Bankwest Future of Business: Focus on Pharmacy
2019 release
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Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Pharmacy Services Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia’s retail pharmacy sector, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

Despite a challenging year, the outlook for the pharmaceutical industry in Australia is positive. Revenue is forecast to grow by 5.1% over the next five years, reaching $40.1 billion by 2024.1 Pharmaceutical retailers are expected to grow substantially, adding a further 300 establishments during the same period. An ageing population and an increasingly health-conscious society is driving demand for pharmaceutical goods and services.

Australians are seeking more sophistication and involvement from their healthcare services. At the same time, healthcare expenditure is growing exponentially. Pharmacies are poised to reduce public healthcare costs and increase the level of services available to the public by expanding into more formal roles as healthcare providers. Establishing themselves as local healthcare centres and focusing on preventive and primary care will empower pharmacists to treat patients earlier, relieving pressure on hospitals and other public healthcare services.

Western Australian pharmacies performed relatively well in 2018. In October 2018, turnover growth returned to positive territory for the first time in 18 months with a record turnover month of retailing revenue reaching $153.9 million.2 However, substantial deflationary pressures exist due to intense competition in the market, from both discount pharmacies and supermarkets providing cheap generic medicines.

The national pharmaceutical industry is expected to continue growing, driven by innovation, evolving consumer preferences, changing demographics, and diversification into formal healthcare roles.

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1IBIS 2018
2ABS 8501
## Industry overview

Pharmaceutical revenue remained subdued in the year to June 2018, however the back end of the year showed promising signs of growth in the sector. Pharmaceutical retailers’ revenue fell by 1.4% relative to the previous year, to below $16 billion, as competition remains fierce. However, ABS estimates show that annual pharmacy retailing revenue rose by 3.3% in the year to October 2018.

### Australian pharmaceutical overview by sub-industry, June 2018

<table>
<thead>
<tr>
<th></th>
<th>Pharmacies</th>
<th>Pharmaceutical wholesaling</th>
<th>Pharmaceutical product manufacturing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$15.9 bn</td>
<td>$13.8 bn</td>
<td>$8.5 bn</td>
<td>$38.2 bn</td>
</tr>
<tr>
<td>Employees</td>
<td>64,000</td>
<td>12,778</td>
<td>13,081</td>
<td>89,859</td>
</tr>
<tr>
<td>Establishments</td>
<td>5,715</td>
<td>1,640</td>
<td>782</td>
<td>8,137</td>
</tr>
</tbody>
</table>

Source: IBIS 2018

In the five years to June 2018, pharmacy retailing revenue was driven by:*  

- **30.6%** increase in Pharmaceutical Benefits Scheme (PBS) revenue  
- **10.8%** decline in real prices  
- **6.0%** increase in establishments

*In the five years to June 2018

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## Pharmaceutical retailing

Pharmacies are focusing on increasing revenue through general retail sales, as opposed to prescription medicines sales. A typical pharmacy derives approximately 21% of its revenue from general retail.  

Discount pharmacies are among the strongest performers in the sector, deriving approximately two thirds of their revenue from general retail sales.

### Pharmacy revenue, year ending June 2018

- **63%** Prescription medicines  
- **16%** General retail  
- **21%** Scheduled non-prescription medicines

Source: IBIS 2018

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3IBIS 2018  
4Pharmacy Guild of Australia (July 2017)
What’s driving industry growth?

Lower PBS revenue of 3.0% in the year to June 2018 across Australia was a major contributor to sector performance. However, retail purchases from other retail goods, such as cosmetics and toiletries, continue to drive growth. In the year to October 2018, revenue in pharmaceutical, cosmetics and toiletry goods grew by 3.3%.

Australian pharmaceutical, cosmetics and toiletries goods retailing, 2013 - 2018

As we live longer, we are more committed to maintaining our stock of health. Increased health conscientiousness will provide a basis for long term stability and growth in the pharmaceuticals sector.

Other factors driving industry growth

- 3.3% increase in Australia’s 65 and over population in year to June 2018
- Technologies such as automated dispensing systems
- New product lines tailored to local demographics
Revenue increased across the pharmaceutical retail sector in the year to October 2018. Victoria experienced the largest growth with annual turnover increasing by 11.7%.


Pharmaceutical turnover increase (Year to October 2018)

Rising competition from both pharmaceutical retailers and grocery retailers has caused the price of pharmaceutical goods to fall well behind changes in CPI, benefiting the end customer. In the five years to September 2018, the real price of pharmaceutical goods fell 10.8% compared to other goods.

Uncertainty regarding health policy is reducing capital investment throughout the industry. Changes to the Pharmaceutical Benefits Scheme and shifting government policy has the potential to create uncertainty in the market and dampen investors’ confidence.
Spotlight on Western Australia

WA’s pharmacy sector showed promising signs in the year to October 2018, with annual pharmaceutical retailing revenue growth entering positive territory for the first time in 18 months. The month of October 2018 was particularly strong for pharmacies, with retailing revenue reaching $153.9 million, the second highest ever recorded.

WA pharmacy summary and historical growth, 2013 - 2018*

<table>
<thead>
<tr>
<th></th>
<th>WA</th>
<th>1 year change</th>
<th>5 year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of community pharmacies</td>
<td>623</td>
<td>2.0%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Employees</td>
<td>18,242</td>
<td>13.4%</td>
<td>19.9%</td>
</tr>
<tr>
<td>Annual turnover ($m)</td>
<td>$1,777.0</td>
<td>0.2%</td>
<td>9.1%</td>
</tr>
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Source: ABS 8501, Department of Health 2018, ABS 6291
*Latest figures used

In line with the national trend, Perth pharmaceutical prices have not kept up with price rises in the city. In real terms, pharmaceutical goods are 8.8% cheaper in Perth compared to five years ago.

Perth price changes (CPI), 2013 - 2018

Source: ABS 6401

Western Australia has the lowest pharmaceutical benefits government cost of all states at just $432 per capita, more than $35 less than the national average.

*Department of Health 2018
What does the future hold?

In the 10 years to 2017, government expenditure on healthcare increased by 57.2%. At current rates, without change, healthcare expenditure will reach $219 billion by 2023. To manage future growth in expenditure, a greater focus on preventative care, illness management, and the integration of pharmacies into a more comprehensive primary care model will be required.

Australian healthcare spending, 2007 – 2017

More than half of healthcare expenditure (59.7%) occurs over the age of 55. Anticipating consumer demands across age and other demographic factors is critical to the efficient delivery of healthcare goods and services.

Health spending over life

Technological change and the rise of e-health services will enable pharmacists to provide health services on demand.

<table>
<thead>
<tr>
<th>Under 19</th>
<th>19 to 34</th>
<th>35 to 44</th>
<th>45 to 54</th>
<th>Over 55</th>
</tr>
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<tbody>
<tr>
<td>40.3%</td>
<td>16.2%</td>
<td>10.9%</td>
<td>8.0%</td>
<td>5.2%</td>
</tr>
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Source: Australian Institute of Health and Welfare 2018

Source: Kaiser Family Foundation 2017

10AIHW 2018
11Peterson-Kaiser 2017
What challenges does the industry face?

Intense competition between traditional and discount pharmacies, as well as supermarkets, will continue to drive pharmaceutical product prices lower, constraining profit margins. This trend will be exacerbated by the availability of generic and bio-similar products. The number of pharmacies operating in Australia grew by 6.0% in the five years to 2018. Pharmacy establishment numbers are expected to continue increasing in the next five years.

Pharmacy revenue ($) per establishment actual & forecast, 2010 – 2024

Changes to the Pharmaceutical Benefits Scheme (PBS) are particularly important, given 63.0% of pharmacy revenues are derived from prescription sales. Policy change

Possible future changes in Federal and State governments will likely bring policy change.

Policy changes increase the risks of investing in the industry.

The number of employees per establishment in the pharmaceutical industry is falling, reflecting a shift towards more sophisticated production which employs greater use of technological resources. To stay competitive the pharmaceutical industry requires investment into new technologies such as e-health products, electronic prescriptions, and automations in production.
Where do the opportunities lie?

An ageing population will create stability in the sector. Reflecting the growing proportion of older Australians, real healthcare expenditure in Australia is rising, growing by 9.5% annually from 2007 to 2017. There is an opportunity to better employ pharmacy resources as local health centres, with more formal roles as preventative and chronic healthcare managers. In 2018, pharmacies were permitted to administer influenza vaccinations. Both the number of cases and deaths fell drastically compared to the previous the year.

**Influenza deaths and cases, Australia 2017 – 2018**

![Influenza Cases and Deaths Graph]

Source: Australian Journal of Pharmacy 2018

Australia’s ageing population is also driving growth with an expected increase in the proportion of Australians with chronic disease likely to drive demand for pharmacy services. Over the last 10 years, chronic disease rates in Australia have risen by 5.0 percentage points to 47.2%, driving demand for prescriptions and other non-prescription products.

**Proportion of Australians 18 years and over with chronic disease, 2008 vs 2018**

![Proportion of Australians with Chronic Disease Graph]

Source: ABS 4634

15 AIHW 2018

Other opportunities

- E-health technologies such as wearables will enable pharmacists to more effectively deliver preventative healthcare services. Electronic script exchange and PBS claiming will facilitate more efficient and higher quality service.
- Increasingly health conscious consumers will demand a greater variety and sophistication of health services. Pharmacies should establish themselves as preventative and primary healthcare providers to capitalise on this trend.
Forecasted industry growth

An ageing population, the potential to play a greater role in primary health care and developments in technology will facilitate growth in the pharmaceuticals industry. In the next five years, revenue is expected to rise by 5.1%, reaching $40.1 billion by 2024. Employment is also forecast to grow by 3.1% during the period.\(^{16}\)

**Pharmaceutical industry employment and revenues, 2010 – 2024**

![Graph showing employment and revenue growth from 2010 to 2024.](image)

Source: IBIS 2018

Competition within the industry is expected to continue increasing, with 8,500 establishments forecast by 2024. Demand for skilled labour will see increases in the average wage, however growing uptake of labour-saving technologies, such as electronic scripts, is expected to constrain wage growth to some extent.

**Pharmaceutical industry establishment numbers and wages, 2010 – 2024**

![Graph showing establishment numbers and wages growth from 2010 to 2024.](image)

Source: IBIS 2018

\(^{16}\)IBIS 2018

Each year 300 million Australians visit their local pharmacies. The industry has existing infrastructure, trained professionals and extensive coverage. These factors uniquely position pharmacies to alleviate stresses on the healthcare system by engaging in regular preventive medicine and primary care.
Sources


Richardson A. “Pharmaceuticals Wholesaling in Australia”, IBISWorld, November 2018.


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