After a year of facing some of the toughest challenges in its history, Canada's drug chain industry emerged somewhat battered, but stronger and more unified by the end of 1995.

The less-than-favorable environment sent Canada's top chains reeling to find new ways to improve sales and profit pictures in 1995. Some pushed the retailing envelope and ventured into new product categories and services. Others looked to technology to help streamline operations and to gain competitive advantages through information. Some took a critical look at every corner of their operation and redefined the company to achieve better positioning in the market.

Against this backdrop, expansion was not high on the list for most drug chains. One notable exception was the highly publicized buyout of London, Ont.-based Big V Pharma- with their one-stop-shopping positioning and predatory prescription pricing policies, including discounting dispensing fees of 99 cents or less in some provinces, are hitting independents the hardest is undeniable. Given the advantages afforded by a cost base for the mass and grocery sectors operations that include low rents and high customer traffic count, the assault will likely continue over the next few years.

Holding their own

Drug chains largely held their own in 1995, despite the heated-up retail environment last year. A CACDS study conducted last year showed its drug store members together controlled $6.3 billion in gross sales annually, or $4.4 billion per store.

But the same study found that the rate at which sales are growing has declined from 4 percent to 2.8 percent. It also confirmed a widely held suspicion in the industry that front shop sales are flat and that dispensary sales are driving total store sales. HBC accounted for the largest proportion of front-end sales for drug store members at 24.4 percent, followed by OTC products at 19.7 percent, food, beverage and confec- tions at 10.9 percent and cosmetics at 10.4 percent on a national basis.

Average dispensing fees were pegged at $8.66. The average size of the pharmacy was slightly lower at 415 square feet in drug stores, where total space averaged 5,919 square feet, than the 436-square-foot areas in grocery/mass merchandise where total space averaged 70,383 square feet.

The study also found that CACDS drug store members fill about 58,308 prescriptions per drug store location each year, as opposed to 11,364 per location grocery/mass merchandise location.

More concerns than new formats are challenging margins of Canada's chains. Over the past 15 months, some tough to live with government initiatives have changed the way drug stores do business.

While legislation banning tobacco sales in pharmacies has been a fact of life in Ontario only since Jan. 1, 1995, the fear that other provincial govern- ments were looking to similar laws has kept the industry on its toes. In fact, chain pharmacies in Quebec issued a response to the government memo saying that they would agree not to sell tobacco in their outlets only if the government set up a special Board of Control, much like the one that regulates alcohol sales.

Tobacco issue keeps smoking

The lack of success in fighting this issue in Ontario has strengthened the resolve in other provinces. "If the issue heats up again, we'll swing into action," noted CACDS’s Porter.

In fact, the issue of tobacco, more specifically its advertising and display, was put on the front burner by the federal government more recently. The industry has vowed to fight a recommendation that would, in effect,
cies Co. Ltd. by Shoppers Drug Mart Ltd. in late 1995. The move, which will see Big V's 135 outlets flying under the Shoppers trademark by Jan. 1, created a new $4-billion powerhouse of 850 stores and its sales picture to over $4 billion.

"The only real growth last year came from other sectors," said David Bloom, chairman and chief executive officer of Shoppers Drug Mart, in singling out the lack of green site opportunities in profitable locations as one reason for the overall less than aggressive expansion profile last year.

In IMS Canada's study on pharmacy openings, the grocery sector showed the biggest gains. The mass merchandise operations didn't sit back last year either. Wal-Mart increased its pharmacy presence by 38 percent over the year and Zellers reported a gain of 18 percent. Including some other mass merchandise players, the group upped its share by 22 percent from 247 to 301 outlets.

Continued growth is predicted for the mass and grocery sector. "Any store re-fit and any new location will likely include a pharmacy," said Sherry Porter, president of the one-year-old Canadian Association of Chain Drug Stores. With Wal-Mart's 124 and Zellers 200 total outlets, only about half of which boast pharmacy operations, the potential of these companies to alter the pharmacy distribution and retailing picture cannot be denied.

That the non-traditional formats,
Similar to the system in place in Alberta, patients pay a flat rate for prescription-drug insurance. The system proposed for Ontario in late 1995 under the notorious Omnibus II will introduce co-pays to Ontario drug Benefit recipients by July 1. Under the changes, lower-income subscribers will pay $2 fee per prescription, and higher income patients will pay $6.11 per prescription, along with a $100 deductible.

While most chains agree that user fees can help control use of medication in a province with one of the highest utilization rates, they agree with the government's decision to make the fee voluntary. Ontario, the average prescription age by seniors is 27, compared with 18 in British Columbia, which had user fees for some time.

"If the government is trying to achieve its objective of reduced drug use, it'll only do so if the fee becomes mandatory," said Rochelle Stenzler of Pharma Plus, by way of explaining industry fears of an all-out price war whereby certain players could decide to waive the fee to draw customers to their stores. CACDS members from all sectors agreed that government mandated the collection of the $2 co-pay, they would abide by the rule, according to Stenzler, the new president of CACDS. Otherwise, she added, "They would make their own decisions."

Shoppers Drug Mart Ltd., left and above, shook the Canadian chain drug store industry with its acquisition of Big V Pharmacies Co. Ltd. last year.

stores, a figure which includes the Big V outlets, is no longer the biggest receiver. Consolidation is likely in some wholesale distribution companies as a result of the changes.

Some say too that mega-changes in the supplier/retailer relationship have been coming for some time. "This move by Shoppers just adds another dimension," said Pharma Plus' Stenzler. At the same time, she said, the rest of the industry is braced for the types of situations that will likely arise, such as the reluctance of DSD vendors to continue supplying a service "when the number of doors is only 100 as opposed to 700."

In the face of numerous outside
The argument of the chain industry is that if the government objective is truly to educate patients about drug costs and the value of health care, then it should ensure that they do pay. What also irked pharmacists was government's targeting of their professional fees in this largely cost-cutting exercise.

**Marginal effect on top chains**

The pressure on remuneration and margins has had an effect on Canada's top chains. Over the past two years, the industry has been exploring new ways to cut costs and streamline operations. The race to become more efficient has led most to realize the full benefits of store automation and technology.

Shoppers Drug Mart pushed hard in 1995 to ensure systems would be in place by 1996, and Pharma Plus' pilot project with POS last year will result in the roll-out of those systems in 16 outlets. As part of this trend toward automation, the industry has been working closely with distributors in supply chain management issues. Electronic Data Interchange is high on the list for drug chains.

Pushing for widespread use of UPC codes is also high on the list of retail issues for the chain drug industry.

Last year, the chain drug industry also looked ahead to changes in the distribution patterns that would arise when Shoppers Drug Mart switched its operations from direct store distribution to centralized distribution and warehousing under its Vision '97 program. While the trend has been strong in the grocery sector, it's a new concept for Canada's pharmacy sector.

The move, said insiders, will have some strong implications for independent pharmacies and even other chains. One prediction is that costs of getting products to stores will increase starting in 1996, as manufacturers focus carefully at the efficiencies of distributing products once Shoppers' 850

Jean Coutu Canada's top drug chain, is looking for ways to attract customers in an increasingly competitive marketplace.

### Top Canadian drug chains

<table>
<thead>
<tr>
<th>Chain</th>
<th>Headquarters</th>
<th>1995 sales $ Canadian in millions</th>
<th>1994 sales $ Canadian in millions</th>
<th>% change '94-'95</th>
<th>Fiscal year ends</th>
<th># units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopper's Drug</td>
<td>Willowdale, Ont.</td>
<td>$3.30</td>
<td>$3.23</td>
<td>2.1%</td>
<td>Jan. 31</td>
<td>717</td>
</tr>
<tr>
<td>Jean Coutu</td>
<td>Longueuil, Quebec</td>
<td>1.41</td>
<td>1.34</td>
<td>4.5</td>
<td>May 31</td>
<td>227</td>
</tr>
<tr>
<td>London Drugs</td>
<td>Richmond, B.C.</td>
<td>900E</td>
<td>n/a</td>
<td>n/a</td>
<td>Feb. 29</td>
<td>44</td>
</tr>
<tr>
<td>Pharma Plus</td>
<td>Mississauga, Ont.</td>
<td>390</td>
<td>414</td>
<td>-5.8</td>
<td>Jan. 27</td>
<td>147</td>
</tr>
<tr>
<td>Pharmasave</td>
<td>Langley, B.C.</td>
<td>375</td>
<td>415</td>
<td>-9.7</td>
<td>Dec. 31</td>
<td>176</td>
</tr>
<tr>
<td>Cumberland</td>
<td>Dorval, Quebec</td>
<td>215</td>
<td>200</td>
<td>8</td>
<td>Aug. 2</td>
<td>52</td>
</tr>
<tr>
<td>Lawton's</td>
<td>Dartmouth</td>
<td>180</td>
<td>180.5</td>
<td>nc</td>
<td>April 30</td>
<td>79</td>
</tr>
</tbody>
</table>

*nc = not available; nc = no change

Source: Drug Store News research