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Are competitors ready to take on a deregulated Apoteket AB?

Thesis group 1946

Amina Ahmed Ibrahim
Beatrice Yola Konlaan
Carol Nakajugo Basudde

Acknowledgement

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“Be Ambitious

Be Brave

Be Creative”

ABC

Abstract

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Authors: Amina Ahmed Ibrahim Beatrice Yola Konlaan Carol Nakajugo Basudde
851225 820207 820722
Västerås Västerås Västerås

Tutor: Sigvard Herber

Title: Are competitors ready to take on a deregulated Apoteket AB?

Problem: With the oncoming deregulation of the monopoly, Apoteket AB appears to have a competitive advantage over incoming competition therefore the problem is to find out:

- What competitive advantage Apoteket AB has over its competitors.
- If the competitors have the tools to successfully compete with Apoteket AB.

Purpose: The purpose of this thesis is to find out whether competitors in Sweden are able to compete successfully with Apoteket AB for the market of non prescription medicine.

Method: Qualitative and quantitative methods have been used in this thesis. In order to achieve the desired result of this research it is appropriate to choose this approach since it enables the researcher to be able to explore all areas of the subject at hand and also give an in-depth discussion and analysis.

Conclusion: Apoteket AB has several competitive advantages over its competitors. It has a strong brand name that is known and trusted by customers. While all three competing companies see themselves as complements to Apoteket AB, we think that the competitors have what it takes to successfully compete with Apoteket. Judging from previous cases such as Norway and Denmark which showed different outcomes of deregulation in the retail pharmaceutical industry, the competitors in both cases have not been on the losing side. Supermarkets, petrol stations and grocery stores in Denmark and Norway were also competing with their respective pharmacies based mainly on price, accessibility and convenience. In conclusion this is an indication that the competitors in Sweden have more than enough tools to successfully compete with Apoteket AB.

Keywords: Deregulation, Pharmaceutical retail, Apoteket AB, Monopoly, Competition.

Abstrakt

Datum: 2008-06-05

Nivå: Magister Uppsats i Företagsekonomi, 15 Högskolepoäng

Författare: Amina Ahmed Ibrahim Beatrice Yola Konlaan Carol Nakajugo Basudde
851225 820207 820722
Västerås Västerås Västerås

Handledare: Sigvard Herber

Titel: Är konkurrenter beredda att konkurrera med Apoteket AB i en avreglerad marknad?

Problem: I samband med den kommande avregleringen av monopolet, Apoteket AB verkar ha konkurrensfördel gentemot konkurrenterna. Problemformuleringen lyder:

- Vilka konkurrensfördelar har Apoteket AB över sina konkurrenter?
- Har konkurrenterna de rätta verktygen för att framgångsrikt konkurrera med Apoteket AB?

Syfte: Uppsatsens syfte är att ta reda på om konkurrenterna i Sverige kan framgångsrikt konkurrera med Apoteket AB i den receptfria marknaden.

Metod: En kvalitativ och kvantitativ metod har använts i denna uppsats. För att uppnå det önskade resultat är det nödvändigt att använda sig av både en kvalitativ och kvantitativ metod, dels för att utförligt kunna utforska ämnet och ge en djupgående diskussion och analys.

Slutsats: Apoteket AB har en mängd konkurrensfördelar över sina konkurrenter. Företaget har ett starkt märke som kunderna känner till och litar på. De tre konkurrerande företag ser sig själva som ett komplement till Apoteket AB dock anser vi att konkurrenterna har vad som krävs för att framgångsrikt kunna konkurrera med Apoteket. Apotekets avreglering i Norge och Danmark har visat olika resultat, däremot har inte konkurrenterna i båda fall inte varit på den förlorande sidan. Matbutiker och bensin stationer i Danmark och Norge har konkurrerat med huvudsakligen pris, bekvämlighet och tillgänglighet med sina respektive Apotek. Detta är en indikation på att konkurrenterna i Sverige har tillräckligt med verktyg för att framgångsrikt kunna konkurrera med Apoteket AB.

Nyckelord: Avreglering, Apoteket AB, Monopol, Konkurrens.

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1. Introduction

In this chapter an introduction of the topic is given with an in-depth presentation of the background. The problem and the purpose of the thesis study are also presented.

1.1 Background

Apoteket is the Swedish word for pharmacy and is also the name of the company that runs the Swedish pharmaceutical retail monopoly. The company has enjoyed a monopoly for many years but is now facing a change. This change will mean that the Swedish pharmaceutical retail monopoly is the last of its kind i.e. the last state owned pharmacy in Europe (*Neroth P, 2005*).

From an international perspective the Swedish pharmacy system is unique because though many other countries have highly regulated medicine retail policies, there are often a number of privately run pharmacies. The international trend is that smaller pharmacies are taken up in an alliance by bigger chains who later will dominate the market. An example of this is the pharmacy chain Alliance Boots in Great Britain and Norway. As mentioned above in most countries the sale of medicine is highly regulated but in all 27 European Union countries it is only Denmark, Finland, Ireland, Netherlands, Portugal and Great Britain that allow the sale of some non prescription medicine in shops other than pharmacies (*Vilka vi är, Apoteket's webpage*).

Sweden is the only country within the *Organisation for Economic Co-operation and Development (OECD)* area that has allowed a company sole ownership of the right to sell medicine to consumers. Most countries have combined the right to sell medicine with a special requirement on competence, safety and education for those who run private pharmacies (*Konkurrensverket rapportserie 1999:4, p.145*).

The issue of deregulation¹ has been investigated and researched many times before without leading to any changes being made in the policy. After the election in 2006 the then incumbent Swedish government announced that it would be deregulating the pharmaceutical retail market. It is now apparent that a shift from monopoly to a competitive market is eminent within the pharmaceutical retail industry in Sweden. Apoteket AB is disposed to let the monopoly disappear when it comes to the non-prescribed medicines as aspirin and nicotine products although the sale of these products generates 3, 6 billion kronor yearly. The CEO for Apoteket AB Stefan Carlsson has been quoted in *Dagens Nyheter* a Swedish newspaper as saying that, the Swedish stores were willing to share the cake (*Dagens Nyheter webpage A*).

According to Thomas Svaton a representative for the body *Svensk dagligvaruhandel*, that represents supermarkets, grocery stores etc. the different aspects have to be looked at in order to improve the sale of non-prescribed medicine now that Apoteket AB is open and willing to let in other actors in this particular market. The two parties have started discussing the different changes this might bring and the Swedish *Medical Products Agency (Läkemedelsverket)* has been contacted to give their opinion on the changes of the regulations (*Dagens Nyheter webpage A*).

¹ The process, by which a government removes, reduces or simplifies restrictions on business.

Apoteket AB has changed its attitude towards the monopoly over non-prescription medicine because of the high risk of losing control over the sale of prescribed medicine. The information director for Apoteket AB Thony Björk's main concern is that the prescribed medicine would be seen as a commercial product. Apoteket AB is trying to investigate the possibilities for a broader and changed representative board. Apoteket AB is pressurized by the outside world that has interests of letting other actors be part of the Swedish pharmaceutical retail industry (*Dagens Nyheter webpage A*).

1.1.1 Deregulation in the non prescription medicine market

Lars Reje the state investigator into Apoteket AB's monopoly presented a report suggesting that grocery shops and supermarket chains for example ICA Sweden, Hemköp (Axfood) etc should be able to sell non prescription medicine like headache and acne medicine. Companies interested in selling non prescription medicine have to report to the *Medical Products Agency (Läkemedelverket)*. After reporting to the agency then the shops can go ahead and start selling non prescription medicine. The entire investigation is focused on trying to bring about better accessibility according to Lars Reje, who also believes that this would bring about a price war due to an increase in competition brought on by the increase of actors in this market (*Dagens Nyheter webpage B*).

The presented report states that from April 1st 2009 it should be possible to buy non-prescription medicine in regular shops, with an age limit of 18. Lars Reje believes that if this proposal is passed, half of all non-prescription medicine will be sold in places other than Apoteket (*Dagens Nyheter webpage C*).

In most parts of Europe the sale of non prescription medicine in shops, petrol stations and hotels has come into effect. Even in Sweden some shops sell non prescription medicine but only in areas where there is no available pharmacy (*Dagens Nyheter webpage B*).

Initially the new rules will apply in the same effect to products that are already being sold in shops that represent Apoteket AB in sparsely populated areas in Sweden. The medicine should not be displayed where it is easily accessible to customers or it should be placed where the product is under personnel observation (*Dagens Nyheter webpage B*).

The government wants Apoteket AB to keep 50 % of its shops. This is discouraging to other European pharmacy chains which then do not want to enter the Swedish market. According to *Dagens Nyheter*, a Swedish newspaper, the German company Celesios' CEO Stefan Mesiter stated that he thought that the *Swedish Competition Authority (Konkurrensverket)* would have a hard time accepting one actor to have more than 40 % of the market (*Dagens Nyheter webpage D*).

The *Swedish Competition Authority (Konkurrensverket)* believes that Apoteket AB should not have control of more than 40 % of the market if there is to be any (open) competition. The government's proposal will give them an unfair advantage because Apoteket AB will have too strong a position on the market (*Dagens Nyheter webpage E*).

1.2 Problem background

The Swedish monopoly in the pharmaceutical retail market meant that grocery stores, supermarkets or health food stores in Sweden are by law not allowed to sell non prescription medicine. This has meant a strictly regulated access to medicines for the Swedish population. The pharmaceutical retail industry in Sweden is restricted to the point that even headache medicine cannot be sold in any store other than those of the Apoteket AB. There are 900 official outlets which add up to one per every 10000 inhabitants. Those who have been critical towards Apoteket's monopoly state that the price of non prescription medicine has been high due to lack of competition (*Neroth P, 2005*).

Recently the *European Court of Justice* (ECJ) ruled that the monopoly is illegal due to the covert nature and discriminatory approach towards the buying of medicine which breaches European Law. The *ECJ* determined that the monopoly discriminates against other foreign pharmaceutical retail companies selling medical products in Sweden. This goes against the single market rule that states that no member state can discriminate against another member state because of origin of country when selling goods in another (*Neroth P, 2005*).

The monopoly in Sweden buys medicine directly from either Swedish manufactures or from its own pharmaceutical wholesalers, *Kronans Droghandel* and *Tamro*. This according to the *ECJ* leaves no room for foreign producers whose products are thereby not up for appraisal and therefore can not be up for selection. Apoteket AB is free to choose from a product range of its choice. According to Nils Wahl a professor at Stockholm University, the *ECJ* ruling can be interpreted in different ways. The ruling covers both prescription and over the counter medicine and this could mean that private pharmacies could be set up in Sweden. This of course is not an angle that the Swedish trade federation is pushing for. Jonathan Todd the spokesperson for the *European Commission* states that it is not the monopoly that is illegal but the way it is being run (*Neroth P, 2005*).

The government of Sweden had initially hinted on minor changes to the appeals procedure but experts like Wahl speculate that the government may in the long run want to keep the monopoly on the sale of both non prescription and prescription medicine but open up the internal purchasing market for other foreign pharmaceutical retail firms in order to avoid the discrimination claims. The government may try to model this on the previous ruling whereby the *ECJ* ruled against *Systembolaget*, the Swedish alcohol monopoly on similar grounds. The government managed to keep the monopoly by opening up the internal market and allowing foreign firms to apply for their product range to be considered by *Systembolaget* and furthermore have the right to appeal when rejected. The Swedish alcohol monopoly was thus allowed to keep its store and pricing monopoly (*Neroth P, 2005*).

1.2.1 Problem statement

With the oncoming deregulation of the monopoly, Apoteket AB appears to have a competitive advantage over incoming competition therefore the problem is to find out:

- What competitive advantage Apoteket AB has over its competitors.
- Whether the competitors have the tools to successfully compete with Apoteket AB.

1.3 Purpose

The purpose of this thesis is to find out whether competitors in Sweden will be able to compete successfully with Apoteket AB for the market of non prescription medicine.

1.4 Limitation

The focus is on the competition on the non prescription medicine market. The competitors looked at are supermarket chains and petrol stations on the local market that have shown an interest. We are aware of the fact that optical stores, hotels and small conveniences stores such as Pressbyrån and 7-Eleven, are also potential competitors to Apoteket AB in this market but are not presented in this thesis due to time constraint. Furthermore due to the scope of this thesis international competitors such as Celesio and Alliance Boots, although mentioned briefly will not be looked at in-depth.

1.5 Target group

This thesis is aimed at decision makers and employees of ICA Sweden, Axfood, and Statoil AB Sweden and other competitors that are interested in entering the pharmaceutical retail industry in Sweden. This thesis could also be beneficial to Apoteket AB because it can give the company's decision makers an insight as to what Apoteket AB is up against.

1.6 Disposition

Chapter 1 – Introduction

In this chapter an introduction of the topic is given with an in-depth presentation of the background. The problem and the purpose of the thesis study are also presented.

Chapter 2 – Method

This chapter presents the research strategy and the collection of data. A description of the development of the thesis is presented followed by a discussion describing the process of data collection used.

Chapter 3 – Theoretical framework

In this chapter competition, a framework for competitor analysis, theories about competitive advantage and the Seven Ps are presented.

Chapter 4 – Apoteket AB and deregulation

This chapter presents the history of Apoteket AB, the background to deregulation and cases of other European countries that have also gone through deregulation in their pharmacy retail markets.

Chapter 5 – Competitors

In this chapter the competitors ICA Sweden, Axfood and Statoil AB Sweden are introduced. Two international competitors Alliance Boots and Celesio are also mentioned.

Chapter 6 – Empirical data

In this chapter an in-depth presentation of the competitors based on various interviews is given. The results from the study of customers' perceptions of competition and deregulation of Apoteket's monopoly are also presented.

Chapter 7 – Analysis

An analysis of the empirical data is presented based on the theoretical framework in this thesis.

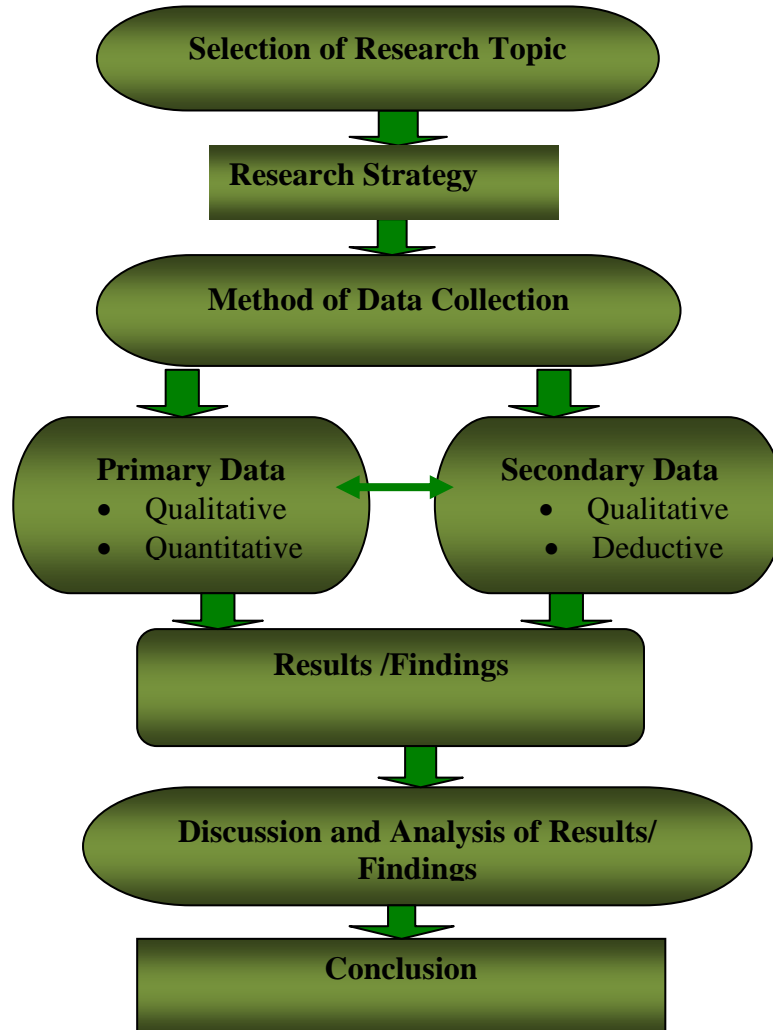
Chapter 8 – Conclusion

A summary of the thesis topic is given.

2. Method

This chapter presents the research strategy and the collection of data. A description of the development of the thesis is presented followed by a discussion describing the process of data collection used.

Figure 1: Method of Approach



A schematic diagram of the research process, (own design)

2.1 Selection of Research Topic

The research topic started out with an interest in the ongoing discussion on the deregulation of monopoly in Apoteket AB in Sweden. The initial idea was to conduct a critical study on how Apoteket AB would handle competition if the monopoly was deregulated. However during the initial information search, it was realized that there were already quite a good number of similar studies on the same topic. Since the topic of deregulation is currently being addressed and there are many different aspects involved, a different approach to the topic was taken.

One of the aspects of this topic that has not gained as much attention, is how deregulation is looked at from the competitor's point of view i.e., how prepared are Apoteket's competitors

in Sweden to take on the role of selling medicine and especially how they intend to compete with Apoteket AB which has been around for several years.

Competitors were selected based on previous studies and reports from the media showing that these companies are actors interested in entering this market. As mentioned in the study by (*Kardach M & Salamandra M, 2007*) interested actors in the sale of non prescription medicine are Statoil AB Sweden, Axfood and ICA Sweden. According to Johan Wiklund business planer and project leader for ICA Sweden, international actors that have shown an interest are Celesio and Alliance Boots (*Johan Wiklund, 2008-03-27*).

2.2 Research Strategy

In this phase is a presentation of how the selected topic is going to be treated in relation to literature collected, the kind of method to be used in the collection of data and how it is intended to be used to come up with a good and credible analysis and conclusion.

2.2.1 Qualitative/Quantitative Method

A qualitative research (*Wilson A, 2003 p. 93*) uses an unstructured research approach with a small number of carefully selected individuals to produce non-quantifiable insights into behavior, motivations and attitudes. The components are:

- The data collection is less structured.
- A small sample of individuals.
- Time and effort is spent in the selection of respondents.
- The data produced is not quantifiable.
- The researchers put more focus on the subject matter than having a more structured interview.

When analyzing the qualitative data it can be divided into two main components: (*Wilson A, 2003 p. 112*)

- Organizing, structuring and ordering of data either manually or on a computer.
- Interpretation of the data, i.e. what it says with regards to the research objectives.

Quantitative research (*Wilson A, 2003 p. 120-121*) uses a structured approach with a sample of the population to produce quantifiable insights into behavior, motivations and attitudes. The key components are:

- More structured data.
- The research involves larger samples of individuals.
- Results can be more easily compared.
- Data can be used for the purpose of determining the extent and occurrence of particular attitudes in the population.
- Quantitative analysis tends to be statistical.

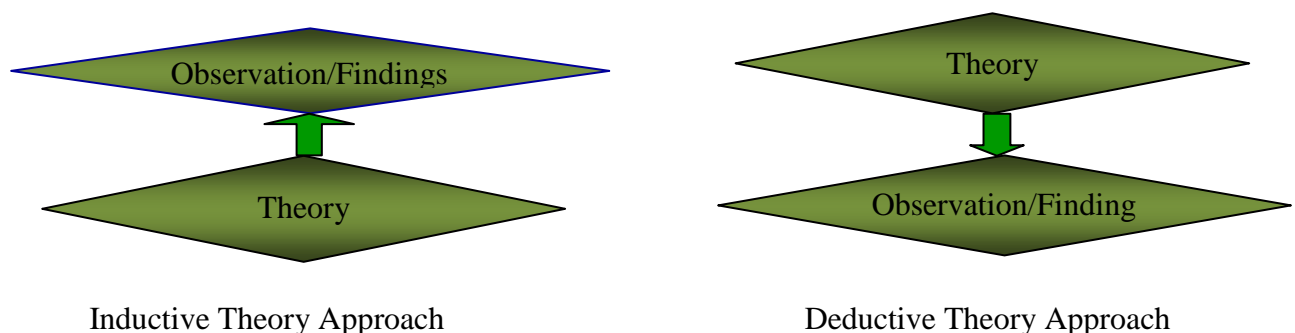
In many studies both qualitative and quantitative approaches are used. An in-depth and detailed study of various subject areas can be attained through a qualitative research method (*Patton M .Q, 2002 p. 13*) while a quantitative study is more advantageous in more difficult and obscure forms of analysis (*Gofton L & Ness M, 1997 p.131*). A qualitative research method as opposed to quantitative method is used in the description of situations in words rather than statistical numbers as is usually done with quantitative methods (*Silverman D, 2000 p.1-12*). The qualitative research explores and understands attitudes and behavior while the quantitative research is used to measure how widespread these attitudes and behaviors are (*Wilson A, 2003 p. 121*).

Both qualitative and quantitative methods have been used in this thesis. In order to achieve the desired result of this research it is appropriate to choose this approach since it enables the researcher to explore all areas of the subject at hand. The qualitative approach enables the researchers to have an in-depth discussion and analysis while the quantitative method of approach is conducted to help the researchers to assess consumers' perception of competition that is going to arise due to the deregulation of Apoteket's monopoly. This information was gathered in the form of questionnaires handed out to a group of 50 customers who visited Apoteket in Västerås.

2.2.2 Deductive / Inductive Approach

Bryman A. (2004, p.8), states that a deductive approach studies theory in relation to social research while an inductive theory begins with observations and findings which lead to the theory. The investigation of the deregulation of Apoteket AB monopoly falls under social research. In order to answer the research question the empirical data analyzed from already existing theories which makes it a deductive study.

Figure 2: An Inductive and Deductive Method Approach



Deductive and Inductive Theory Approach Adopted from: A Bryman, 'Social Research Methods', 2nd edition, Oxford University Press, New York, 2004, p 10 (own design)

2.3 Method of Data Collection

Data collected for this thesis consist of both primary and secondary data.

2.3.1 Primary Data

Firsthand information collected for a study or research is known as primary data. This could be through interviews, researchers' observation of events for example field events and records written and kept by people involved in, or who bear witness to an event (*Burns B.R, 2000 p.485*). The primary data used in this study is based on interviews and questionnaires. The interviews were structured, meaning that the interviewers already knew what kind of information was needed and therefore had already preset questions for the interviewees (*Sekaran U, 1992 p.192*).

Interviews can be conducted through interactive methods, such as personal or telephone interviewing, or with no direct contact (between the interviewer and the interviewee) delivered by post, by hand or by electronic means. The use of Internet has resulted in the development of email and web-based surveys which has the advantage of being cheap and fast with the potential of reaching a large number of people (*Wilson A, 2003 p. 121*).

The interviews for the thesis were conducted via email, telephone and also questionnaires. Email interviews were mainly used owing to the convenience of getting in contact with respondents who could not be reached for face-to-face interviews due to time constraints and geographical location. A face-to-face or a personal interviewing method has the advantage of convincing the respondent that the research and the interviewer are genuine. It can also motivate a respondent to take part and answer difficult questions because there is face-to-face interaction. The disadvantage of personal interviewing is that it is time consuming and often a more costly approach (*Wilson A, 2003 p. 121*).

Unlike personal interviews, telephone interviews do not need to be located near the respondents and interviewer travelling time and expenses are eliminated. The telephone has an advantage of reaching people who otherwise may be difficult to reach, such as business people travelling around. The other major benefit of telephone interviews is speed because they are normally much shorter than face-to-face interviews. A disadvantage can be the respondent's attitude towards the telephone, for example in the Mediterranean and Arab countries, people do not like giving out personal details over the telephone whereas North Americans and Northern Europeans are more open towards providing information over the telephone (*Wilson A, 2003 p. 126-127*).

For this thesis the respective receptions (information desks) of the companies that were of interest were contacted. The topic and interest area of this thesis was presented and a request was made to be referred to the people in the company who were in position

2.3.1.1 Telephone interview

A telephone interview was made with Johan Wiklund, business planner, project leader at ICA Sweden. He is also responsible for future development plans of ICA Sweden. The purpose of the interview with Wiklund was to get a clear picture of ICA Sweden as a competitor and how the company is going to compete on the local market (*see Appendix B*).

2.3.1.2 Email interviews

Questions were sent to the following people:

- Helen Westström, press secretary at Apoteket AB regarding their position on the deregulation of non prescription medicine (*for questions see Appendix A*).
- Magnus Frisk, information director, and Märit Wikström press secretary at Coop Sweden (*for question see Appendix B*).
- The information director of Statoil AB Sweden Helena Fornstedt, and also Lisa Vejlo and Tove Grönkvist both informers for Statoil AB Sweden (*for questions see Appendix B*).
- The press secretaries for the Board of Health and Welfare: Sonya Aho, Jan Gustafsson and Anna-Lena How (*for questions see Appendix D*).
- Ursula Forner, information director for the Medical Products Agency (*for questions see Appendix C*).
- The press secretary Jimmy Dominius for the Swedish Competition Authority (*for questions see Appendix C*).
- Karin Bildsten, product manager within medicine for Axfood (*for questions see Appendix B*).

The following companies did not respond to the emails sent out: Coop Sweden, the Board of Health and Welfare, the Swedish Competition Authority, the Medical Products Agency. Since Coop Sweden did not reply to the email it was exempted from this thesis as a competitor, though it is also among the competitors that has shown an interest in the non prescription market. The other agencies that did not respond to the email are not exempted from the study but are however mentioned in the study based on other sources such as articles, WebPages and newspapers.

2.3.1.3 Questionnaire

Street interviews involve respondents being approached while they are passing by, shopping, going about their day to day activities etc. The disadvantage of this approach is that the respondent may not be attentive, for example: a person being interviewed outside while it is raining may not be as attentive to the questions being asked as someone located in a shopping mall. The length of the street interviews should be limited because it is unlikely that a respondent will be willing to answer questions for more than 10 minutes while standing holding shopping bags (*Wilson A, 2003 p. 125*).

A questionnaire is the research instrument designed to generate the data necessary for accomplishing a projects' research objectives and provides the critical communication link between the researcher and the respondent. The questionnaire must communicate to the respondent what the researcher is asking for and also communicate to the researcher what the respondent has to say (*Wilson A, 2003 p. 145*).

For the quantitative part of the primary data collection, questionnaires (*for questions see Appendix E*) were handed out to 50 customers who visited the two Apoteket shops in central Västerås within a period of five working days, to assess their perception of competition that

would arise due to the deregulation of Apoteket's monopoly. The questionnaires were used because it was a simple and cost effective method.

2.3.1.4 Sampling method

In a marketing research every member of a particular population cannot be used, therefore a sample of the population needs to be selected and surveyed. A sampling plan can normally be in six steps. 1st step defines the population of interest the researcher wishes to examine and step 2 determines whether to sample or census. The 3rd step selects the sampling frame of the individuals for inclusion in the research. Step 4 is about choosing a sampling method and the selection is based on the sample frame that is available, such as budgets and time scales. The 5th step is the process of determining sample size which relates to financial, managerial and statistical issues. The final step in the sampling process is to implement the sampling procedures.

In this thesis the interest group is Apoteket's costumers and therefore the sample is consumers in Västerås. To simplify the process the marketing research was conducted outside Apoteket's shops.

2.3.2 Secondary Data

Secondary data is already existing sources in the form of books, articles, journals, Internet databases etc. (*University of Surrey webpage*). Secondary data is information that has been previously gathered and is available either free or at a cost. The data can be delivered electronically by computer or in printed hard-copy format. The benefit with secondary data is that it is almost always faster and less expensive to acquire than primary data. Despite the advantages of secondary data, it has limitations because the information is not designed specifically to meet the researchers' needs and fully relate to their data (*Wilson A, 2003 p. 49-51*).

The main sources for journals and articles used in this thesis were collected mainly from *Google Scholar* and *Mälardalen University's online databases*. *Google Scholar* was used because it gives the researcher access to broader scholarly literature across many disciplines from all over the world. When searching for articles and journals the search words used were Apoteket AB, deregulation and monopoly. A combination of these search words was used to generate more accurate hits.

2.4 Reliability and Validity

Reliability refers to the degree at which if research is carried out in the same manner will provide similar results i.e. if the same instruments are used to research the same individual but on two different occasions the end result should be the same. The difficulty in establishing replicable study is that it could be hard to determine whether the individual and other factors during the different occasions have not changed (*Easterby-Smith M et al, 1997 p. 121*). The main concern is whether different researchers can gain the same observation on different occasions (*Easterby-Smith M et al, 1997 p. 41*).

Validity on the other hand focuses mainly on whether the research's attributes really measure what they set out to measure (*Easterby-Smith M et al, 1997 p.121*). Internal validity in research means that a study has to establish the factors that cause a difference in behaviour. External validity is how the results can be generalised to other participants, settings and time (Mitchell M et al, 2001 p.G-3). Generalisation is the degree to which certain patterns that can be observed in a sample will be present in the wider population from which the sample is taken. With external validity the idea is to show that ideas and theories shaped in one particular setting will also apply in another setting (*Easterby-Smith M et al, 1997 p. 41*).

The thesis is based on four interviews and questionnaires in order to gain an overall picture of the pharmaceutical retail industry in Sweden. The thesis tries to gain a view from all the different actors concerned. When it comes to generalizing the results of this thesis three competitors are looked at and these three can to some degree represent other competitors within the same industry.

The articles are collected from business journals which are peer reviewed and are from reliable databases for example Mälardalen University's databases.

2.5 Method Critique

The interviews conducted were via email and telephone, this is not the most favorable method of carrying out an interview. Face-to-face interviews are more effective because in the event that there are doubts or misunderstandings the researcher can easily adopt or clarify the question.

Due to the fact that most articles used were in Swedish and needed to be translated, an allowance is made that some information may be lost in translation.

The questionnaires handed out only gives a limited view of consumer thoughts due to the fact that the questionnaire is only handed out in Västerås. The fact that the questionnaires were handed out to only 50 respondents can be viewed as a threat to validity because 50 people is too small a sample to give a conclusive generalization.

In order to create replicability, other researchers have to attempt to apply the same theories and method in order to get the same results. This makes the thesis more reliable as mentioned in the chapter before. However in this thesis it may be difficult to replicate the exact circumstances so as to gain the same results. This could be due to changing attitudes of those interviewed, the settings in which they are interviewed, the approach of interviewer etc.

2.6 Method of analysis

The findings are analyzed based on the theoretical framework presented. Grant's framework for competitor analysis, theories about competitive advantage and the Seven Ps (Price, Product, Place, Promotion, People, Physical evidence and Process) are used to analyze Apoteket AB and its competitors. From this analysis conclusions and recommendations are made.

3. Theoretical framework

In this chapter competition, a framework for competitor analysis, theories about competitive advantage and the Seven Ps are presented.

3.1 Competition and competitor analysis

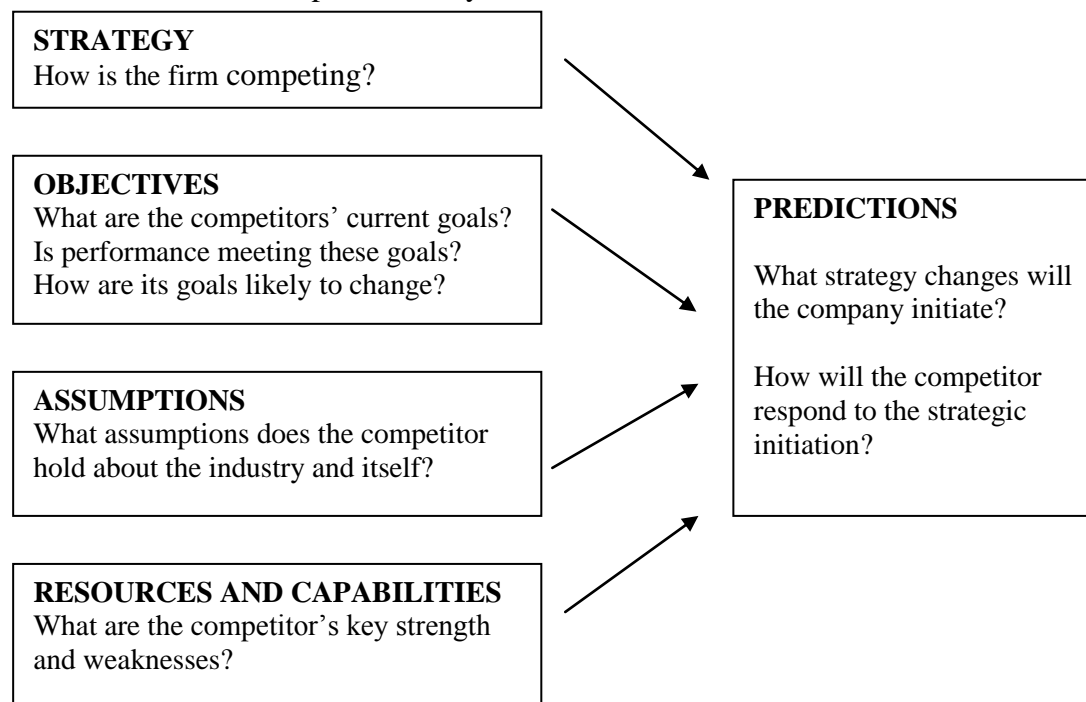
Any actual or potential offerings and substitutes from a rival company that could be considered by a buyer can be termed as competition (Kotler P & Keller L.K, 2006 p.26). Therefore companies according to the market approach that can satisfy the same customer needs are competitors (Kotler P & Keller L.K, 2006 p.346).

The external environment of a company in a highly concentrated industry can be determined by the behaviour of a number of rivals (or one single firm). The determinant can be the competitive behaviour of one of the rival firms (Grant M.R, 2005, p.112-113). Competitor intelligence which involves collection and analysing public information about rivals and using it for a more informative decision making can be used for three main purposes. These three purposes are:

- To forecast the competitors future and decisions
- Predict the competitors probable reactions to a firms strategic initiatives
- To determine how competitors' behaviour can be influenced to make it more favourable.

The aim is to understand the competitors so that their choices of strategy or tactic can be predicted (Grant M.R, 2005 p.113).

Figure 3: A Framework for Competitor Analysis



Source: Grant M.R, 2005 p.114 (own design)

3.1.1 Competitor's current strategy

In order for the company to foresee how its competitors are going to act in the future, the company has to understand how its rival competes in the present. The lack of forces for change leads to an assumption that the company is going to compete in the future as it has in the past. The company's strategy can be identified through its actions and through what the company says. There is a need to associate the company's strategy as laid down by top management to the company's actions especially when it comes to the commitment of resources (*Grant M.R, 2005 p. 114*).

3.1.2 Competitor's objectives

To predict how a competitor may change its strategy, the goals that the company pursuers must be recognized. The main issue to look at is what drives the company i.e. whether the company is driven by financial or market goals (*Grant M.R, 2005 p.115*). The question the company needs to ask is what its competitors are looking for in the marketplace (*Kotler P & Keller L.K, 2006 p.347*).

Companies striving for market share may be more aggressive competitors than companies that are mainly interested in profit maximization. Companies that are not concerned with profit disciplines are the intimidating competitors. The competitor's current level of performance can help the competing company anticipate the possibility of a change in strategy. If a company is satisfied with its current performance then it is prone to continue with its current strategy (*Grant M.R, 2005 p.115*).

3.1.3 Competitor's assumption about the industry

The strategic decisions of a company are predetermined by how it perceives itself and the outside world. The industry and the business environment the company is in, guides the assumptions that a company perceives itself as (*Grant M.R, 2005 p.115*).

3.1.4 Competitor's resources and capabilities

By assessing the competitor's strengths and capabilities a company can evaluate the potential and seriousness of its rival. This can be done by evaluating the company's financial resources, brand strength, operational capabilities and management skills. Focusing a company's competitive initiative towards the rival company's weaknesses may render the rival company incapable of responding (*Grant M.R, 2005 p.115-116*).

3.2 Competitive advantage

Competitive advantage exists if a firm is capable of providing the same benefits as its competitors but at a lower cost or by delivering added benefits that surpass its rivals'. By creating a superior value for the customer, competitive advantage allows the company to

create superior profits for itself (*Quickmba webpage*). A company's competitive value will centre around the companies performance abilities in one or more ways that other companies i.e. its competitors cannot match (*Kotler P & Keller L.K, 2006 p.150*).

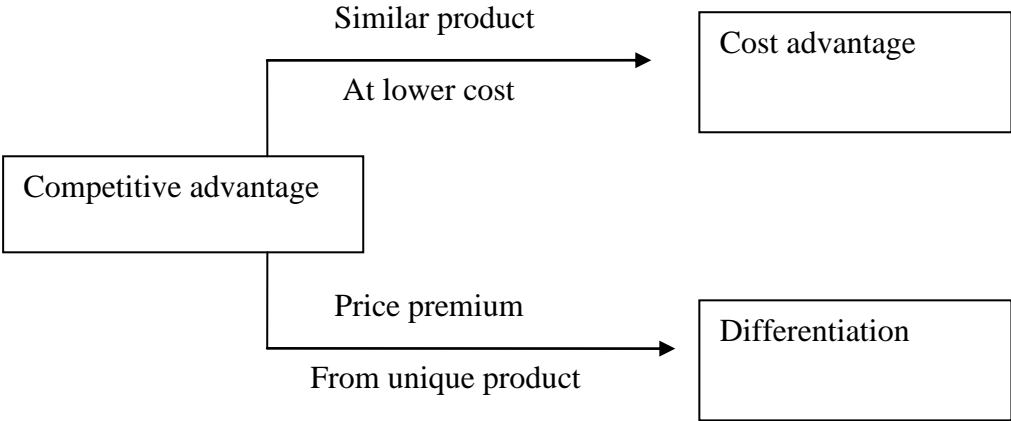
Competitive advantage is impacted by external change but also is dependent on the company's ability to respond to change. External changes in an industry create new profit making opportunities and the ability of companies to respond and identify these opportunities lies in the capabilities of the company's core management. It is critical for a company to act first in order to take advantage of external changes that are often fleeting or subject to first mover advantage (*Grant M.R, 2005 p.226*).

Anticipating changes in the basis of competitive advantage is also crucial to responsiveness. Customer requirements may change as an industry goes through its life cycle and competitive patterns may shift thus company strategies and capabilities must be adjusted. In order for firms to be responsive they need to have one key resource which is information and one key capability which is flexibility (*Grant M.R, 2006 p.226*).

3.2.1 Cost Advantage and differentiation

A firm can gain a higher profit than its rival by either providing or supplying an identical product or service at a lower cost or offer such a differentiated service or product that a customer is willing to pay the premium price for the additional cost of differentiation (*Grant M.R, 2005 p.241-242*).

Figure 4: Sources of Competitive Advantage



Source: *Grant M.R, 2005 p.242 (own design)*

When perusing cost advantage, the aim is for the company to become the cost leader in the industry or the segment with the industry where the company is operating. This requires that the company has to find and exploit all sources that allow it to have a cost advantage and thereby sell standard products. Differentiation is attained by a firm when it can offer its customers a product that has uniqueness more valuable to customers than an offering of lower prices. Companies that compete through low cost are distinguished from its counterparts that compete through differentiation by how they position themselves in the market, their resources and capabilities and organizational characteristics (*Grant M.R, 2005 p.241-242*).

3.3 The Seven P's Components of the marketing mix

In order for a company to reach its objectives it has to build a marketing program or plan consisting of various decisions on the choice of marketing tools to use. A set of marketing tools the firms can use to peruse its marketing objectives in a target market is a marketing mix (*Kotler P, 2003 p. 15*). According to Kotler (*2003 p.16*) McCarthy classified the tools used in the marketing mix into four broad groups and named them the four Ps. The four Ps of marketing thus classified as product, price, place and promotion (*Jobber D, 1995 p.15*). However three additional Ps were later added to make the extended service marketing mix. This three additional Ps are people, physical evidence and process. The 7 Ps are relevant to any company where priority is given to satisfying customer needs (*The Times 100 webpage*).

3.3.1 Product

In order for the company to deliver value to its consumers it has to create an offering that satisfies needs i.e. the product (*Armstrong G & Kotler P, 2007 p.13*). The product will consist of a combination of goods and services that the company wants to offer its target market (*Armstrong G & Kotler P, 2007 p.52*). The company has to decide what goods or services it wants to offer to a group of customers. In product decision the company must also regard the choice of brand names, warranties, packaging and accompanying services that can be offered with the product being offered (*Jobber D, 1995 p.15*).

3.3.2 Price

The company then has to figure out how it is going to charge its customers. The price is the amount of money that the customers are going to have to pay in order for them to purchase the product (*Armstrong G & Kotler P, 2007 p.52*). Price is a major element when it comes to the marketing mix because it is a representation (on a unit basis) what the company will receive for the service or product. All the other elements represent costs for example the product will mean an expenditure on product design, promotion will involve advertising, place means a cost expenditure of transportation and distribution etc (*Jobber D, 1995 p.15*).

3.3.4 Place

The activities that make the product available to consumers are termed as the place, i.e. how and where the company makes the product accessible to its consumers (*Armstrong G & Kotler P, 2007 p.52*). This involves distribution channels, how they are used and managed, locations of outlets, how these goods are to be transported and inventory held by the company. To ensure that all goods and services are available in the right quantities at the right time and place the above mentioned have to be taken into account (*Jobber D, 1995 p.15*).

3.3.5 Promotion

The company has to communicate with its targeted consumers about what it has to offer in an effort to convince them on the merits of its products i.e. promotion (*Armstrong G & Kotler P, 2007 p.52*). Decisions have to be made regarding how the promotional mix is going to be set up. The right advertising, sales promotions, selling personal and public relation has to be used in order to give the best promotion.

3.3.6 People

In order to provide the appropriate service, a company has to have the right staff. It has to recruit and train the right people so as to offer the right services. In this way a company can gain a competitive advantage (*Learnmarketing Webpage*).

Anyone who comes into contact with the company's customers is going to make an impression whether negative or positive. Consumers can be essential in the improvement of services in that their perceptions based on how they interact with employees become a determining factor (*Chartered Institute of marketing webpage*). Staff should have the right skills and right training, for example interpersonal skills, aptitude, service knowledge etc. this is an advantage for the company because then they can provide the service that the customers are paying for (*Learnmarketing Webpage*).

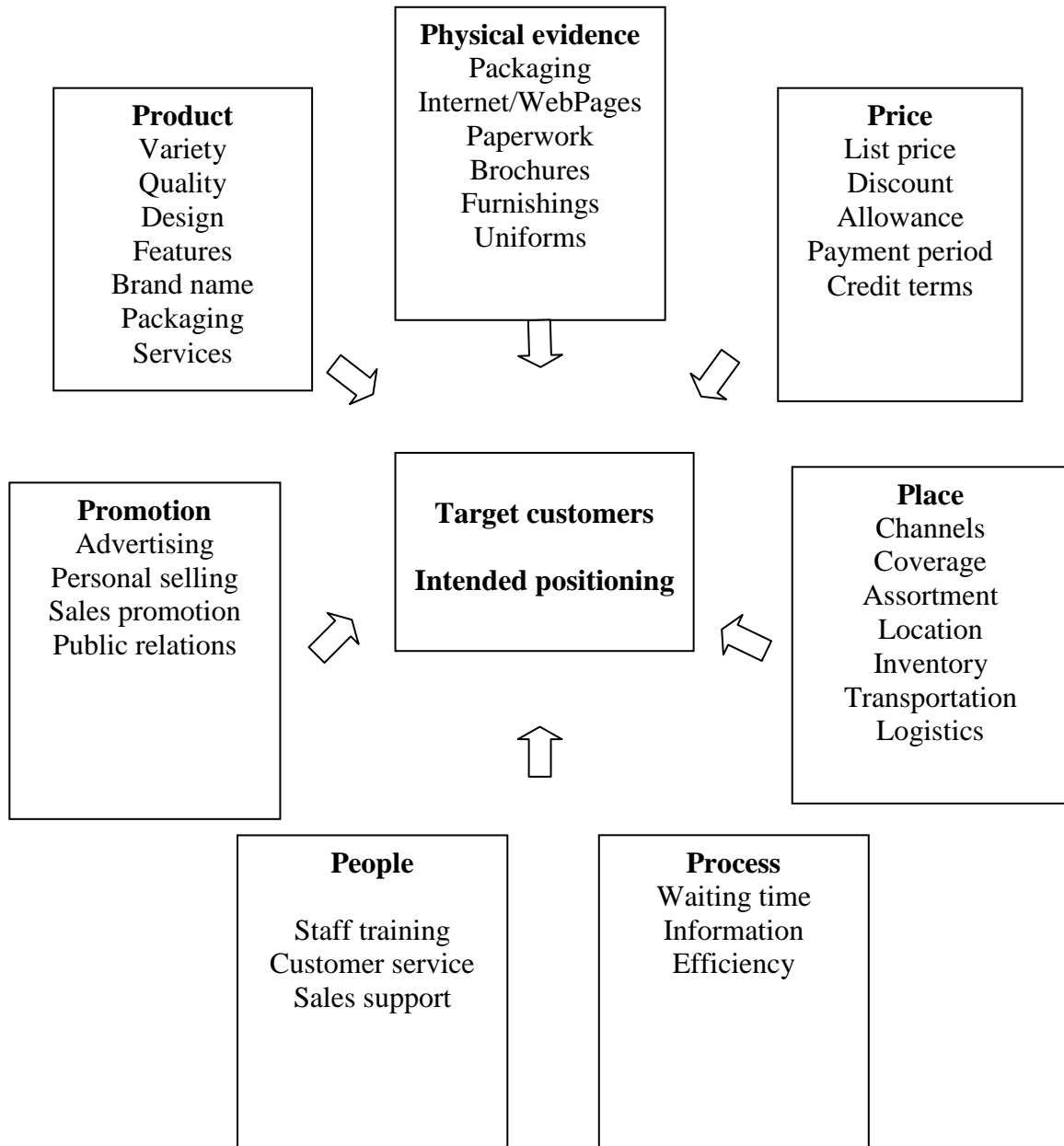
3.3.7 Process

The system used by a company to help it deliver its product and service is referred to as the process. The process could also be viewed as the different stages a customer goes through when getting a service from a company. How the people delivering the service behave and the process of how the service or product is being delivered are important to customers (*Learnmarketing Webpage*).

3.3.8 Physical Evidence

Physical evidence in the marketing mix is the element that enables customers to make judgments on the company (*Learnmarketing Webpage*). This would involve the perceptions that customers can make based on their physical view of the service being provided. The physical evidence provided by the company must live up to the expectations and assumptions of customers (*Chartered Institute of Marketing Webpage*).

Figure 5: The Seven P's of the Marketing Mix



Source: Modified from Palmer A, 2004 (own design)

For a company to be effective in its marketing it has to coordinate all the elements into a designed program that will enable it to achieve its objectives by making sure that the customer value is delivered (Armstrong G & Kotler P, 2007 p.53).

4. Apoteket AB and Deregulation

This chapter presents the history of Apoteket AB, the background to deregulation and cases of other European countries that have also gone through deregulation in their pharmacy retail markets.

4.1 Apoteket AB

The Swedish pharmacy known as Apoteket is a 100% state owned stock company. It has been the sole pharmaceutical retailer in Sweden and has therefore had sole ownership of the rights to sell medicine in Sweden. It is regulated by SFS² 1996:1152 laws that govern the sale of medicine and a special agreement with the Swedish government. Apart from medicine the Apoteket also sells body and hygiene products. The company is also responsible for providing health care facilities with medicine and running hospital pharmacies. The company is not a profit maximization company and is highly government regulated. The company employs about 10600 people.

Apoteket's annual income is about 37.2 billion Swedish kronor (SEK) of which:

- 19 million are medicine/health benefits that are paid for by the state
- 1 billion for prescription medicine
- 2.8 billions for non-prescription medicine
- 6 billion for customers own expenditures
- 2.4 billion for products for own personal care
- 5.4 billion closed care

The company has 447 million kronor in profit after taxes. Apoteket AB has 950 pharmacies and these are visited about 90 million times a year (*Pressrum, Apoteket's webpage*). Apoteket's customers are both private individuals and institutions. The company has to be independent and separate from medicine producers and manufactures. The information provided by the Apoteket AB has to be producer neutral i.e. independent of producer influence.

There are two bodies that monitor the operations of the Apoteket AB. These are the Medical Products Agency (*Läkemedelsverket*) and the Swedish National Board of Health and Welfare (*Socialstyrelsen*). These two bodies impose requirements on the companies' premises, recruitment of employees, competence of employees, leadership, quality systems and technical equipment.

Before Apoteket AB was formed in 1971, Sweden had had the same system since 1600. The earlier system required a pharmacist to acquire a licence called the *Apoteksprivilegium* in order to buy and run a pharmacy, prices for medicine were already then centrally governed. In 1936 a fee system was introduced to balance the difference between small and big pharmacies so that even pharmacies with a small customer base could survive and that all people could have access to medicine (*Historia, Apotekets webpage*).

²Swedish Statute Book (Svensk författningssamling)

In 1963 an inquiry was done on the pharmacy's organisation. The state negotiated a partnership with the pharmacists' society and Apoteket's central organisation. In 1969 the decision was made to replace the old system with a government owned monopoly which led to the formation of *Apotekbolaget AB* in 1970 and in 1998 they changed the name to Apoteket AB. The amount of pharmacies rose from 600 to 900 and the number of hospital pharmacies rose from 10 to 80 through out the country (*Historia, Apotekets webpage*).

The first year of the new system was not profitable because previous pharmacy owners had too many employees. The '*läkemedelsförsörjningsutredning*' LFU 92, an investigation into the regulation of medicine sales resulted into a suggestion to deregulate prescription medicine sales but it was withdrawn by government and the monopoly remained (*Historia, Apotekets webpage*).

In the 21 century Apoteket AB has continued to develop its services. The Internet has created new channels for both sales and information to private consumers and caregivers. Despite the development there are many questions with regards to the company's sole rights to the sale of medicine in reference to the European Union membership. In May 2006 the European Economic Community (*EEC*) decided that the Swedish system was legal according to the European Union (*EU*) Laws as long as there was no discrimination of any manufactures and producers (*Historia, Apotekets webpage*).

After the elections in 2006 the new government declared that they had decided to go through with the deregulation of Apoteket AB. The aim of this was to provide better access to prices and services to the consumers. A new enquiry was made under the leadership of Lars Reje. He was to inquire into three parts of Apoteket, closed care medicine, prescription medicine, and non-prescription medicine. The inquiry is expected to be complete on the April 1st 2008 and deregulations should commence by January 1st 2009 (*Omreglering, Apotekets webpage*).

On January 8th 2008 the state inquirer Lars Reje presented his main points with regards to the future of Apotekets market on the prescription medicine.

The main issues in the investigation were mainly taken from the patients and consumers' perspective with focus on high competence, safety and quality that are today's cornerstones of the pharmaceutical industry and how to best to maintain these. Below are the main points as brought forward by Lars Reje:

- In order to run a pharmacy there should be a requirement of a license from the Medical Products Agency (*Läkemedelsverket*). Anyone should be able to own and run a pharmacy with some minor exceptions of for example representatives of the pharmaceutical industry. This means that it is open to both big chains and small entrepreneurs. The owner is not required to be a pharmacist but there has to be a pharmacist at all times.
- All pharmacies have an obligation to have prescription medicine but they have no obligation to carry the entire prescription free medicine.
- The pharmacies shall offer a number of services that are today provided by the Apoteket AB; they must have producer independent information, offer a part payment system and have a system that handles advertising.
- The infrastructure for example Apoteket's high cost database, the central prescription post, prescription register etc shall be transferred to a daughter company.

- The Poison Information Centre that is now in the hands of Apoteket AB is to become a daughter company of the SOS Alarm Sweden AB which is in turn owned by the state, the counties and the municipalities.
- To create a price mechanism it is suggested that pharmacies should have the right to negotiate prices with the medicine industry. According to Lars Reje there are studies that show that if pharmacies are allowed this, they can provide financial counterbalance to the industry and thus create a price mechanism whereby strong pharmacy chains can have a higher bargaining power. By lowering buying prices pharmacies can get higher margins and this could be an advantage for customers in the form of lower prices.
- It has also been suggested that the setting of price for non prescription medicine should be open.
- As long as Apoteket AB has a dominating position on the market, the inquirer sees that Apoteket AB then has to take responsibility for the supply of medical products to sparsely populated areas. If Apoteket AB is dissolved then the new actors on the market have to take on this responsibility.

Lars Rejes has suggested that it is hard to foresee all the consequences and effects of the deregulation and thus an independent body should be put in place to monitor and evaluate the effects of the Apoteket's reform. This evaluation should be completed by the year 2011. He further suggests that Apoteket AB needs to sell a share of its shops in order to create a more functional competitive situation (*Omreglering av apoteksmarknad, Apoteket's webpage*).

4.2 Apoteket's anticipation of deregulation

Apoteket AB is getting ready for competition whereby they have opened up new shops and extended opening hours. Today Apoteket have a monopoly on the market but Thony Björk is convinced that Apoteket AB will manage in an open market. Apoteket AB has been introducing new shops that sell cosmetics and only non prescription medicine. This strategy will help Apoteket AB to survive if the monopoly disappears. Despite all the new changes Apoteket AB still wants to ensure that they will keep their safety, trustworthy profile. Apoteket has been facing economic problems and due to these problems they wanted to increase the prices on the prescribed medicine but this has been rejected by the 'Läkemedelsförmånsnämnden'. They are instead dependent on the high revenues from the different products such as cosmetics and non prescription medicine. A business strategy has been taken into consideration by Apoteket AB whereby its entire management staff will join business programs to learn leadership skills and employees will specialize in different areas. These strategies are being implemented to prepare for competition that will arise after deregulation. A problem with having competition in the pharmaceutical retail industry could mean a cut down in employees due to the closure of some of Apoteket's shops (*Dagens Nyheter webpage F*).

4.3 Apoteket's monopoly on nicotine products

On March 1st 2008, Apoteket AB's monopoly in the sale nicotine products was deregulated which allowed the sale of nicotine products in other stores rather than just Apoteket AB

stores. The reason for this change was to allow people that wanted to quit smoking easier access to nicotine products. "It should not be harder to have access to nicotine products than it is to get cigarettes," according to the minister for Social Affairs Göran Hägglund, nicotine products should be available in places as grocery stores and gas stations and not only in Apoteket. This could strengthen the campaign against the use of tobacco, although it should be noted that experience from other countries such as Denmark, where nicotine products are now available in regular shops does not show any decrease in the use of tobacco. Allowing the sale of nicotine product in grocery stores is a step towards the overall deregulation of Apoteket's monopoly which the minister is for (*Drugnews webpage*).

Today there are around 3000 regular shops in Sweden that are selling nicotine products and the interest is rising. Hundreds of regular shops are preparing to launch the sale of nicotine products. By the end of the year the number of regular shops will have risen to around 6000 (*Dagens Nyheter webpage G*).

Since March 1st there has been a green light for grocery shops, service shops and petrol stations to sell nicotine products. Although there has been a great interest, not all shops have had the time to implement it. Supermarkets like Willys and Hemköp which are a part of Axfood, were not involved from the start but are now preparing to sell these products in 320 of their shops. Other big chains such as ICA and Coop are already selling these products and so far the outcome has been positive (*Dagens Nyheter webpage G*).

According to Johan Wiklund, business planner for ICA, customers have noticed the assortment in the shops and the sale has been increasing at a rate that has fulfilled their expectation. Magnus Frisk, the Public Relations Officer for Coop thinks that the sale of nicotine products is going well. Since the shops are not allowed to give advice on the products, they therefore have no service fee which means that for example Coop has a lower price range than Apoteket. This competition however has not been noticeable to Apoteket AB and is not perceived as a threat to their sales. Christina Ekedahl, the department head for Apoteket's "quit smoking" section, states that there could be a growth in demand for nicotine products if the availability increases. She believes that Apoteket AB will maintain an important role when it comes to nicotine products because they can also give advice (*Dagens Nyheter webpage G*).

4.4 Opinions on the monopoly

There are different opinions about the monopoly. According to Thony Björk the information director for Apoteket AB, the monopoly has created an advantage for Apoteket AB because it has produced a unique company. The uniqueness with the company is that all citizens in Sweden have within this year been in contact with Apoteket AB which is favorable in the sense that the company gets a special position. The company is an important institution in society and everyone has more or less the need to get in contact with it. From the customers perspective it gives a greater opportunity for similar service and same prices within the country. He continues to say that the monopoly also gives a social dimension because they do not need to strive to achieve maximum profit and it gives them the freedom to care about their customers. It is easier to implement changes with a more structured market communication work. Apoteket AB is seen as a serious company that is controlled and the customers feel it is trustworthy (*Kardach M & Salamandra M, 2007*).

According to Lars Eriksson Apoteket AB would have to adapt to the changes if the monopoly disappears. It could be positive with different actors in the market because the consumers would get better prices and better products. A market situation whereby there is open competition could also be beneficial for Apoteket AB because this could allow the company to enter other countries and serve as a compliment to other chains (*Kardach M & Salamandra M, 2007*).

4.5 Ruling of the Swedish parliament

On May 8 2008 the Swedish parliament voted in favor of the government's proposal to open up the market for prescription and non prescription medicine to competition. The government will begin the restructuring process for Apoteket AB by creating a new parent company that will own all the shares in Apoteket AB and will also be in charge of selling a number of Apoteket's shops to private actors. The changes are expected to be in place by January 1st 2009 (*the local webpage*).

4.6 Deregulation in Denmark

Deregulation of the pharmaceutical retail industry in Denmark was discussed on several occasions because the price of medicine was considered too high and pharmacy operations ineffective. In 1999 the health and welfare ministers of Denmark launched an inquiry into the monopoly. The investigation suggested the possibility of free establishment and free ownership of pharmacies, price competition and the possibility of allowing some grocery stores and supermarkets to sell a certain assortment of over the counter medicine. In 2001 it was suggested the initial law should prevail but with changes allowing the monopoly on some non prescription medicine to be removed and pricing left open. After the deregulation of the monopoly on some of the non prescription medicine, stores selling these medicines still had some restrictions. Those running the shops were not allowed to give further recommendations or advice rather than what was already written on the packaging of the medicine. If for example a customer wanted medicine for pain, the store could not recommend any of its own products but would have to refer the customer to a pharmacy, on the other hand if a customer requested a particular brand then the store was allowed to sell the medicine (*Andersson T & Hansson C, 2006*).

The Danish Medicines Agency (*Leagemiddelstyrelsen*) controls the sale of non prescription medicine. They decide what medicines can be sold in stores by evaluating how much advice and information is required with the sale of a product. Furthermore they analyse the possibility of medicine misuse and drug abuse. The stores have to offer a standard assortment of products and cannot just choose certain drugs and medicine that they want to sell. Customers are also not allowed to buy an unlimited supply of medicine for example if a certain painkiller is sold in a ten pack then the buyer can only buy one pack per day. The age limit for buying medicine in Denmark is 15 (*Andersson T & Hansson C, 2006*).

The shops in Denmark today sell a limited number of non prescription medicines and brand name medical products due to the restrictions put on recommendation. The consequence of this has been that less known cheaper medicines are not available in the stores. Despite all the restrictions the inspection of the Danish Medicine Agency in 2003 has shown that there are shortcomings in the control and safety regulations in the stores. Barely half of the stores

carried the mandatory assortment of medicine and many stores were careless with expiry dates. In 2004 there were 327 pharmacies and 1000 other stores (not pharmacies) that had permission to sell non prescription medicine. According to the Danish Medicine Agency's statistics, the deregulation has not affected the former state Pharmacy's income in a major way and this can be due to the fact that non prescription medicine makes up 10 % of the overall income of the Pharmacy. Under the first year the income reduced by 1% and market share for non prescription medicine settled around 80%. If certain non prescription medicines were looked at individually a difference was noticed. When it came to the sale of nicotine products and painkillers in small packs then stores had bigger market shares with 40 and 50 % market share respective product (*Andersson T & Hansson C, 2006*).

The Danish medicines agency has made an investigation in the affect of deregulation on prices and this has shown that the deregulation has on average led to price reduction. Despite the fact that prices varies from store to store. The price of brand name medical products has been lower in stores than in the Pharmacies but the cheapest non prescription medicine is still found in the Pharmacy because they can offer less well known generic medicines. The Danish medicines agency's information on the income and pricing development however indicates that profit in the non prescription medicine for stores has not been particularly high. The agency further states that the stores are pushing to increase the assortment of non prescription medicine. It is hard to see what competitive strategy best suits the Danish pharmacy because the profitability of the pharmacy is decided through negotiations with the Danish ministry of welfare and the pharmacy union every year. If the pharmacy sector incurs losses then it is compensated by the ministry of welfare. This practice is continued as long as the market share of the pharmacy is little and does not affect the overall costs.

The deregulation of the Pharmacy retail industry in Denmark has not affected the Pharmacy in any mentionable manner. It has been established that the only note worthy effect has been in the sale of smoking deterring products and painkillers in small packets; here grocery stores have managed to conquer big market shares (*Andersson T & Hansson C, 2006*).

4.7 Deregulation in Norway

The Norwegian health care system was in 1972 divided in three main levels namely the central state, the counties and the municipalities. The central state regulated and supervised services, with three bodies overseeing the health care system. These were the ministry of Health and Social Affairs (*Helseog omsorgsdepartementet*), the National Institute of Public Health (*Folkehelseinstituttet, FHI*), and the National Board of Health (*Helsetilsynet*). The responsibility of planning, financing of primary healthcare and social services fell under the county councils. The municipalities had authority over the prioritizing of health care services. The assumption was that this way of structuring the health care system would lead to better service (*Vogler S, Arts D, Habl C, 2006*).

Unlike Sweden, Norway did not have a completely state controlled pharmacy system. The country has mainly had privately owned pharmacies owned and run by university educated pharmacists. The state has had control over who owned and ran the pharmacies. When Norway joined the *European Economic Space (EES)*, the body demanded that Norway deregulate this system to open up the market for competition (*Andersson T & Hanson C, 2006*).

Prior to 2001 the pharmacy sector in Norway was under very strict regulation, the Norwegian Board of Health determined the establishment of new pharmacies and the country had relatively low number of pharmacies in comparison to other European countries. A new pharmacy policy came into force in March 2001. Increasing accessibility, service, efficiency and better prices were the main goals the authorities wanted to achieve. With the new act two major changes with regards to establishment of pharmacies and access to generic substitutions were made. The act allowed for the free establishment of pharmacies and free ownership with no set limits on the number of pharmacies established or the location. The act also puts no requirement on competency. In 2005 there were 535 pharmacies in Norway which added up to a 35% increase in comparison to 2001. Under the old pharmacy act the Norwegian health board decided the location and the number of pharmacies established. Under the new act these demographical criteria were removed though some restrictions on the establishment of pharmacies with regards to municipalities zoning areas were still maintained. In rural sparsely populated areas, the establishment of pharmacies was not encouraged by the government but it should be noted that no pharmacy in these areas has been closed since the reform. This was due to the fact that the ministry of health care services in Norway had agreed with the new pharmacy chains that in the event of a closure of a pharmacy, (opened before 2001) the chains had to take over the pharmacy in that area. By January 1st 2005 of the 434 municipalities in Norway, only 199 municipalities did not have a pharmacy which is 9 less than before the reform (*Vogler S, Arts D, Habl C, 2006*).

When it comes to access to generic substitution pharmacies were allowed to dispense other bio-equivalent products instead of the original brand prescribed by a doctor without pre requesting the doctors consent i.e. pharmacies were allowed to substitute an equivalent medication for the one given on the prescription but the substitution could only be done with medicine on a pre-compiled list. Generic substitution increased competition between pharmaceuticals. In addition pharmacies could now offer customers added services like measuring blood pressure (*Vogler S, Arts D, Habl C, 2006*).

After March 1st 2001 the restrictions on ownership and establishment of pharmacies were released and this opened up the market for other European actors. In a short period of time many private pharmacies were bought up. Three major chains emerged, *Apokejden AS, NMD AS and Alliance Unichem Plcm* (*Andersson T & Hanson C, 2006*).

Since 2003 the sale of some non prescription medicine in Norway has been allowed outside of pharmacies. The sale grew in over 5000 supermarkets, grocery shops, petrol stations and kiosks. The only requirement was that those wanting to sell non prescription medicine applied for the right to do so. Once this was approved by the country's Medical Products Agency the company could then proceed to sell medicine. Actors selling non prescription medicine outside the pharmacies have increased and statistic from the Norwegian *Folk health institute* show that the sale per day had increased from 18% to 27 % (*Andersson T & Hanson C, 2006*).

ICA, one of the big actors, applied for the right to sell non prescription medicine in over half of its 900 stores in Norway and in so doing gained itself a considerable fraction of the market. Between 2003 and 2004 Apoteket lost 40, 9 % of their earnings from painkillers and nasal sprays. The Apoteket had calculated a loss of 30% in these areas. In 2004 the Norwegian Apoteket was calculated as having lost 120 million Norwegian Kronors in sales from painkillers and nasal sprays due to the entrance of normal stores into this market (*Andersson T & Hanson C, 2006*).

5. Competitors

In this chapter the competitors ICA Sweden, Axfood and Statoil AB Sweden are introduced. Two international competitors Alliance Boots and Celesio are also mentioned.

5.1 ICA AB

Hakon Swenson formed a purchasing center known as *Hakonbolaget* in 1917 in Västerås, Sweden. His initial idea was to enable individual retailers to join forces to make joint purchases, establish stores and share their marketing costs. This became the present day ICA. The ICA group (*ICA AB*) is one of the Nordic region's leading retail companies with about 2300 ICA stores and associated stores in Scandinavia and the Baltic states. ICA AB employs 20081 people excluding retail-owned stores and franchises. The ICA group contains the retail companies ICA Sweden, ICA Norway and Rimi Baltic. In 2007 ICA Sweden had a market share of 36, 8% while ICA Norway had 17, 5% and Rimi Baltic 17, 3%. ICA AB is a joint venture owned 60 % by *Royal Ahold N.V.* of the Netherlands and 40 % by *Hakon Invest AB*. Through a shareholder agreement they jointly share decisive influence over the company. ICA AB is part of an international retail network through Ahold. In 2007 ICA Sweden had revenue of 51438 million SEK and sales of 80737 million with 1382 stores in Sweden (*ICA webpage*).

5.2 Axfood

Axfood was established in 2000 through the merger of *Hemköp, D&D Dagligvaror, Spar Sverige, Spar Inn Snabbgross* and *Spar Finland*. Axfood carries out wholesale trade and food retail in Sweden. The group fully owns 221 stores in *Willys, Hemköp* and *PrisXtra* chains but collaborates with approximately 500 proprietor-run stores and these include stores within *Hemköp* and *Willys* chains as well as stores run under the *Handlar'n* and *Tempo* profiles. The wholesale trade is conducted through *Dag AB* and *Axfood Närlivs*. Axfood has a market share of 17 % in Sweden and during 2007 the consolidated sales was 29 189 million SEK. During 2006 the average number of employees was 6 463 (*Axfood webpage*). Axfood is listed on the Stockholm stock exchange as well as Nordic stock exchange under the Large Cap List. Nordic companies that are listed under the Large Cap List are estimated at a market value of over one billion Euros (*OMX Nordic exchange webpage*). The principal owner, Axel Johnson owns about 46% of the shares (*Axfood webpage*).

5.3 Statoil

Statoil AB Sweden is one of Sweden's leading energy company which focuses on climate changes. The organization consists of sale and distribution of for example petrol, diesel and electricity. Statoil in Sweden has market share of 21, 5 % with 3505 serviced stations and have around 360 000 customers daily. Statoil AB Sweden is a subsidiary company of StatoilHydro that was formed through the merger between Statoil and Hydro oil and gas activities on October 1st 2007. Statoil and Hydro have both contributed in the development of the Norwegian oil industry. Hydro was founded in 1905 to produce nitrogen-based mineral fertilizer but later expanded into metals and oil. Statoil was founded in 1972 as the Norwegian

State Oil Company. Today the StatoilHydro group has operations in 40 different countries worldwide with their headquarters in Stavanger Norway (*Statoil webpage*).

5.4 Celesio

Celesio was founded 1835 by the German chemist Franz Ludwig Gehe. Today it is an international pharmaceutical distribution and retail in 16 European countries. Celesio is a trading company and service provider for pharmaceuticals in Europe. The pharmaceutical distribution and related services are covered by three business divisions which are Wholesale, Pharmacies and Solutions. In the end of 2007 Celesio pharmacies was operating 2 273 pharmacies in seven European countries (*Celesio webpage*).

5.5 Alliance Boots

Alliance Boots was formed in 2006 through the merger between Alliance UniChem and Boots Group. The UniChem was formed by retail pharmacists in London in 1938 and the Boots group started out in 1849 in Nottingham in United Kingdom. Alliance Boots is today an international pharmacy-led health and beauty group which operates in both wholesale and retail. Through the company's Unichem subsidiary it is the largest pharmaceuticals wholesaler in the UK with a market share of 40%. On the international market Alliance Boots operates over 500 pharmacies in Norway, Ireland, Thailand, The Netherlands, Italy and Switzerland. Alliance Boots is also the third largest pharmacy chain in Europe (*Alliance Boots webpage*).

6. Empirical Data

In this chapter an in-depth presentation of the competitors based on various interviews is given. The results from the study of customers' perceptions of competition and deregulation of Apoteket's monopoly are also presented.

6.1 Apoteket AB

Apoteket AB believes that the loss of the monopoly on the non prescription medicine would mean a tough challenge for the company. This would mean that the company's sale volume will drop because they will be losing customers to the new actors that will break into the pharmaceutical retail industry. The company believes that it is ready for this challenge. In the deregulated market the company plans on becoming the customers' first choice through better accessibility and improved customer service, for example the possibility of e-business. According to Helena Westström, Apoteket AB's ambition is to take on a more advisory role for example dealing with questions concerning safety, medicine use and better health (*Helena Westström, 2008-04-03*).

Apoteket AB views its brand as one of the strongest in Sweden currently and thus welcomes all competition. The major international chains that have shown an interest in establishing themselves on the Swedish market are Celesio and Alliance Boots. Grocery shops/supermarkets could also offer strong competition when it comes to the non prescription medicine market. The company does not view competition as a problem instead more as a challenge. Apoteket believes that it has a very strong brand, a good reputation and is highly esteemed by its customers and the general public. Consumers' belief and trust in Apoteket is measured every year by the Satisfied Customer Index (*Nöjd-kund-index*). In 2007 Apoteket AB had a rate of 74 out of a 100 in the daily Swedish Quality Index measurement (*Svensk kvalitets Index*) whereby it was rated highly among the top companies. Though the company has a strong brand, Westström believes that the company needs to work on making sure that in the future, customers continue to choose Apoteket over the new actors. The company has to continue creating quality, safety, and the best economic benefit for their customers. "Our ambition is to be the best within medicine, the medical use and lifestyle" says Helena Westström.

During 2008 Apoteket AB is prioritizing the fulfillment of the government's goal with regards to deregulation. Among other things the company is going to set up a service company that will in the future be in charge of statistics and common infrastructure and this is going to be accessible to all retail pharmaceutical actors. The company will also prepare itself to become strong and compete in a competitive market (*Helena Westström, 2008-04-03*).

The deregulation of Apoteket AB's monopoly could happen on different levels depending on what is decided by the government. Apoteket though prepared to follow the governments initiatives would prefer that deregulation happens on a level that allows competitors the ability to establish themselves without compromising or placing obstacles in Apoteket's position in the market and impede its ability to develop and carry out its business operations (*Helena Westström, 2008-04-03*).

Countries such as Norway and Denmark who have had almost the same monopoly in their retail pharmaceutical industry have also gone through deregulation and could serve as examples of what to do and what not to do. When asked if Apoteket AB would follow these

examples, or use similar strategies, the response from Helena Westström was that this was not a question to be answered by Apoteket AB but rather up to the state investigator who is looking into the deregulation of Apoteket's monopoly. After the decision has been made by the government, Apoteket AB will then adjust accordingly (*Helena Westström, 2008-04-03*).

6.2 ICA Sweden

Sweden is the only country that has a government controlled monopoly in the pharmaceutical retail industry. ICA Sweden's expectations from the deregulation are that it is given the right to sell an appropriate assortment of non prescription medicine. According to Johan Wiklund, ICA Sweden is not going to compete with Apoteket AB but will serve as a compliment whereby it will offer the customers a flexible access to buy their nasal spray, painkillers, allergy medicine, etc in ICA because most people do not live close to an pharmacy (Apoteket). ICA Sweden plans to enter the market as soon as the deregulation of the monopoly is passed. The company has since several years back, been selling medicine in their stores on behalf of Apoteket AB in sparsely populated areas where Apoteket had not established any stores (*Johan Wiklund, 2008-03-27*).

Wiklund was not willing to disclose the company's strategies but mentioned that all ICA shops would like the chance to take part of the deregulation of the monopoly.

The advantages of buying non prescription medicine in ICA was that this would give the customers better accessibility because some of its shops are open until 22:00 whereby Apoteket is usually closed by 20:00. Prices will be less in ICA than Apoteket and customer demand will decide what products would be sold (*Johan Wiklund, 2008-03-27*).

Looking at the foreign actors that might enter the Swedish market, three big competitors could be the British Alliance Boots, the German company Celesio and Orion which is based in Australia. The local competitors will be Apoteket AB, Apoteket's new chains and Coop. In order for the company to compete in this market with all these different actors, ICA plans to give good service, better accessibility and good prices (*Johan Wiklund, 2008-03-27*).

ICA Sweden views Lars Reje's (state investigator into the deregulation of Apoteket's monopoly) proposal as positive because it allows them to set their own prices for medical products and also allows ICA to sell products that are well known and safe. Furthermore Wiklund believes that it could be beneficial for ICA Sweden if the new regulations allow customers to pick their own products (*Johan Wiklund, 2008-03-27*).

6.3 Axfood

The Company views the deregulation of Apoteket's monopoly as a positive step because this would increase accessibility of non prescription medicine for consumers. The company welcomes any new product lines that would attract new customers to their stores. Axfood has no plans of competing with Apoteket's business plan but will focus more on an "Ax picked" assortment chosen from the top selling line of non prescription medicine in nicotine products, painkillers, nose sprays etc. Deregulation has already taken place with regards to the sale of nicotine products and Axfood already sells nicotine products in almost all their stores since the beginning of April this year. The company is counting on being able to sell other non prescription medicine as soon as it is made possible by law (*Karin Bildsten 2008-04-29*).

Axfood did not want to divulge its strategies but the company was willing to admit that the company would act as complements to the market leaders. The company plans to compete with the other local actors for example supermarkets and petrol stations through their convenience and accessibility. They furthermore think they will be able to compete with these actors through their prices on certain products and chains (*Karin Bildsten 2008-04-29*).

Today it is 5% cheaper to buy nicotine products in Willys than Apoteket if you compare products in the same packaging. One of the biggest advantages of buying non prescription medicine from supermarkets according to Bildsten, is the convenience and accessibility however Axfood could not comment on the overall price scale at this moment (*Karin Bildsten 2008-04-29*).

It is possible that foreign companies will find Sweden interesting as a new market if the price suggested in the proposal for the sale of Apoteket's pharmacies is right. This will require that Apoteket AB sell off enough pharmacies in order for Sweden to be attractive to investors. The company is not concerned with how the laws are going to be changed for the deregulation (what level the monopoly is going to be deregulated) for example the proposal that has been laid forth states that companies like Axfood when selling non prescription medicine are not going to need trained personnel in their shops to sell the medicine, they are mainly interested in the deregulation of the non prescription medicine and that the sale of this assortment in supermarkets should be allowed (*Karin Bildsten 2008-04-29*).

6.4 Statoil AB Sweden

Although Statoil AB Sweden is interested in breaking into this market they feel that Apoteket is a strong brand with trustworthiness and competence and therefore their expectations are relatively low. Furthermore the company believes that it is difficult to judge whether Swedish consumers intend to buy their medical products in shops other than Apoteket due to varying results of deregulations in neighboring countries which gives a split view. Having this in mind the company still feels that the market is very interesting and the benefits are widely known (*Tove Grönkvist, 2008-04-15*).

Statoil AB Sweden does not see itself as competing directly with Apoteket AB but prefer to see itself as a complement. The company plans to take advantage of being more accessible in the form of convenience, location and opening hours. The company's ambition is to be on the edge and get a product line out as soon as possible after the deregulation. The time to be able to enter this market is controlled by the medical agency's (*Läkemedelsverket*) rule and regulations. The government's approach to the deregulation process of the sale of nicotine products was not optimal, however it should work better with the deregulation of the other non prescription medicine because medical agency (*läkemedelsverket*) now have more knowledge within this field (*Tove Grönkvist, 2008-04-15*).

Statoil AB Sweden plans to prepare and work with the other non prescription products in the same manner as they handle all the other products in their shops. This means that they are going to give the products a strategic definition, category plan, campaign strategy, strategically price ranging etc. They will be working with the strongest brands that have a clear marketing plan. The price of the products in Statoil will be based on the product strategies and price range strategies that would be formulated from the company's category

plans. The company could not give more details when it came to price (*Tove Grönkvist, 2008-04-15*).

Statoil AB Sweden has little knowledge about the other actors but would generally look at the competition within other petrol stations that will show an interest in breaking into this market. The company can see how foreign pharmaceutical retail companies could be interested in the Swedish market from a profitability point of view judging from the outcome in Norway (*Tove Grönkvist 2008-04-15*).

For the future of the roadside/stopover shops, Statoil AB Sweden still believes that it is petrol that generates the customer flow. Therefore how the company will then divide its staff working hours will depend on customers need and the profitability within that product group. The education level of the staff will be adjusted according to the Law proposal (*Tove Grönkvist, 2008-04-15*).

The company is not concerned with the overall deregulation of Apoteket's monopoly but is more focused on non prescription medicine based on the company's customer needs today but they also know that with a deregulated market, customers' expectations and needs will change and so will the shop's assortment (*Tove Grönkvist, 2008-04-15*).

6.5 Customers Response

Table 1: Customer Perception of Competition and Deregulation

QUESTIONS	YES (%)	NO (%)	DO NOT KNOW (%)
1. Apoteket has the monopoly on the sale of all the medicine. Do you think this monopoly should be removed?	50	40	10
2. Would you want the option to buy non prescription medicine from for example grocery shops and petrol stations?	80	20	0
3. Would the price be a determining factor in your choice of shop when buying non prescription medicine?	54	30	16
4. Would you buy non prescription medicine in regular grocery shops and petrol stations if the price was the same as in Apoteket?	82	12	6
5. Would you buy non prescription medicine in regular shops if the shop was located nearby, although the medicine would be cheaper in Apoteket?	44	36	20
6. Do you only buy name brands? (for example Alvedon, Ipren, Samarin, Treo etc)	70	22	8
7. Is the choice of brand when buying medicine important to you?	60	30	10

QUESTIONS	YES (%)	NO (%)	DO NOT KNOW (%)
8. If the brands that you normally buy are not sold in the other shops, would you change to another brand?	52	20	28
9. If your brand of medicine was not sold in regular shops would this be a reason for you to continue going buying your medicine form Apoteket?	56	38	16
10. Would you consider yourself buying brands that are not that well known if they were sold at a cheaper price than the name brands?	62	22	16
11. Do you know that some non prescription medicine is already being sold in some supermarkets and regular shops?	28	54	18
12. Does it matter to you if other competitors (for example ICA, Statoil, Willys etc.) enter this market?	30	54	16
13. Would you buy medicine from foreign actors (for example Alliance Boots, Celesio etc.) that may enter the market after deregulation?	52	26	22
14. If non prescription medicine is to be sold in regular shops, do you think that it is necessary to have skilled personnel (for example pharmacists) to handle the sell?	78	16	6
15. The government's proposal suggests that personnel in the regular shops cannot give advice regarding non prescription medicine. Would you still buy medicine knowing that the personnel cannot advise you?	46	36	18
16. Do you think that safety will be affected if the personnel selling medicine in regular shops have no formal training with regards to handling medicine?	66	20	14
17. Is it necessary to have an age limit for those buying non prescription medicine in the regular shops?	68	14	18
18. Is an age limit of 18 enough when buying non prescription medicine in regular shops?	70	10	20
19. Should prescription medicine also be sold in regular shops other than just Apoteket?	12	78	10
20. Would you buy prescription medicine in other shops than Apoteket?	16	74	10

The table above shows the response from customers in a study to find out customers perceptions of competition and deregulation of Apoteket's monopoly. The study shows that

the majority are in favor of deregulating the monopoly when it comes to the non prescription medicine and allowing other actors into the market subject to certain conditions.

Below is a graphical representation of the questionnaire above.

Figure 6: Customers Response Graph

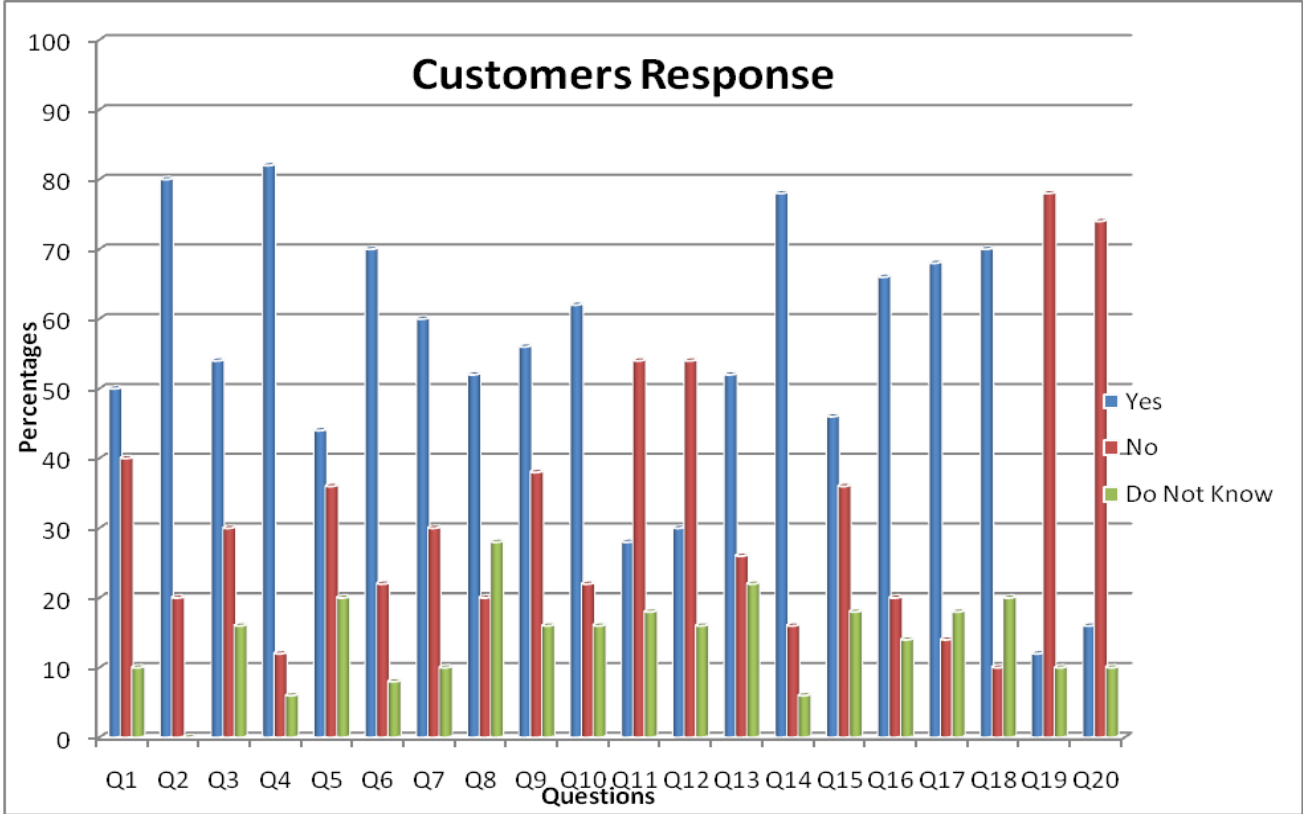


Table 2: Apoteket's Accessibility and Opening Hours

QUESTIONS	BAD (%)	GOOD (%)
1. Do you think that Apoteket has good accessibility?	16	84
2. Do you think that Apoteket has good opening hours?	34	66

From this table the study showed that customers thought that Apoteket had good accessibility but one of the points raised by some of the respondents in their additional comments was that although Apoteket’s accessibility was good the company should extend their opening hours.

7. Analysis

An analysis of the empirical data is presented based on the theoretical framework in this thesis.

As mentioned in the problem statement, Apoteket AB appears to have an advantage on the market in the retail pharmaceutical industry in Sweden since they have been the sole actors on this market for the last 35 years. In the new market Apoteket AB is trying to reinvent itself in order to fit into the new deregulated pharmaceutical retail industry. While Apoteket is reinventing itself, the competitors ICA AB, Axfood and Statoil AB Sweden are also preparing to enter this market in order to win themselves a sizable market share.

Judging from the answers gathered from the study conducted with questionnaires on the issue of the deregulation, 50% of the people wanted the monopoly to disappear. The people were in favor of other competitors entering the market because in their opinion competition would lead to better prices and a variety of choices when buying non prescription medicine.

7.1 Product

Apoteket and the competitors both have an advantage whereby they can study previous cases like that of Norway and Denmark in order to avoid the mistakes of other companies within the same industry. Although this could be used as a strategy by both Apoteket and the competitors, we believe the competitors could have more to gain because in their case there are more concrete examples of what the companies can do. For example in both Denmark and Norway the grocery stores, supermarkets and petrol stations gained more market share and a sizable profit from just the sale of nasal sprays and painkillers. This can indicate to the competitors what products they should focus more on.

As the proposal has stated grocery stores and petrol stations are going to be allowed to sell a select assortment of brand name products therefore their assortment has to be of products that customers are familiar with. This is a draw back for the competitors if they are only allowed certain brands but this however does not guarantee that Apoteket is going to become the market leader in this respect. The study revealed that most customers prefer buying brand names when it comes to non prescription medicine and if they already know their brand and it is being sold in these other shops then there would not be that much reason to go to Apoteket. 70% of respondents only bought brand names, generally people who buy brand names (in non prescription medicine) basically know what they want and would not require advice when buying medicine in ICA, Axfood and Statoil. The people who require advice on what to buy (i.e. the 22 % are not brand loyal) would have to seek advice from Apoteket because in this aspect Apoteket would have an advantage over its competitors whereby they can suggest the appropriate medicine and usage depending on the customers' symptoms.

One of the advantages that Apoteket would have over its rivals would be over the sale of prescription medicine. This is evident from the study conducted, where 78% of customers answered that they would not buy prescription medicine from another shop other than Apoteket. This is believed to be a major setback for the competitors who would want to take on the sale of prescription medicine and this would give Apoteket a competitive advantage over its rivals.

Since the proposal has been passed to allow competitors into both the prescription and non prescription medicine retail industry, then it is advisable for the companies interested in entering this market to fully do so in order to compete with Apoteket and not just as a complement. The passing of the proposal means that Apoteket AB has to sell off some of its stores in order to even out the market for the competitors. This opens up the market to foreign actors like Celesio and Alliance Boots, who in turn become a threat not only to Apoteket AB but also ICA Sweden, Axfood, and Statoil. This is a threat that the companies all have to take into account due to the fact that 52 % of the respondents in the study could see themselves buying medicine from foreign competitors. In our opinion though 52 % stated that they would buy medicine from foreign actors but if the choice was choosing between competitors in Sweden or actors from abroad we believe that the customers' first choice would be the competitors in Sweden.

7.2 Price

Though the assumption by all the competitors is that Apoteket AB is going to be the market leader, with regards to the price of non prescription medicine past experience has shown that the company will not be a cost leader. Today the price of nicotine products in Axfood shops is 5% less than in Apoteket therefore when it comes to non prescription medicine the competitors can have a competitive advantage of lower prices. In Denmark the deregulation led to a price reduction and the price of brand medicines was lower in stores than in the pharmacies.

The fact that price setting on non prescription medicine in the new competitive market has been proposed to be open is an added advantage for the competitors because they can have competitive prices. Even when it comes to medicine people are still interested in cheaper price and if the competitors can offer cheaper prices then Apoteket is going to lose some of its customers due to this fact. In the study conducted 54 % of the customers asked, responded that price was a determining factor when they were buying non prescription medicine. Furthermore 82% of the respondents would buy their non prescription medicine in the regular shops if the price was the same as Apoteket which means that if the prices were cheaper, then they would definitely choose the competitor over Apoteket.

In our opinion the added services (skilled personnel and advisory role) that Apoteket has to offer its customers mean that they have an added cost which in the long run raises the cost of the product. Furthermore Apoteket may no longer be able to offer cheaper prices when it comes to brand name non prescription medicine. This can be observed from previous cases like Norway and Denmark whereby the new competitors who entered the market had relatively lower prices than the Norwegian and Danish state owned pharmacies when it came to brand name products. The only reason that the pharmacies had lower prices in the case of Denmark was that it could offer generic medicine that the other new competitors were not allowed to sell.

7.3 Place

One of the biggest weaknesses Apoteket has is convenience and accessibility. This weakness could be a major strength for the competitors and also a competitive advantage. Shops like ICA, Axfood and Statoil will have the upper hand because of their convenience whereby

people can pick up their medicine while doing their daily shopping. The fact is that more people live closer to a grocery shop than Apoteket and we see this as an incentive for customers to choose buying their non prescription medicine from for example an ICA shop because it is more accessible. Statoil also has the added advantage of its roadside shops and kiosks which can attract travelers. All these combined could lead to Apoteket losing a bigger part of their market share to the other actors if the competitors concentrate on their strategies of being more convenient and accessible.

With regards to the number of stores and longer opening hours, it is obvious that the other competitions are already ahead since they have more stores individually and combined than Apoteket AB and also have longer opening hours. Statoil has an added advantage over the other competitors because it has the ability to provide 24 hour service. Though Apoteket is opening new shops and extending its opening hours as part of its initial strategy to compete with these companies, we still think that the company has yet to reach the level of ICA, Axfood and Statoil when it comes to accessibility. However we recognize that if Apoteket AB continues to proceed in this direction this could mean that the new competitors could eventually lose this competitive edge. Although Apoteket appears to be less accessible due to the fact that it has less shops and shorter opening hours than its competitors it is surprising to see that the results from the study show that the majority of the respondents perceived Apoteket's accessibility and opening hours as good.

7.4 Promotion

Previously Apoteket AB has not had the need to overly promote itself due to the fact that it was the only provider of medicine for the entire Swedish population, but with the impending implementation of deregulation of the monopoly scheduled for January 1st 2009, the company has to become more aggressive in its marketing. Today the company is more visible in the media, which is a strategy they are using in order to remain constant in the customer minds. This is to try and make customers more aware of its product lines and other assortment.

Nicotine products have been sold in regular shops for a while but from the study only 28 % of the respondents were aware of this. This goes to show that the competitors are not promoting these products as much as they should to make customers more aware. If ICA, Axfood and Statoil are to compete successfully with Apoteket they need to have a strong marketing campaign that would inform customers of the availability of non prescription medicine in their respective shops.

Apoteket's strategy when entering the new deregulated market is to strengthen its current position in the hearts of its customers therefore the company is relying on its customer loyalty. Apoteket AB views itself as a successful company that is ready to operate in an open market since it has been operational in this industry for a long time. The company assumes that its standing in the minds of its customers is secure and thus the strategies they are putting in place are based on customer loyalty and making sure that this is kept intact. The company is banking on the Swedish customers buying habits staying the same i.e. they have always bought medicine from Apoteket and thus will continue to do so.

The study showed that customer loyalty towards Apoteket is strong when it comes to prescription medicine but wavering in non prescription medicine. Apoteket AB's strategy to focus on its reputation with its customers could be a downfall in the case of non prescription

medicine seeing as 80% of all the customers asked in the study, were in favour of having the option to buy non prescription medicine in supermarkets, grocery stores and petrol stations.

When it comes to loyalty we believe that customers also have loyalty towards their supermarkets, grocery stores and petrol stations. For example if one has always bought food from ICA and trusts ICA then once they get used to the idea that ICA also sells medicine, there is nothing to prevent them from transferring this loyalty from Apoteket to ICA. If people adopt this mentality plus the added convenience and accessibility then the competitors have a stronger chance of competing with Apoteket AB on the non prescription market.

7.5 People

Grocery stores and petrol stations have many obstacles to overcome in this new market due to the requirements placed on the companies interested in entering this new market. If the competitors are not allowed to give advice on non prescription medicine then Apoteket has the upper hand because more than 70% of respondents in the study agreed that if these shops were allowed to sell non prescription medicine then skilled personnel for example pharmacists had to be employed. It is interesting to note that 46% could still see themselves buying non prescription medicine in the same shops if there were no trained personnel. The reason most respondents preferred that the shops had trained personnel was that safety would be compromised if untrained personnel were handling medicine even if it was just non prescription medicine. In our opinion this is a set back for the competitors because it affects the trust and confidence that the customers need when it comes to buying medicine. Apoteket can cash in on this because it is already trusted by its customers and is able to keep its position as the best alternative for the customer because it is safe and they can get advice when required.

Apoteket has had the advantage of operating in a monopolistic market whereby it has not had any competition and thus has not had any previous strategy dealing with competition. Unlike its new competitors who operate in highly competitive markets and have had to reform their strategies to accommodate the changes in how they carry out their operations, for example with the entrance of Lidl in the grocery market, ICA and Axfood had to come up with strategies to deal with this new competition that was offering cheaper prices. This means that new competitors such as ICA and Axfood have the management and leadership skills while Apoteket states that one of the strategies it has put in place in anticipation of the deregulation is by sending all their management staff for training in leadership skills.

7.6 Process/Physical evidence

When it comes to customer expectations the competitors of Apoteket AB could face a problem because the customers would expect them to hold certain standards that they do not expect from Apoteket AB. Apoteket does not have an official age limit in their shops and this is due to the fact that it is a pharmacy and the people working there are professionals who are expected to show professional judgment as to who and what they sell out. 68 % of respondents in the study thought that there should be an age requirement if non prescription medicine is to be sold in grocery stores, supermarkets and petrol stations. One could argue that if Apoteket has no age limit then why should the competitors have an age limit because

even though Apoteket has skilled personnel, when it comes to non prescription medicine one is free to walk into Apoteket, pick up what they want, pay and exit without any control for example an identity check.

It should be noted that 70% of the respondents thought that an age limit of 18 was appropriate. Of the 10% who did not think 18 was an appropriate age limit, 6 % suggested an age limit of 15-16, 2% an age limit of 21 and the remaining 2 % thought an age limit was not necessary.

Further more when it comes to customer expectations we think that if shops such as ICA were allowed to display their product in such a way that customers can pick for themselves, as suggested by Johan Wiklund, this could be viewed as hazardous to safety because medicine would be displayed on shelves and left unsupervised. Though Wiklund believes that people being able to pick their own medicine would be beneficial to ICA because it solves the issue of ICA and the competitors not being allowed to give suggestions on what products the customers can buy or how they can use it. This in turn would also be beneficial for the competitors because they would not have to hire extra personnel to handle medicine sells.

The downside of this is that customers' expectations of Apoteket are not the same as their expectations of the competitors. Since Apoteket has been the main provider of medicine, people do not worry about safety. Non prescription medicine products are basically displayed on shelves and people pick and pay just as they would in any shop. Though the concept is the same, Apoteket would still be viewed as safe because the environment of their stores is different from the environment of grocery stores because we believe people may not like the idea of medicine shelves unattended away from the eyes of personnel.

So far Apoteket has had the advantage to pursue its goals without worrying about market share and profit maximization (though they have been very profitable). All the companies that are entering this new market are driven by market and financial goals which already gives them an edge over Apoteket AB since they have the experience in this area and thus could be more aggressive when pursuing these goals.

Table 3: Competitor Analysis

Strategy				Prediction
Apoteket AB	ICA Sweden	Axfood	Statoil AB Sweden	<ul style="list-style-type: none"> • Competitors have better accessibility and convenience which means Apoteket has to open more shops • The competitors have longer opening hours so Apoteket would need to extend its hours • Apoteket has started to promote itself more therefore once the competitors enter this market they will have to be more aggressive in their promotion • Apoteket is trying to strengthen its product brand hence the competitors can only focus on selling well known brands
<ul style="list-style-type: none"> • Better product range with strong brand name • Better accessibility • Training management for better leadership skills 	<ul style="list-style-type: none"> • Sell of well known and safe products • Cheaper prices • Accessibility • Convenience • Good service 	<ul style="list-style-type: none"> • Top selling brand products • Cheaper prices • Accessibility • Convenience 	<ul style="list-style-type: none"> • Sell of well known brands • Cheaper prices • Accessibility • Convenience • Clear marketing plan 	
Objectives				
<ul style="list-style-type: none"> • To become the customers' first choice through better accessibility and improved customer service • Take on a more advisory role • To be the best within medicine, medical use and lifestyle 	<ul style="list-style-type: none"> • Offer the customer flexible access to non prescription medicine • To enter the market as soon as possible • To sell an appropriate assortment of non prescription medicine 	<ul style="list-style-type: none"> • Offering "Ax picked" line from top selling brands • To offer cheaper products than the other competitors 	<ul style="list-style-type: none"> • Be on edge and get out a product line as soon as possible • Working with the strongest brands 	

Table 3 (continued)

Assumption				Prediction
Apoteket AB	ICA Sweden	Axfood	Statoil AB Sweden	<ul style="list-style-type: none"> • Competitors are going to have lower prices consequently Apoteket could focus on providing generic brands that are cheaper and thereby be able to provide both brand and also cheaper prices • Apoteket has a good standing with their customers when it comes to sale of medicine so the competitors should work on having the best service and continue building up a good reputation in order to gain the trust of customers when it comes to the sale of medicine
<ul style="list-style-type: none"> • Is a market leader • Have customer loyalty • They will remain the main medicine retailer in Sweden even after the deregulation 	<ul style="list-style-type: none"> • Is not going to compete with Apoteket but will serve as a compliment • Will win customers because they are more convenient and accessible 	<ul style="list-style-type: none"> • Would act as complements to the market leaders but compete with the other actors • Their convenience and accessibility will win them customers 	<ul style="list-style-type: none"> • They do not need to compete with Apoteket but rather complement it • They are more accessible i.e. convenience, location and opening hours • It is an interesting market with high benefits 	
Resources and Capabilities				
<ul style="list-style-type: none"> • Good reputation and standing with customers • Well known brand name • Been operational in this market for over 35 years • Skilled personnel • Advisory role for customers 	<ul style="list-style-type: none"> • 36, 8 % market share • 1382 stores in Sweden • Has been selling medicine on behalf of Apoteket in sparsely populated areas • Convenience • Open price setting • Better accessibility, some shops open until 22:00 	<ul style="list-style-type: none"> • 17 % market share • 721 shops • Convenience • Freedom to set own prices • Longer opening hours than Apoteket 	<ul style="list-style-type: none"> • 21, 5 % market share • 3505 serviced stations • Convenience • Open price setting • Longer opening hours and potential for 24 hour service • Roadside stores and kiosks 	

8. Conclusion

A summary of the thesis topic is given.

In the conclusion we would like to bring forth the questions brought up in the problem statement;

- What are the competitive advantages that Apoteket AB has over its competitors?

Apoteket AB has several competitive advantages over its competitors. It has a strong brand name that is known and trusted by customers. The company has been operational in Sweden for over 35 years and therefore has a strong standing and a good reputation with its customers. When it comes to price the company may still hold a competitive advantage in this aspect because the company could still have the lowest prices due to the fact that the competitors may not be allowed to sell cheaper generic brands. Judging from the previous cases in Norway and Denmark Apoteket AB is going to lose market share but when it comes to the revenue it may not be a significant loss.

- Do the competitors have the tools to successfully compete with Apoteket AB?

While all three competing companies see themselves as complements to Apoteket AB we think that the competitors have what it takes to successfully compete with Apoteket. Although the competitors are faced with Apoteket AB a company with a strong brand name and a good reputation the companies seem to basically have the same strategic approach to competing with Apoteket.

One of the strongest tools the competitors have is convenience. The fact that customers purchase their medicine while going about their daily shopping routine is a strong incentive for them choosing for example Axfood over Apoteket.

Another strong tool is the accessibility because of the location of shops, number of shops and opening hours.

When it comes to product all the competitors intend to have an assortment of well known brands which is an advantage for them because the customers are already familiar with the product.

Price is an important factor to customers even when it comes to non prescription medicine. The fact that competitors would be able to give their customers lower prices would be a pulling factor for customers.

The competitors in Sweden have an advantage because they can study the cases of the competitors in neighboring countries who have entered the deregulated market and succeeded.

ICA Sweden has an added advantage since it has already entered a deregulated market through its sister company ICA Norway and have been successful and can therefore apply the same successful strategy to ICA Sweden . Statoil also has an added advantage that the other competitors lack being petrol station and can provide 24 hour service plus its roadside shops and kiosks can attract travelers.

Judging from previous cases such as Norway and Denmark which showed different outcomes of deregulation in the retail pharmaceutical industry, the competitors in both cases have not been on the losing side. Supermarkets, petrol stations and grocery stores in Norway and Denmark were also competing with their respective pharmacies based mainly on price, accessibility and convenience.

In conclusion this is an indication that the competitors in Sweden have more than enough tools to successfully compete with Apoteket AB.

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10. Appendix

Appendix A

Apoteket

- How is the company going to be affected by the deregulation of the monopoly in the non prescription medicine market?
- What strategies has the company laid out in anticipation of this change?
- Is the company ready for the deregulation, how ready are you and what points do you still need to work on
- To what level do you want the deregulation to occur, to what point do you want the law to change?
- In preparation for the deregulation have you looked at other countries that have gone through the same process and used some of their strategies?
- Has the company been able to look at these countries strategies in order to learn from their mistakes?
- Apoteket claim that they have loyal customers, how true is this? How will Apoteket manage to retain its current customers when new actors enter the market?
- What is the biggest threat to Apoteket AB is it competition from foreign actors or local competitors?

Swedish translation

- Hur kommer ni att påverkas av avregleringen på monopol på receptfri medicin?
- Hur tänker ni gå tillväga? Strategier?
- Tror ni att ni är redo för konkurrens? Hur redo är ni och har ni mycket jobb framför er?
- Hur långt är ni villiga att gå med på avreglering av monopolet? Hur mycket vill ni att lagen ska ändras?
- Har ni använt er av andra länders strategier? Ska ni använda er av deras misstag för att kunna förbättra era strategier?
- Apoteket anser att de har lojala kunder men kan ni förlita er på detta resonemang? Hur ska ni behålla era kunder från andra aktörer som kan komma in på marknaden?
- Kan det bli hård konkurrens från utlandet, eller är det intresserade aktörer i Sverige som är ert stora problem?

Appendix B

Apoteket's competitors

- What are your expectations with regards to the deregulation of Apoteket's monopoly?
- To what level does the monopoly have to be deregulated in order for companies like this to gain an advantage in the market and be able to compete with Apoteket?
- How does your company plan to compete with Apoteket?

- How does this company plan to compete with the other Swedish Supermarket chains that are also looking to break into this market?
- How soon after the deregulation can your company be expected to start selling non prescription medicine?
- Are you going to enter this market directly after deregulation or are you going to wait and observe the trend of other companies that enter this market?
- What are your strategies when entering this market, how do you plan on approaching this market?
- What advantages will customers have from buying non prescription medicine from this company?
- What are your views on foreign companies that also want to break into the Swedish pharmaceutical retail market?

Swedish translation

- Vad är era förväntningar gällande avreglering av monopolet?
- Hur ska ni kunna konkurrera med Apoteket?
- Hur snart tänker ni sälja receptfri medicin? Ta del av den öppna marknaden? Vänta in, eller gå direkt ut på marknaden om avreglering sker?
- Vad är era strategier? Hur tänker ni gå tillväga?
- Vad är fördelarna av att köpa receptfri medicin hos er? (priser, öppettider, kommer ni då ha personal med utbildning)?
- Vad tror ni om aktörer från utlandet som kommer in på den svenska marknaden?
- Hur ska ni konkurrera med de svenska aktörerna som kan komma in på denna marknad?
- Till vilken nivå vill ni avreglering ska ske, för att det ska kunna gynna er ekonomiskt, få kunder etc.?

Appendix C

Questions to the medical products agency and Swedish competition authority

- What are this agencies opinions regarding the deregulation of Apoteket's monopoly.
- To what level would you want the monopoly deregulated, how much of the rules and regulation governing this monopoly should be removed
- Will the deregulation of this monopoly benefit consumers?
- To what level would this agency like to have a say in the pricing of medical products?
- In order for supermarket chains, grocery stores, gas stations etc to benefit from deregulation, to what level should the deregulation occur?

Swedish translation

- Vad är Läkemedelsverkets/Konkurrensverkets åsikt gällande avreglering av apotekets monopol?
- Till vilken nivå skulle ni vilja att avreglering på apotekets monopol skall ske?
- Anser ni att avreglering av monopolet skulle gynna konsumenterna eller skulle det vara en nackdel att spola monopolet?
- Till vilken nivå skulle ni vilja påverka prissättningen på de receptfria medicin?

- Till vilken nivå skulle en avreglering i den receptfria marknaden kunna gynna den dagliga varuhandeln, för att de ska kunna konkurrera med apoteket?

Appendix D

National board of health and welfare (Socialstyrelsen)

- What are this agencies opinions regarding the deregulation of Apoteket's monopoly?
- What consequences will this have on this agency?
- What are advantages and disadvantages of this deregulation?

Swedish translation

- Vad tycker ni om avreglering av monopol gällande receptfri medicin?
- Vad blir konsekvenserna för er? För- och nackdelar

Appendix E

1. Apoteket have the monopoly on the sale of all the medicine. Do you think this monopoly should be removed?

YES

NO

DO NOT KNOW

2. Would you want the option to buy non prescription medicine from for example grocery shops and petrol stations?

YES

NO

DO NOT KNOW

3. Would the price be a determining factor in your choice of shop when buying non prescription medicine?

YES

NO

DO NOT KNOW

4. Would you buy non prescription medicine in regular grocery shops and petrol stations if the price was the same as in Apoteket?

YES

NO

DO NOT KNOW

5. Would you buy non prescription medicine in regular shops if the shop was located nearby although the medicine would be cheaper in Apoteket?

YES

NO

DO NOT KNOW

6. Do you only buy name brands? (for example Alvedon, Ipren, Samarin, Treo etc)

YES

NO

DO NOT KNOW

7. Is the choice of brand when buying medicine important to you?

YES

NO

DO NOT KNOW

8. If the brands that you normally buy are not sold in the other shops, would you change to another brand?

YES

NO

DO NOT KNOW

9. If your brand of medicine was not sold in regular shops would this be a reason for you to continue going buying your medicine form Apoteket?

YES

NO

DO NOT KNOW

10. Would you consider yourself buying brands that are not that well known if they were sold at a cheaper price than the name brands?

YES

NO

DO NOT KNOW

11. Do you know that some non prescription medicine is already being sold in some supermarkets and regular shops?

YES

NO

DO NOT KNOW

12. Does it matter to you if other competitors (for example ICA, Statoil, Willys etc.) enter this market?

YES

NO

DO NOT KNOW

13. Would you buy medicine from foreign actors (for example Alliance Boots, Celesio etc.) that may enter the market after deregulation?

YES

NO

DO NOT KNOW

14. If non prescription medicine is to be sold in regular shops, do you think that it is necessary to have skilled personnel (for example pharmacists)to handle the sell?

YES

NO

DO NOT KNOW

15. The government's proposal suggests that personnel in the regular shops cannot give advice regarding non prescription medicine. Would you still buy medicine knowing that the personnel cannot advise you?

YES

NO

DO NOT KNOW

16. Do you think that safety will be affected if the personnel selling medicine in regular shops have no formal training with regards to handling medicine?

YES

NO

DO NOT KNOW

17. Is it necessary to have an age limit for those buying non prescription medicine in the regular shops?

YES

NO

DO NOT KNOW

18. Is an age limit of 18 enough when buying non prescription medicine in regular shops?

YES

NO

DO NOT KNOW

19. If NO! What do you think is an appropriate age limit when buying non prescription medicine in regular shops?

20. Should prescription medicine also be sold in regular shops other than just Apoteket?

YES

NO

DO NOT KNOW

21. Would you buy prescription medicine in other shops than Apoteket?

YES

NO

DO NOT KNOW

22. Do you think that Apoteket has good accessibility?

Poor	Bad	Good	Very Good
<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4

23. Do you think that Apoteket has good opening hours?

Poor	Bad	Good	Very Good
<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4

24. Other

Swedish translation

Frågeformulär

1. Apoteket har monopol på all medicin. Anser du att detta monopol skall avskaffas?

<input type="checkbox"/> JA	<input type="checkbox"/> NEJ	<input type="checkbox"/> VET EJ
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2. Skulle du vilja ha möjlighet att köpa receptfri medicin i t.ex. vanliga matvarubutiker och bensinmackar?

<input type="checkbox"/> JA	<input type="checkbox"/> NEJ	<input type="checkbox"/> VET EJ
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3. Skulle priset vara avgörande för dig vid val av butik när du ska köpa receptfri medicin?

<input type="checkbox"/> JA	<input type="checkbox"/> NEJ	<input type="checkbox"/> VET EJ
-----------------------------	------------------------------	---------------------------------

4. Kan du tänka dig att köpa receptfri medicin i vanliga matvarubutiker och bensinmackar om priset var detsamma som på Apoteket?

JA

NEJ

VET EJ

5. Skulle du köpa receptfri medicin i vanliga butiker om butiken var närliggande även om medicinen var billigare på Apoteket?

JA

NEJ

VET EJ

6. Köper du endast kända varumärken? (t ex Alvedon, Ipren, Samarin, Treo etc.)

JA

NEJ

VET EJ

7. Är val av varumärke viktigt för dig?

JA

NEJ

VET EJ

8. Om de varumärken du vanligtvis köper, inte kommer att säljas i de andra butikerna, kan du anse dig att byta till ett annat varumärke?

JA

NEJ

VET EJ

9. Om ditt varumärke på receptfri medicin inte såldes i de andra butikerna skulle du av den anledningen fortsätta att gå till Apoteket?

JA

NEJ

VET EJ

10. Kan du tänka dig köpa mindre kända varumärken om de såldes billigare än kända varumärken?

JA

NEJ

VET EJ

11. Vet du om att det redan säljs receptfri medicin i vissa butiker?

JA

NEJ

VET EJ

12. Spelar det roll för dig om andra aktörer (t ex ICA, Statoil, Willys etc.) kommer in på marknaden?

JA

NEJ

VET EJ

13. Kan du tänka dig att köpa medicin från utländska aktörer (t ex Alliance Boots, Celesio etc.) som kan komma in på marknaden?

JA

NEJ

VET EJ

14. Om receptfri medicin ska säljas i vanliga butiker tycker du att det behövs utbildad personal för att hantera försäljningen?

JA

NEJ

VET EJ

15. Regerings förslag föreslår att personalen i butiken inte får ge råd angående den receptfria medicinen. Kan du tänka dig att köpa ändå?

JA

NEJ

VET EJ

16. Tror du att säkerheten kan påverkas om personalen bakom disken i en vanlig butik inte har utbildning?

JA

NEJ

VET EJ

17. Är det nödvändigt att ha en åldersgräns vid försäljning av receptfri medicin i vanliga butiker?

JA

NEJ

VET EJ

18. Är åldersgräns på 18 tillräckligt för köp av receptfri medicin i vanliga butiker?

JA

NEJ

VET EJ

19. Om NEJ! Vad anser du är en bra åldersgräns vid köp av receptfri medicin i vanliga butiker?

20. Bör även receptbelagd medicin kunna köpas i andra butiker än Apoteket?

JA

NEJ

VET EJ

21. Skulle du kunna tänka dig att köpa receptbelagd medicin i andra butiker än Apoteket?

JA

NEJ

VET EJ

22. Tycker du att Apoteket har bra tillgänglighet?

Mycket Dåligt

Dåligt

Bra

Mycket Bra

1

2

3

4

23. Tycker du att Apoteket har bra öppettider?

Mycket Dåligt

Dåligt

Bra

Mycket Bra

1

2

3

4

24. Övriga synpunkter om Apoteket
