

## **CELESIO / SAINSBURY'S PHARMACY BUSINESS MERGER INQUIRY**

### **Summary of hearing with Tesco plc on Friday 15 January 2016**

#### **Background**

1. Tesco said it had over 300 in-store pharmacies across the UK; 353 pharmacies in England, 17 in Wales and 7 in Scotland. It said that its pharmacies essentially operated as community pharmacies, and added, all services that were normally delivered by any other community pharmacy, contracted to deliver NHS services, were provided.
2. Tesco stated that the same services were offered at all of its in-store pharmacies. It said that its rationale for introducing pharmacy services to its stores was primarily motivated by customer requests.
3. Tesco said 60% of its pharmacies were standard 40-hour contract pharmacies. The remaining 40% of its pharmacies were 100-hour contract pharmacies. Tesco stated that it intended to have pharmacies at many more stores, but when the 100 hours exemption disappeared it stopped opening pharmacies because it became very difficult under the regulatory regime.
4. Tesco added that it also stopped opening pharmacies at this time, as the business had stopped expansion. Tesco stated that [✂] opening any pharmacies in the near future if the regulations changed. Tesco said that, if it wanted to open another pharmacy, it would have to purchase an available licence to do so.
5. Tesco advised that almost all of its pharmacies were located in its large store formats.

#### **Market definition**

6. Tesco said that it believed that there were five different types of pharmacy within the UK. It identified these pharmacies as community pharmacies, health centre pharmacies, high street pharmacies, supermarket pharmacies and online pharmacies.
7. Tesco stated that it found its pharmacy customer base was varied and consistent with that of a traditional community pharmacy.

8. Tesco said that it was aware that its pharmacies received [redacted] out of hours (ie outside of 9:00am until 6:00pm). Tesco highlighted that [redacted].
9. Tesco stated that a [redacted] percentage of its pharmacy customers were repeat pharmacy customers. It added that [redacted] percentage of its grocery shopping customers were converted to pharmacy customers. In contrast to this, Tesco said that the percentage of its pharmacy customers who then did their grocery shop at Tesco [redacted].
10. Tesco said that it found its [redacted] in superstores that had a pharmacy introduced.
11. Tesco stated that its pharmacy-only medications were priced centrally. Tesco added that prices were generally reflective of the market and offers that were in place in the market. Tesco went on to say that it also took into account the regulatory framework regarding the advertisement of medication when it decided prices.
12. Tesco said it did offers however it did not set any prices locally. Thus, pricing, and offers alike, were consistent across the whole of the estate.
13. Tesco said the range of products it offered were the same across all locations. It highlighted that there was a small amount of flexibility to buy-in a specific product from a local wholesaler to ensure customer requests were satisfied. But on the whole, in terms of the ranges displayed in a Tesco pharmacy, these products were set centrally and were the same everywhere.
14. Tesco said that the average distance a pharmacy customer would travel to one of its pharmacies was an average of 1.5 miles.

### **Competitors and competition**

15. Tesco said the majority of its pharmacy services were consistent across the estate. It said the only thing that varied locally were the services commissioned by the local NHS trust or Public Health England; as well as enhanced services dependent upon local need. It pointed out that this was determined by the NHS.
16. Tesco stated that within 30 days of a contract application for a new pharmacy being made to the NHS, the NHS would have notified all the other contracted pharmacies within the local area. The local pharmacies would then have a sufficient amount of time to respond to the application should they wish to do so.

17. Tesco did not proactively monitor pharmacy openings within other supermarkets.
18. Tesco stated that its general response to the entry of a pharmacy in its local area was to make sure its pharmacy business was safeguarded and promoted, as much as possible [X]. However it stated that [X] it already had the longest opening hours.
19. Tesco highlighted that a degree of a pharmacy's NHS prescription service could be safeguarded, if it offered additional services to the customer.
20. Tesco said it did not monitor competitors based solely upon geography ie it did not monitor competitors based on their proximity to a Tesco pharmacy. Rather, the most important factor for Tesco was where the competitor was located in relation to the surgeries from which Tesco drew its prescription business. If a pharmacy opened close to a surgery, Tesco [X] would potentially observe fluctuations in prescription volume.
21. Tesco stated in determining the geographic market, this was primarily based on the location and inflows from GP surgeries, as well as the location of customers.
22. Tesco said that it believed that supermarket pharmacies competed equally with high street pharmacies, health centre pharmacies, community pharmacies and all other pharmacies; as all offered the same services essentially. Tesco said that the wide variation in types of pharmacies enabled customers to switch to and from competitor to competitor freely.

### **Outpatient dispensing**

23. Tesco advised that it had provisionally considered to bid for outpatient dispensing contracts a number of years ago, but decided against it [X].

### **Barriers to entry/expansion**

24. Tesco said that the current regulatory framework restricted new pharmacies from opening as it was based upon local need. It said that the general opinion in the NHS and Local Government, based upon pharmaceutical needs assessments, was that there were enough pharmacies. It acknowledged that these factors had made it difficult for new entrants; but did highlight that the option to enter the market as an online pharmacy was available.
25. Tesco also noted that the decline in applications to open bricks and mortar pharmacies occurred when the 100-hour exemption closed.

26. Tesco said the pharmaceutical needs assessments were reviewed every three years. It stated that since the 100 hours exemption closed, it had seen no movement in the market around entry as no need had been identified in these reviews.
27. Tesco stated that, the NHS, the market and the contractors were quick to respond to any need that arose; as it was a straightforward process.
28. Tesco said that the saturation in the market and the pharmaceutical needs assessments were the biggest barriers to entry to the market.
29. Tesco stated that online pharmacies made up a very, very small segment in the market at present. [✂] Tesco acknowledged that customers could be attracted to online pharmacies due to the convenience it could potentially offer [✂].

### **The transaction and counterfactual**

30. Tesco said that, absent the merger, it believed that Sainsbury's would have continued to run its pharmacy business. It based this view on the fact that all supermarkets had a pharmacy offer and there was a general consensus amongst them that the pharmacy offer added to the customers shopping trip and granted customers value.
31. Tesco stated that it had not considered outsourcing its pharmacy business to a speciality pharmacy chain anytime soon.

### **Effect of the merger**

32. Tesco said that it believed that the merger would have very little impact on its business. It said locally, the merger would result in some decreased competition because the number of fascias would change. Nationally, it said the merger would result in an increased amount of contracts held by Celesio; however it recognised that Celesio already had a sizeable business.