

# APAVAR Case Study

Work Package 2

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## APAVAR – STABILITY AND INNOVATION



Picture 1 Available from [www.apavar.cz](http://www.apavar.cz)

*Ms. Novakova, a retired ill woman suffering from diabetes and high pressure, left her GP's (general practitioner) surgery and looked at her three prescriptions. She was upset as she knew she would have to cover part of the cost of her medicines, but her money was very tight. As usual, she went straight to the nearby pharmacy Apavar, but suddenly she remembered that her neighbour had mentioned a different chain of pharmacies called Dr. Max, where he went because they offered much lower prices. She had to decide whether to go to Apavar situated in her little town or to take a bus to the nearest city where Dr. Max pharmacies are located. She also thought that she could ask her grandson to get an access to Apavar's e-shop and purchase the necessary medicines for her.....Or she could go there to ask the pharmacist for advice how to replace expensive drugs with cheaper ones when she cannot afford them.....*

It is possible that the mentioned situation happens to you or your relatives and friends. This case study will give you information about:

- Operation of a pharmacy in the Czech Republic,
- Privatization of pharmacies after the year 1989,
- Problems pharmacies have to face,
- Innovations,
- Consulting in the area of the healthy lifestyle,
- Introducing Chinese medicine – Diochi and Feng-Shui,
- E-shop,
- The Green Centre.

## **A- EXECUTIVE SUMMARY**

The APAVAR company, founded in 1999 in the North Moravia Region of the Czech Republic, is a pharmacy operating in a little town Rychvald. It was established in the period when privatization of pharmacies became possible and has been prospering on market for almost 15 years.

In spite of the economic crisis, Apavar is a flourishing business probably due to its stability on pharmaceutical market in the region, creating of the brand Apavar and awareness about it in Rychvald, a newly introduced e-shop with other services, cooperation with general practitioners in the town, consulting service, and developing of the Green Centre offering workshops for all employees of health service.

However, the company faces some problems related to competition, especially from the nearest biggest city of Ostrava, reducing the number of employees and the lack of a proper person who would be able to manage all the activities in the firm and help the owner with issues connected with consulting and focusing on the Green Centre, the location of the firm, and competition especially from the pharmaceutical chain Dr. Max.

This case study will identify the potential ways of future development for the Apavar company.

## **B – BASIC INFORMATION ABOUT THE COMPANY**

### **1 Characteristics of the company**

APAVAR company, founded in 1999 in the North Moravia Region of the Czech Republic, is a pharmacy operating in a little town Rychvald (7,000 inhabitants)

The logo of the company has y symbolic and significant meaning. It consists of two linked arches that symbolize interconnection of classical and alternative ways of treatment. They express links related to all levels as well as open cooperation, e.g. between pharmacology with alternative medicine, i.e. chemical drugs with natural ones, and body with mind.



Picture 2 Available from [www.apavar.cz](http://www.apavar.cz)

The closed circle is related to stability and infinite processes as the human body is involved in continuous development and its balance presents the basis of health.



Picture 3 Available from [www.apavar.cz](http://www.apavar.cz)

The green colour symbolizes nature and health, the white one health service and cleanliness. The name was created using originally an acronym, later it was associated with the sanskrit word to *discover*.

The philosophy of the firm is related to the following principles that are reflected in company's operation and activities.:

1. The firm provide services for all the people who want to take care of their health in the best possible way.
2. Health is the most precious thing and everyone is responsible for it.
3. When providing prescription drugs, the staff presume that every doctor wants to treat patients in the best way
4. The staff respect the prescribed drugs and do not replace them on purpose. The customers are provided with the drugs according to the prescription, not with their substitutes. They are proposed a replacement in cases when the required drug is not in the stock and is needed immediately, or when a client cannot afford buying it.
5. The principle is that the same drug composition does not always mean the same effect as human organism can react in different ways to a drug provided by different producers and containing the active component processed in different ways.
6. If the drug is not available, it is ordered immediately and can be picked up the following day.
7. During consulting the staff use not only their knowledge and experience, but also empathy.
8. They carefully select all the drugs as their goal is not only to offer products of high quality, but also efficient dietary supplements and natural products.

9. They attempt to recognize the best way of treatment. In some cases it is necessary to be examined by a doctor and use chemical drugs, but very often patients can be treated in a natural way.
10. The staff discover possibilities how to return old charm and magic smell to pharmacies, deal with the customers in a frank and open way, and have a high job satisfaction.

## **2. History of the company**

The company was founded as a s.r.o. (limited liability company) in 1999 in the period of the privatization process of pharmacies when the current employees of the firms were enabled to become their owners after having submitted a privatization project. The pharmacy used to be a state institution before and the current head of the firm, Helena Zvaríková, had acquired experiences with managing a firm before in a different pharmacy and a different place, and had proved that she had been capable to run a business independently. After her project had been approved, she decided to rent premises in a small town Rychvald of about 7,000 inhabitants situated in the North Moravia region having to face competition from the neighbouring city of Ostrava, the biggest city in the region. Nowadays, the company has 4 employees – 1 with a full working load and 3 with part ones.

Her decision related to the location of the firm was originally influenced by family issues, the vicinity of general practitioners and their patients, and also ageing population in the town who need medical and pharmaceutical care regularly. .

Apavar had its flourishing period in 2006 when it also employed the biggest number of employees – 3.5 working fulltime loads for pharmacists, 2 for laboratory technicians, and 1 administrative worker.

However, later between the years 2007-2008, due to specific circumstances, the situation of the firm deteriorated. The reasons apparently involve the beginning of the world economic crisis, a new pharmaceutical chain Dr. Max entering the market and offering lower prices of products, investing in opening of the Green Centre, and finally introducing of a flat prescription fee of CZK 30 in the whole of the Czech Republic. The result of the mentioned difficulties was dismissing some members of the pharmacy staff.

At present, the firm is prospering, probably due to the introduction of an e-shop, consulting services as well as an initiative to continue operating of the Green Centre that

would organize workshops for workers of the health service dealing with alternative ways of treatment.

### **3. Current situation**

The introduction of an e-shop was very important for the operation of the firm. The e-shop has been operating for 1 year and does not make any profit yet, but the goal of the owner is to attract young generation interested in the healthy lifestyle and natural products.

Most of products are available from the supplier's stock. Orders are placed twice a day and when the required product is prepared for delivery, customers are immediately informed by an e-mail. In case of purchase over KCZ 1.500, which is approximately 55 euro, delivery is post-paid. Products are delivered only within the Czech Republic.

### **4. Innovation**



*Picture 4 Available from [www.apavar.cz](http://www.apavar.cz)*

The Apavar pharmacy has introduced health cards offered to customers on the Internet, which is not a common practice in the Czech Republic yet and is expected to attract more customers in the future. The owner of the card is entitled to the following benefits:

- No charge for the prescription
- Specialist pharmaceutical consulting
- Consulting in the area of healthy lifestyle
- Monitoring the effect of drugs
- Financial advantages related to the purchase of freely available products
- Information about special offers.

Apart from the mentioned benefits, the most valuable services not available from other firms, include specialist pharmaceutical consulting carried out at every delivery of drugs and freely available medicines. The health card enables customers' enters connected with all drugs and their amount. At the same time potential negative interaction among drugs is estimated and customers are informed about possible risks in their treatment.





*Picture 6 Available from [www.apavar.cz](http://www.apavar.cz)*

## **C – ENVIRONMENTAL ANALYSIS**

### **1. Privatization of pharmacies in the Czech Republic**

The framework for large scale privatization, adopted in late 1990, focused on two partly conflicting goals. The first goal was to enable fast privatization of a large part of industry, proposals in which privatization was viewed as one of many tools to restructure individual enterprises. In their view, restructuring should follow privatization and should be accomplished by the new private owners. The second goal was to introduce as much competition into the process as possible. Anybody had the opportunity to submit a privatization proposal, there was some probability of success for even relative outsiders. Privatization of each enterprise is based on privatization projects. These can propose privatization of the whole firm as it is, however, they can also propose division of the firm into a number of smaller units. Those units might or might not have status of entire firms. The management of the state owned enterprise has to submit a so called basic project, which addresses the whole firm. Other bidders can focus their projects either on the whole firm or on one or more parts. There were used the following privatization methods:

- transformation into a joint stock company and further transferring of the shares (i. e. by voucher privatization),
- direct sale to a predetermined buyer,
- public auction,
- public tender or
- transfer to municipal property, social security, health insurance, and other publicly beneficial institutions.

Projects proposing a transformation into a joint stock company have to contain a division of shares. The following methods were allowed for the distribution of shares: free

distribution via vouchers, direct sale to domestic or foreign buyers, intermediated sale - through stock market or other financial institution.

In addition, up to 10 % (later 5%) of shares could be transformed into employees' shares and sold for a special, usually lower, price. Moreover, shares could be transferred for free to some beneficiaries. Some shares could be kept permanently or temporarily by the state. Permanent state ownership, in some cases accompanied with special rights to veto certain key decisions, usually indicates an intention by the state to preserve influence in particularly important companies. Temporary state ownership is often used to give additional time for negotiations with large investors without extending time for privatization of the rest of company.

The process was divided into several steps. In June 1991, the government published the list of state owned enterprises indicating which firms will be privatized within the first or the second wave of privatization and which will not be privatized within next five years. Later,

a list of firms assigned for participation in voucher privatization was published. Basic projects of those firms had to involve voucher privatization and number of shares for vouchers in each company was negotiated between the Ministry of Privatization, founding ministries, management and the Centre for Voucher Privatization, even before formal approval of projects. Basic privatization projects for the first wave (the second wave followed basically the same procedure) had to be submitted to the Ministry of Privatization by November 30, 1991.

## **2.Price making in pharmacies in the Czech Republic**

Drugs and their prices and sales are regulated in the Czech Republic. The creations of maximum prices are regulated by the Ministry of Health of the Czech Republic and the State Institute for Drug Control

Nowadays, pharmaceutical market and its rules of price making are an ardent topic of discussion in general public as different chains of pharmacies can offer completely different prices of the same drugs. The market is regulated by the state. Products are divided into groups according to their prices. The groups are identified by the highest possible percentage of margin that can be made by a particular product. Profit margins can be defined as net profit expressed as a percentage of sales. In economic practice, the optimal setting of margins is not easy, but it is the formula of many unknowns. It should

be noted that the price affects a number of factors, such as supply and demand, competition, the purchasing power of customers, the region, the season of sale, etc.

Although the pharmaceutical industry is one of the world's most research-intensive industries, generating new drugs that satisfy vital consumer needs in health care by saving lives and significantly increasing quality of life, in the pharmaceutical industry, there are market imperfections on both the demand and supply sides. As a result, the pharmaceutical industry is among the most heavily regulated industries.

The market for drugs and medicines are divided in terms of pricing into the three following groups:

- drugs and medicines fully covered by public health insurance,
- drugs and medicines partially covered by public health insurance,
- medicines and medicinal products fixed to medical prescription fully covered by the patient,
- over-the counter-medicines

The first three groups are fixed to medical prescription but there are drugs that a patient may receive both with prescription and purchased freely. Price regulation is applicable to any medicines or food for special medical purposes; they are fully or partially covered by public health insurance.

Price regulators must choose medications that can be paid from funds which are available for the public sector. Drugs are divided into groups, such flu medications, high blood pressure medications, diabetes, etc. We can find fully paid medicaments in each of these groups and we can also find drugs with greater or lesser surcharge.

### **3. Position of SMEs in the Czech Republic and economic situation in Moravia-Silesia Region**

Small and medium sized enterprises contribute more than 50% of the GDP and are the biggest employers.

SMEs are relatively flexible and provide quick responses to changes in the external environment; they are, however, also very sensitive to this environment. SMEs have high absorption potential of the work force and the ability to fill gaps and niches in the market that are left by large companies because of their lower resolving power. SMEs are also quickly available for subcontracting.

On other hand, SMEs do not have quick and easy access to financial funds and they have a lower ability to control and eliminate the consequences of external factors fluctuation, namely in the initial stages of the company's development.

The importance of the SME sector for the Czech economy is illustrated in the data available. According to the statistics 1,122,511 private and legal persons (with the number of employees between 0 and 249) were registered and actually conducted business activities. The share of small and medium sized companies in the total number of active business subjects accounted for 99.86 per cent. SMEs employed 1,786,000 employees in 2012, which accounts for 59.43 per cent of the total number of employees in the entrepreneur sphere. The data prove the importance of the SME sector.

#### **4. Situation in Moravia Silesia Region**

The Ostrava region is one of the most industrialised parts of the Czech Republic with extensive mining, metallurgy, steel and oil processing and heavy engineering activities. Many foreign investors have already set up their production facilities in the region and take

advantage of skilled labour force. The region suffered from heavy pollution in the past but extensive cleanup programs in recent years have improved the environment significantly. Besides the heavy industry, sectors such as pharmaceutical industry, food processing, production of building materials or automotive have been steadily developing. Restructuring in traditional industries has been shifting the region's industrial base to light manufacturing – automotive, metalworking and electrical engineering. Numerous Business Zones have been built to attract new potential investors to the regions in order to reduce its dependency on the heavy industry and to reduce the threat of increasing unemployment.

The Moravian-Silesian region is the most populated region in the CR (almost 1,250,000 inhabitants) however, the number of municipalities places the region among the regions with the lowest number of settlements. The region is highly urbanised – nearly 50 % of the population live in large cities – and it has the highest population density in the Czech Republic. The labour force in the region is highly skilled due to a long and rich industrial tradition and a high quality educational system.

Nowadays, there is to a dramatic decrease in bituminous coal price, OKD a.s., one of the largest mining companies in Central Europe, has experienced serious financial difficulties

recently. As a result of that, there exists a potential of a dramatic increase in unemployment. The current unemployment rate, accounting for 13.7 per cent, belongs to the highest in the Czech Republic.

Nowadays, the operation of pharmacies in the Czech Republic can be characterized by flexibility, the trend related to customizing, and outsourcing to customer. In the North Moravia and Silesia Region there were 2489 pharmacies and 3820 people for a pharmacy. In 2011. According to the statistics in the year 2012 an average pharmacy accepted 26 372 prescriptions and had a revenue of 21 068 000 CZK. A pharmacy employed in average 2,24 pharmaceuts and 1,64 assistants.

## **D – DEFINITION OF THE PROBLEM**

### **1. Competition from other pharmaceutical chains**

The map shows the area that the Apavar pharmacy is able to cover, but there exists competition from other developing chains of pharmacies – Dr. Max, Loyds, etc. Creating chains of companies results in an increase of their competitiveness, a decrease of their fixed expenses share, a rise of their flexibility, and other parameters. This pressure must be faced by Apavar not only by creating competitive prices, but also by specific marketing strategies.

Competition also uses the development of virtual network oriented especially to pooling purchases of products, connecting pharmacies to specific general practitioners, intensive marketing strategies, for example the pharmaceutical chain Dr. Max delivers leaflets with reduced prices to homes, does not require commercials on TV.

The mentioned big pharmaceutical chains strive for a monopoly on market bringing a lot of economic benefits. Due to their savings in the area of fixed expenses they can invest much more money in marketing campaigns and devote more attention to pricing.

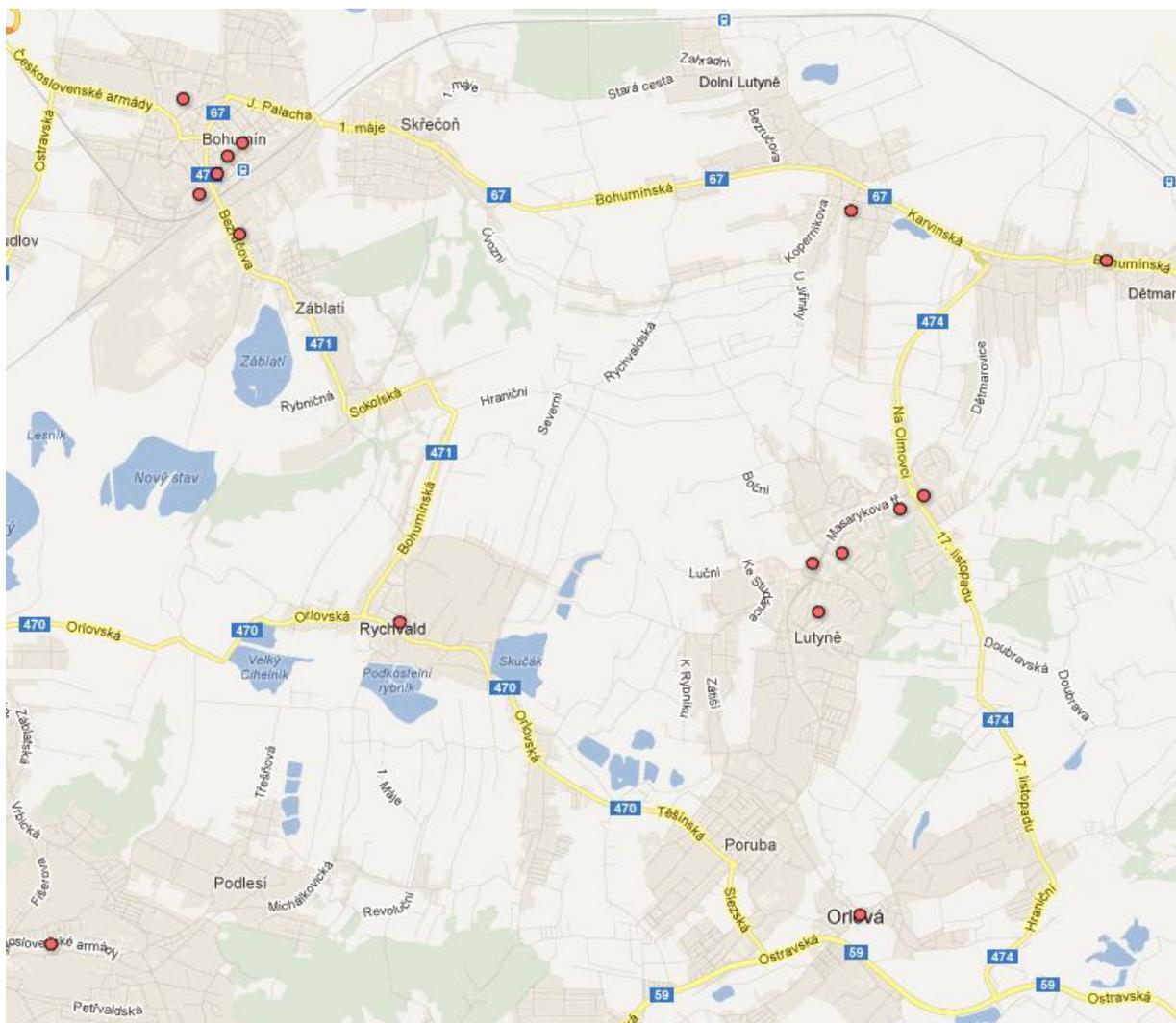
The described pressure is very demanding for small firms and to keep the position on market they have to find specific customers' needs that cannot be satisfied in pharmaceutical chains and deal with them intensively.

## 2. Political trends

There are other factors influencing prosperity of small pharmaceutical firms – especially the political ones related to the change of the regulatory fee paid to each prescription not to every item.

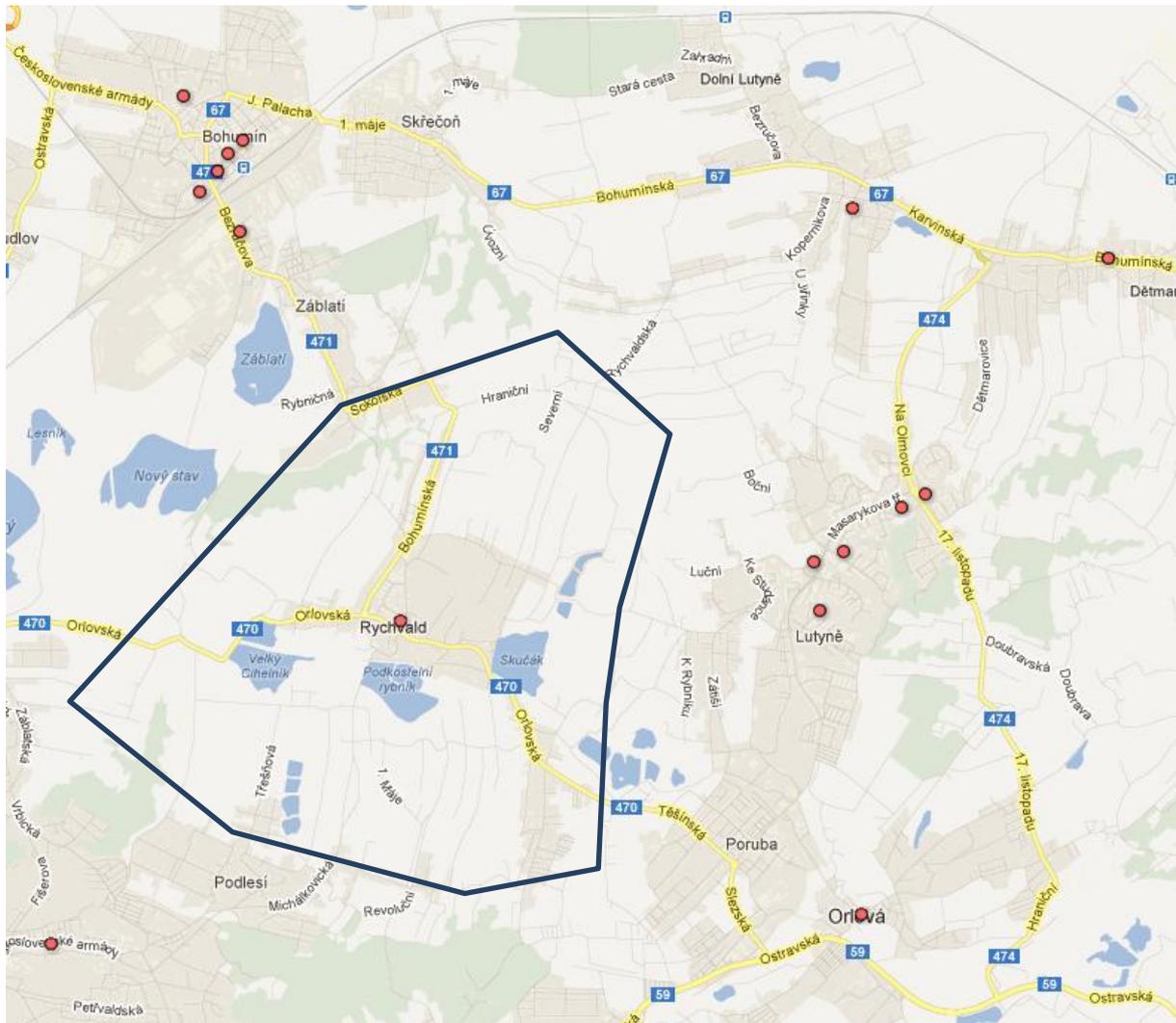
Another factor is presented by the existence of the permit related to the registration of new pharmacies in localities where the current number of pharmacies corresponds to the number of inhabitants. It can be estimated that the lobbying interests of big pharmaceutical chains will reject this kind of change in the future and it would have a strong impact on Apavar operating on market.

An important issue is the position of a pharmacist in the system as he or she has more competencies nowadays than only to influence a doctor's medication.



Picture available from Apavar's sites

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Picture 7 Available from [www.apavar.cz](http://www.apavar.cz)

### 3. Regional market segmentation

The town Rychvald with its border on the map indicates the places in which customers in need will decide which pharmacy to go to, which means that Apavar has the strongest competition from the side of pharmacies situated on the border of the covered area. On the way in the direction to other town centres the competition will decrease and the position of Apavar will become stronger.

#### **4. Personal segmentation in Rychvald and surroundings**

Although nowadays, the retired and poor people prefer Dr. Max pharmacy in Bohumín, it is necessary to deal with these two groups as according to current trends they will grow. Another perspective segment is presented by mothers with children and economically active population.

The segment of doctors and their surgeries has to be analyzed as well. The goal of the analysis is to compare the size of market with the number of doctors and patients who can be expected to come to Apavar to pick up drugs. This analysis is very important because of further marketing activities.

#### **5. Profitability of the operation of the Green Centre**

This year is characterized by stagnation of economy. This fact is reflected in the following issues:

- Stagnation of salaries and rise of prices lead to the lower consumption in household, which means that people will economize on unnecessary things, like participation in courses related to healthy lifestyle and other topics
- Stagnation of economy in firms results in decrease of interest in lectures and workshops
- If the economic situation improves in 2013 and the following year, it is probable that firms will invest in their staff's education and other activities.

The Green Centre is also going to provide lectures for physiotherapists, massagists, pharmacists, language teachers, company managers and other education centres.

#### **6. Profitability of the e-shop**

The e-shop does not bring any profit yet, but it is estimated to develop in the future. Nowadays it offers 7,000 items including cosmetics, teas, drugs, food supplements, etc. It also provides non-traditional drugs and food supplements based on the rules of Diochi.

In autumn it is possible to find a seasonal promotion of the products, like vitamins, special teas supporting immunity, and others.

### **E – GUIDANCE TO SOLUTION**

Solving the problems mentioned above, it is necessary to focus on the following issues:

1. Expanding of the e-shop

## 2. Development of the Green Centre

It is necessary to take into consideration the following issues:

- Demography – ageing population and an increase in the number of diseases connected with the age,
- Sociology – the threat of diseases and the loss of the job – people are afraid of long diseases as they have a strong financial impact on them and their families,
- The trend to slow down the process of ageing – retired people do sports, use the Internet, and try to look after themselves,
- Prevention and treatment provided for wealthy people,
- An increase of interest in alternative ways of treatment.

## F – ANALYSIS, DISCUSSION AND REFLECTION

The owner of the company asked a expert to carry out a strategic study related to the future development of the company.

### 1. Week points of the firm

The firm has to face numerous problems related to the following issues:

- The e-shop has been operating for 1 year and does not make any profit yet, taking into consideration the necessity to update the websites regularly – the selection of products and their prices depend on the central stock in Ostrava - and paying a fee for it
- Customers of the firm who belong to older generation – the firm would like to attract new young customers who would focus on prevention to diseases
- The offer of drugs in the stock of the pharmacy must correspond with the drugs most often prescribed by the general practitioners in the vicinity of the firm
- The prices of some generally available drugs, like for example the most popular and wide-spread drug *Paralen*, are provided by the Ministry of Finance and cannot be changed
- Reducing the number of employees and the lack of a proper person who would be able to manage all the activities in the firm and help the owner with developing activities connected with consulting and focusing on the Green Centre. Difficulties linked to the recruitment of the right person might be the location of the firm, requirements related to the dealing with customers, lack of creativity, and not adequate salaries.
- Competition especially from the pharmaceutical chain Dr. Max

## **2. Strong points of the company**

- Stability on pharmaceutical market in the region
- Creating of the brand Apavar and awareness about it in Rychvald
- A newly introduced e-shop with other services
- Cooperation with general practitioners in the town
- Consulting service
- Developing of the Green Centre for all employees of health service like, medical doctors, pharmacists, physiotherapists, nutrition advisors, massagers, etc., and organizing workshops connected with the topics related to Chinese medicine – Diochi based on phytotherapy and an energy principle, Feng-Shui, etc.

## **3. Opportunities**

The main activities related to the future development of Apavar involve:

- Expanding to the city of Ostrava located in the vicinity
- Increase the amount of offered products, especially the natural ones
- Continue with consulting services
- Further developing of the operation of the Green Centre
- Attracting young customers interested in the prevention of diseases and healthy lifestyle

The owner of the pharmacy admits that there is a possibility to expand to nearby Poland, but there are numerous obstacles related to the following areas:

- Different legislation
- Different products that are not known on Czech market
- Different documentation
- Necessity to translate the text of drug use instructions into Czech
- The trend of the EU to limit the number of food supplements due to their lowering quality.

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