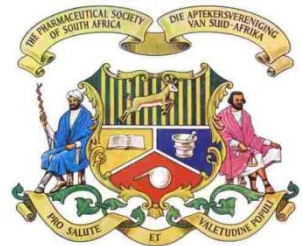


# The community pharmacy environment

HMI Public Hearing  
Set 1 Hearing 2

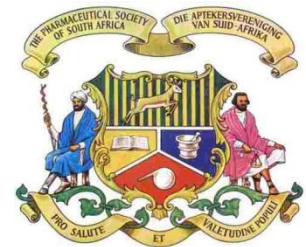
*Pharmaceutical Society of South Africa*



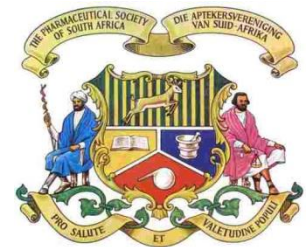
**Pharmaceutical Society  
of South Africa**

# Overview

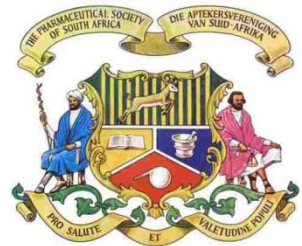
- Regulatory framework
- Healthcare funding
- Imperfect information and understanding
- Barriers to entry and expansion



# Background

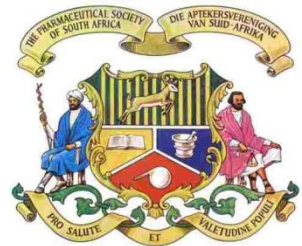


# Background



# Regulatory framework

- Pharmacy Act, 53 of 1974
- Medicines and Related Substances Act, 101 of 1965
- Medical Schemes Act, 131 of 1998



# Pharmacy Act, 53 of 1974

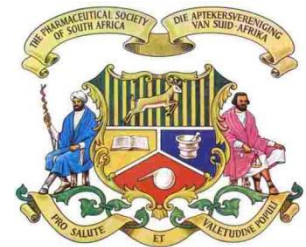
- Licensing and siting of pharmacies
  - Must be according to guidelines
  - Similar to proposed certificate of need
- Fees for services
  - Time and motion study
  - Maximum fees



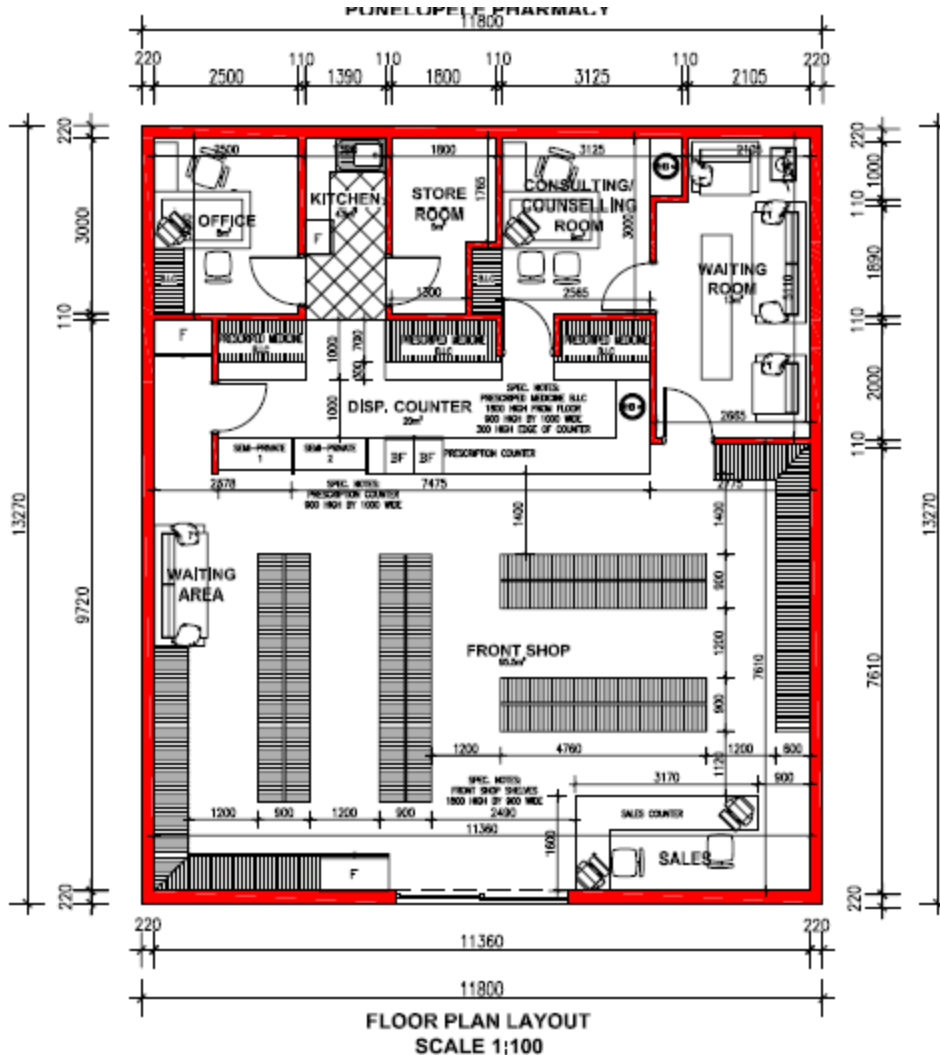
# Good Pharmacy Practice Rules

Professional standards for:

- Pharmacy premises, facilities and equipment
- Services provided in a pharmacy
- Human resources in pharmacy



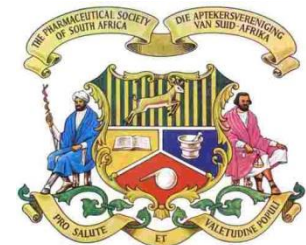
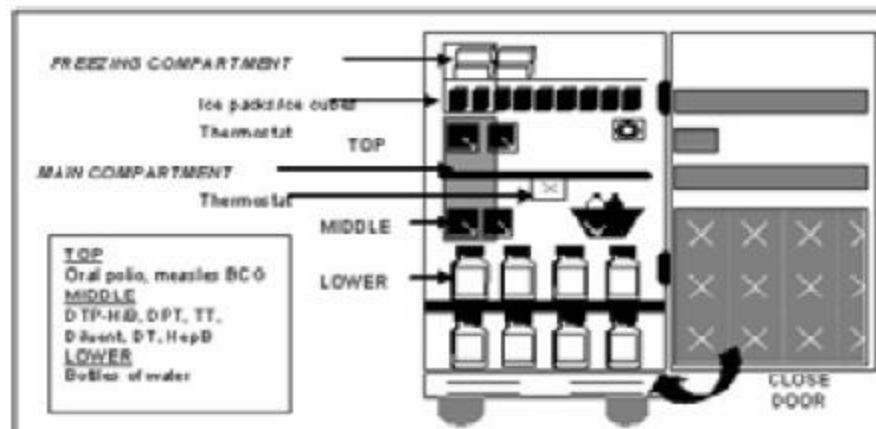
# Example – pharmacy layout





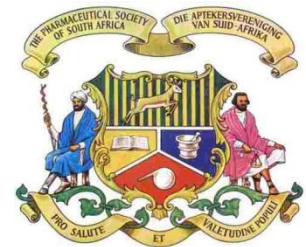
# Example – cold chain management

- WHO approved thermometer
- Emergency power system
- May not keep anything other than medicines in the refrigerator



# GPP compliance

- Adds to costs, over and above business costs
- Regular inspections
- Failure to comply may lead to removal from register



# Medicines and Related Substances Act, 101 of 1965

- Dispensing fee – recommended by the Pricing Committee to the Minister
- Bonusing – no medicine may be sold by a bonus system, rebate system or any other incentive scheme
- Prescriptive record keeping – necessary but onerous



# Dispensing fee for pharmacists

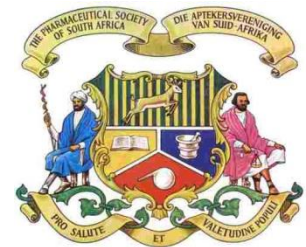
Please note, the dispensing fee is included

- to illustrate the complexity of the situation
- not to discuss the merits or otherwise of the fee



# Many years ago ...

- Retail principles applied
- Mark up to mark down
- Discounting and bonusing
- No consistency in pricing
- No transparency



# Dispensing fee history

- January 2004 – draft dispensing fee – 24/24, i.e. 24% capped at R 24.00
- April 2004 – final fee published – 26/26, i.e. 26% capped at R 26.00
- September 2005 – Constitutional Court judgment – the fee is inappropriate



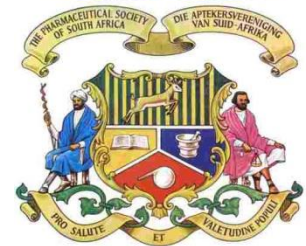
# Current dispensing fee

- Single Exit price (SEP) – regulated price that manufacturer may charge pharmacies for a medicine
- Cost to consumer or funder – SEP + dispensing fee
- 4 tiered system – important to protect the low priced medicines for consumers



# February 2016 dispensing fee

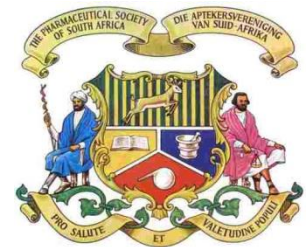
<b>SEP Range</b>	< R 90.00	≥ R 90.00 – R 240.05	≥ R 249.06 – R 840.22	≥ R840.23
<b>Max % fee</b>	46%	33%	15%	5%
<b>Max fixed rand amount</b>	R 7.65	R 19.50	R 64.08	R 154.00





# Dispensing fee examples

- An antibiotic which has an SEP of R 4.28 per tablet
  - SEP for 15 tablets = R 64.20
  - 46 % = R 29.53
  - Fixed fee = R 7.65
  - Total price = R 101.38 excluding VAT
  - Income to pharmacist = R 37.18



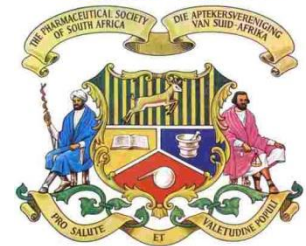
# Dispensing fee examples

- A cholesterol lowering medicine which has an SEP of R 421.14 for a month's supply
  - SEP = R 421.14
  - 15 % = R 63.17
  - Fixed fee = R 64.08
  - Total price = R 548.39 excluding VAT
  - Income to pharmacist = R 127.25



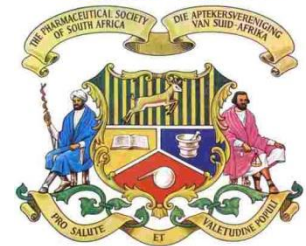
# Medical Schemes Act

- Designated Service Providers (DSPs)
  - preferred provider for Prescribed Minimum Benefit (PMB) conditions
  - to manage unregulated costs
- Co-payments – may be imposed if the member obtains services from provider is not a DSP



# Effects of DSPs

- Are they necessary for pharmacy if the dispensing fee is regulated?
- Risks to consumers
  - Different pharmacies for acute and chronic prescriptions
  - May be financially penalised if DSP is not used
  - Face-to-face consultation is not always possible
  - Stockpiled medicines if despatched automatically
- Risks to small pharmacies
  - Often unable to participate as DSPs, even if they offer same conditions



# Dispensing fee payment

- Dispensing fees – seldom reimbursed in full

Independent pharmacy	Acute, chronic and (over-the-counter) OTC medicine
SEP from 0 - R100	(SEP less 14% VAT + 31%) + 14% VAT
SEP > R100	(SEP less 14% VAT + R31) + 14% VAT

## Example 1

– pharmacist's income is R17.45 instead of R37.18

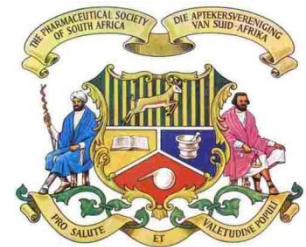
## Example 2

– pharmacist's income is R 31.00 instead of R 127.25



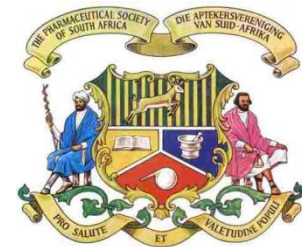
# Other medical scheme practices

- Pharmacy Administration Fee – an out-of-pocket expense to the patient
- Other services for which pharmacists may levy a fee – seldom reimbursed
- Primary Care Drug Therapy – pharmacists with permits may deliver primary care, but most are not reimbursed by medical schemes



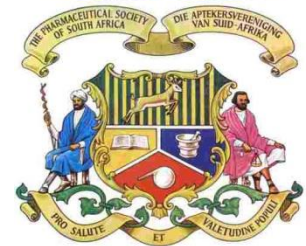
# Imperfect information and understanding

- Consumers often do not understand
  - their rights
  - their medical scheme's rules
  - the reasons for limiting benefits
  - the complexity of the medicine pricing structure
- Community pharmacists have received very little information about their projected role in NHI



# Barriers to entry and expansion

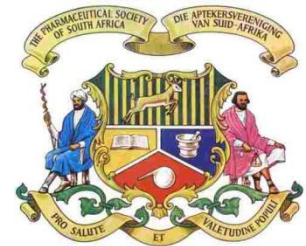
- Expensive to establish a new pharmacy – fixtures and fittings, equipment, medicine stock
- Hostile business environment – challenged by the regulatory system and the restrictions on competition
- Vertical integration – large pharmacies and chains may own wholesalers
- Horizontal collusion – between shopping malls and anchor tenants





# The last concern

- Lack of incentives for entrepreneurship
  - difficulty in raising capital
  - legislative restrictions
  - low return on investment
- Regulation affects
  - freedom of choice of the consumer
  - service delivery
  - viability of small businesses



Thank you for  
permitting us to  
participate in the  
inquiry

