution which enables a further development of those establishments. Price regulation at the same level is an opportunity to spread one's wings in marketing not based exclusively on price wars but on working out other tools inducing patients to buy in this and no other pharmacy. Thus this is implementation of a competitive strategy based on franchise.

The perspectives of development and aspects of creating a franchise offer

Franchise in the pharmaceutical business has an opportunity to become a universal developmental tool irrespective the network format in which pharmacies have been operating so far. It may be a way for reduction of the risk compared to running independent business in the highly competitive market. Franchise in pharmacies addressed to new entities appearing in the market is the most approximate to the classical definition of this form of cooperation. In this version, the franchisor transfers to the partner the whole franchise package of the system, together with unique knowhow. However, in case of the entities already operating in the market, the franchisor is focused merely on consolidation of the purchasing policy and the promotional and marketing one of the entire system – conversion franchising. It happens so due to the fact that pharmacists operating in the market not fully accept the holistically standardised model of the pharmacy based on the principles defined by the franchisor and on controlling activities.

The above issues result from several reasons. First, this is inability to adopt franchise in the markets where dominate entities operating in the branch, for which franchise poses too high requirements. Second, an obstacle is mentality and traditionalism of the approach to reorganisation of activities of the operating pharmacy based on new standards marked by franchise.

Poignancy of the network being a franchise system is certainly much greater confronted with a single pharmacy, though it yet does not decide defeat of the latter. Of course, the situation of lonely operating pharmacy in the neighbourhood of network pharmacies is more difficult, but, disregarding the cases where, under the weight of own mistakes, the pharmacy is forced to wind up, most pharmacies with the locally entrenched position cope quite well in such a surrounding. This results, first of all, from the skill to adapt to the patient's individual needs, awareness of their needs and the local reputation supported with an attractive location of the pharmacy.

An important aspect of running the pharmacy is the fact that the key to an efficient management of the mass commodity at the pharmacy is carrying out a categorisation, the skill to adjust the offer to the patients' needs what, with a greater number of suppliers, is significantly more difficult and often does not bring the intended effects. The franchise system ensures the franchise units better conditions of cooperation with suppliers due to the fact of the use of the economies of scale as well as the proved experience how to effectively run the pharmacy together with stock management. The franchisor also stimulates implementation of innovation in the system what determines growth of revenues for the chain participants.

Sources of creation of the franchise offer by franchisors with an expertise hot to run own pharmacies are extremely important as it is based on the following factors:

- the clearly defined strategy, aims and directions determined by the system, and, consequently, working out tools for implementation thereof;
- the experience related to the pharmacy operating activities, gained from the observation of functioning of the private-label network in the market, diversified localities in which the pharmacies have been operating so far, therefore, thorough knowledge, which, in compliance with the rules of creating franchise offer, should be written down and next passed to all the pharmacies operating within the network (private-label and franchise ones) in the form of a list of procedures – an operational manual;
- obliging the franchisor in the franchise contract to provide a constant transfer of knowhow, by way of updating the operational manual's procedures adjusting to the changes occurring in the market as well as to the defined (by both parties to the contract) patients' needs;
- the financial model based on the data form own pharmacies, which clearly presents economic benefits to the pharmacy being admitted to the network. Such a model is being updated alongside, ensures monitoring and control, particularly in the case when the real data differ from those assumed. Identification of the reason for such a state of affairs is of the fundamental importance in making further decisions, for example connected with intensification of marketing activities;
- the worked out and proved pharmacy's marketing methods which, due to the system's dimensions (and, consequently, size of the budget) allow dually affect the patient, locally and globally;

- a quick access to information, sharing the best practices together with application of efficient IT solutions;
- economies of scale, i.e. purchasing terms and conditions at commodity suppliers as well as service providers, what allows to rationalise costs – the bigger network, the more attractive terms and conditions which directly affect margin, hence pharmacy's profitability.

For the above-specified reasons, not every franchise offer in the pharmacy branch, which already are and which will emerge, will be equal to one another. As the origin of its emergence may result exclusively from the willingness to ensure commodity sales to the franchisor's enterprise, what in the case of the pharmacy market in Poland will not suffice to compete efficiently. Not without importance is also the network size, duration of the time-period of functioning in the market for franchise system. For those concerned in admission to the franchise system the most important is a detailed analysis of the directives of the franchise systems operating in Poland and understanding the importance of knowhow passed to franchisees.

Resumption

The pharmacy market is currently in Poland very dynamic due to the fact that there are under way the consolidation processes in it and there emerge various forms of network cooperation. These transformations often face lack of acceptance by the individually operating pharmacists. There results from it lack of explicit success of the introduction of franchise concepts to the pharmaceutical market. Having this in mind, the author forecasts for the years to come the trend consisting in development of the so-called simplified franchise. This means that franchisors will offer cooperation based on simpler ('looser') conditions than in the classical model of franchise cooperation. One may forecast that in the subsequent years about 2/3 of the Polish market will be captured by networks of pharmacies. It is yet far from saturation of the pharmaceutical market with franchise. On the example of grocery business one may state that reduction the still huge number of independent shops does not affect the speed of occurring of the consolidation processes. In the grocery market, entrepreneurs have already known from their experience that the so-called soft franchise is ineffective from the viewpoint of sales management. We should yet wait for similar conclusions and changes in the pharmacy industry.

Summing up one may state that franchise in the pharmaceutical business has an opportunity to become a universal tool of development disregarding the network format in which the pharmacies have been functioning so far. For originators of the loyalty programmes this is a natural consequence of the necessity to intensify activities in the areas where so far the programme has had minor influence as, for example, the standard of patient servicing, pharmacy operational management, hence the factors which, combined with the purchasing and pricing policy determine its strength and impact in the market. On the other hand, for creators of purchasing groups franchise is an opportunity for transformation to the structure

smoothly and efficiently manageable. What's important, the rate and scope of changes is dictated exclusively by that group's participants what provides a great sense of pharmacists' independence during the entire process.

To sum up, the best effects of franchise should be expected in the networks being built on the basis of experience gained from private-label outlets management. Work on individual operational solutions and, first of all, on image and content of the brand, which positively affects relationships with patients in private-label networks, is a basis for working out franchise offers which may yield a market success. Of a great importance for franchise ties in the pharmaceutical market is also creation and implementation of innovation in such a way that it could be possible to cope with the ever growing competition in the market through meeting the customer's individual needs.

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Franczyzowy model prowadzenia działalności na rynku farmaceutycznym

Streszczenie

Niniejszy artykuł jest próbą określenia możliwości i szans realizacji strategii rozwoju z wykorzystaniem modelu współpracy franczyzowej na rynku farmaceutycznym. Celem artykułu jest analiza i ocena rozwoju powiązań franczyzowych oraz określenie uwarunkowań i perspektyw rozwoju franczyzy na rynku farmaceutycznym. W badaniu wykorzystano metodę desk research, a w szczególności analizę danych branżowych. Przedstawiono stopień rozwoju powiązań franczyzowych na rynku aptecznym w Polsce. Wskazano także uwarunkowania wykorzystania franczyzy na rynku aptecznym w Polsce. Następnie przeprowadzono wnioskowanie odnoszące się do perspektyw rozwoju opisywanego rynku w Polsce ze szczególnym uwzględnieniem powiązań franczyzowych na nim funkcjonujących. Artykuł charakteryzuje się implikacjami praktycznymi i społecznymi w zakresie zwiększania wiedzy o możliwościach wykorzystania franczyzy w the pharmaceutical business.

Słowa kluczowe: franczyza, rynek farmaceutyczny, rozwój współpracy, apteki, powiązania franczyzowe.

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Франчайзинговая модель осуществления деятельности на фармацевтическом рынке

Резюме

Статья представляет собой попытку определить возможности и шансы осуществления стратегии развития с использованием модели франчайзингового сотрудничества на фармацевтическом рынке. Цель статьи – провести анализ и оценить развитие франчайзинговых связей, а также определить обусловленности и перспективы развития франшизы на фармацевтическом рынке. В изучении использовали метод кабинетных исследований, в особенности же анализ отраслевых данных. Представили степень развития франчайзинговых связей на аптечном рынке в Польше. Указали тоже обусловленности использования франшизы на этом рынке. Затем провели умозаключение, касающееся перспектив развития рассматриваемого рынка в Польше с особым учетом франчайзинговых связей, выступающих на нем. Статья характеризуется практическими и социальными импликациями в области повышения знаний о возможностях использования франчайзинга в фармацевтической отрасли.

Ключевые слова: франшиза, фармацевтический рынок, развитие сотрудничества, аптеки, франчайзинговые связи.

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