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### Analysis in Brief

# Competing for the Retail Drug Market

by Guillaume Dubé

Distributive Trades Division  
11th Floor, Jean Talon Building, Ottawa, K1A 0T6

Telephone: 1-800-263-1136



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## Competing for the Retail Drug Market

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**Guillaume Dubé**

**Review Committee:** Jean-Marie Berthelot of the Canadian Institute for Health Information and Richard Evans, John Flanders, Didier Garriguet, Serge Grenier and Sophie Lefebvre of Statistics Canada

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National inquiries line: 1 800 263-1136

E-Mail inquiries: [analysisinbrief-analyseenbref@statcan.ca](mailto:analysisinbrief-analyseenbref@statcan.ca)

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# Competing for the Retail Drug Market

Guillaume Dubé,  
Distributive Trades Division

## Summary

Sales of prescription and over-the-counter drugs have exploded in Canada during the past decade or so, with the millions of prescriptions now being written each year by physicians.

In 2005, retail sales of drugs (a category that also includes vitamins and other health supplements) surpassed the \$20-billion mark for the first time.

This boom in drug sales has been accompanied by an emerging phenomenon in the retail market—the appearance of more and more pharmacy outlets in food and general merchandise stores.

This study looked at this phenomenon, focusing on the competition between pharmacies (a category that also includes other health and personal care stores) and food and general merchandise stores between 1998 and 2005 using data from the Quarterly Retail Commodity Survey. It also compared the situations in Canada and the United States.

Pharmacies<sup>1</sup> still dominate the retail drug market. However, between 1998 and 2005, they lost market share to food and general merchandise stores.

At the outset of the period, pharmacies accounted for 84.0% of drug sales. By 2005, this share had tumbled to 76.9%, a loss of 7.1 percentage points. At the same time, the proportion of drug sales in both food stores and general merchandise stores edged up.

During this period, drug sales increased at an average annual rate of 6.5% in pharmacies. However, this was only half the growth rate of 13.8% for drug sales in food and general merchandise stores.

The growth of drug sales outpaced that of all retail commodities combined. Drug sales grew at an annual average rate of 7.9% between 1998 and 2005, compared with growth of 5.3% for all retail commodities combined.

In the United States, the demand for prescription and over-the-counter drugs grew at about the same pace as in Canada. In contrast to the situation in Canada, however, American pharmacies captured an increasing share of the market for health and personal care products. Food and general merchandise stores lost market share.

The increase in drug sales is probably not entirely the result of rising drug costs. Demand appears to be responsible for most of the observed growth. The number of prescriptions filled by Canadian pharmacies, including new prescriptions and renewals, has risen sharply during the past decade. Relative to other products, drugs accounted for a rising share of sales for retailers that sell them.

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1. Under Quebec law, a pharmacy in Quebec must be owned by an accredited pharmacist. In this province, pharmacies in food and general merchandise stores are operated as concessions, and their sales are reported in the pharmacies trade group. In other provinces, the sales of pharmacies located in another store are included in the host store's sales. As a result, the drug sales of food and general merchandise stores are underestimated at the national level.

## Definitions

A **trade group** (TG) is a special aggregation of retail stores classified according to the North American Industry Classification System (NAICS).

**Pharmacies** (TG 120) includes drug stores, cosmetics, beauty supplies and perfume stores, optical goods stores and other health and personal care stores. In Quebec, any store incorporated as a pharmacy must be owned and operated by a pharmacist. Consequently, in contrast to the situation in other Canadian provinces, Quebec pharmacies located in food and general merchandise stores are included in the pharmacies trade group only.

**Food and general merchandise stores** combines the food and beverage stores sector and the general merchandise stores sector. Food and beverage stores includes three trade groups: supermarkets (TG 90), convenience and speciality food stores (TG 100), and beer, wine and liquor stores (TG 110). General merchandise stores includes department stores (TG 170) and other general merchandise stores (TG 180). In Quebec, because of pharmacies' legal status, the sales of pharmacies located in food and general merchandise stores are reported in the pharmacies trade group.

**All other sectors combined** refers to the automotive sector, which includes new car dealers (TG 010), used and recreational motor vehicle and parts dealers (TG 020) and gasoline stations (TG 130); furniture (TG 030), home furnishing (TG 040), computer and software (TG 050) and home electronic and appliance stores (TG 060); building and outdoor home supplies stores, including home centres and hardware stores (TG 070) and specialized building materials and garden stores (TG 080); clothing stores (TG 140) and shoe, clothing accessories and jewellery stores (TG 150); and miscellaneous retailers, including sporting goods, hobby, music and book stores (TG 160) and miscellaneous retail stores (TG 190).

Sales of **health and personal care products** refers to the total sales of prescription and over-the-counter drugs, vitamins and other health supplements, home health care "sick room" equipment and supplies, cosmetics and fragrances, other toiletries and personal care products, optical goods (with or without a prescription).

Specifically, **drug** sales refers to sales of prescription and over-the-counter drugs, vitamins, herbal remedies and other health supplements.

## Boom in drug sales

Demand for prescription and over-the-counter drugs has soared in Canada. Over the last 20 years, prescription drugs have made up a growing proportion of health care costs in Canada.<sup>2</sup>

Sales of prescription and over-the-counter drugs have enjoyed one of the highest growth rates in the retail trade industry, outpacing sales of all retail commodities.

Between 1998 and 2005, these sales rose an average annual rate of 7.9%, compared with a rate of 5.3% for all retail commodities. Sales of prescription drugs in particular, a major factor in the increase, rose at an average rate of 9.0% a year during the period.

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2. See Canadian Institute for Health Information, *Drug Expenditure in Canada, 1985 to 2005*, 2006, [http://secure.cihi.ca/cihiweb/dispPage.jsp?cw\\_page=PG\\_570\\_E&cw\\_topic=570&cw\\_rel=AR\\_80\\_E](http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=PG_570_E&cw_topic=570&cw_rel=AR_80_E) (accessed on September 5, 2006).

The growth during this period amounted to \$8.2 billion. This pushed the value of retail sales of prescription and over-the-counter drugs, vitamins and other health supplements in Canada over the \$20-billion mark for the first time. Pharmacies accounted for almost two-thirds of the increase, about \$5.5 billion.

Prescription and over-the-counter drugs are becoming more important in the retail trade industry. They accounted for 5.7% of the sales of all retail commodities combined in 2005, compared with 4.8% seven years earlier. That gain is a huge step up in an industry worth nearly \$353 billion a year.

The opportunities opened up by this growth have spurred the construction of new outlets in the pharmacy industry. Between 1998 and 2005, the number of establishments grew by more than 2,300 to 16,000,<sup>3</sup> an average annual increase of 2.2%. In comparison, about 2,100 new establishments opened in the building and outdoor home supplies group, which had one of the highest growth rates, partly as a result of the boom in residential construction.

In addition, this period was marked by the appearance of more and more pharmacies in food and general merchandise stores. These stores reported impressive increases in drug sales, which exceeded \$4.6 billion in 2005. In addition, drug sales doubled to \$2.8 billion in food stores and tripled to \$1.8 billion in general merchandise stores in 2005.

**Table 1 Distribution of selected merchandise group sales by trade group sectors,<sup>1</sup> Canada, 1998 and 2005**

Commodity groups	Pharmacies and personal care stores			Food stores and general merchandise stores			All other trade groups combined			Total, all trade groups		
	1998	2005	1998 to 2005	1998	2005	1998 to 2005	1998	2005	1998 to 2005	1998	2005	1998 to 2005
	\$ millions		% <sup>2</sup>	\$ millions		% <sup>2</sup>	\$ millions		% <sup>2</sup>	\$ millions		% <sup>2</sup>
Health and personal care products	13,524	20,420	6.1	5,152	9,993	9.9	412	402	-0.4	19,087	30,815	7.1
Drugs <sup>3</sup>	9,910	15,394	6.5	1,865	4,620	13.8	21	15	-4.6	11,797	20,030	7.9
Personal care products <sup>4</sup>	2,766	3,970	5.3	3,225	5,142	6.9	246	299	2.8	6,236	9,411	6.1
Eyewear <sup>5</sup>	848	1,056	3.2	61	231	20.8	145	88	-6.9	1,054	1,375	3.9
Tobacco products and supplies	362	212	-7.3	3,823	5,706	5.9	1,874	2,705	5.4	6,059	8,623	5.2
All other goods and services	3,086	3,360	1.2	75,811	99,305	3.9	142,008	210,996	5.8	220,906	313,661	5.7
<b>Total</b>	<b>16,973</b>	<b>23,992</b>	<b>5.1</b>	<b>84,785</b>	<b>115,004</b>	<b>4.5</b>	<b>144,294</b>	<b>214,103</b>	<b>5.8</b>	<b>246,052</b>	<b>353,099</b>	<b>5.3</b>

1. In Quebec only, sales from pharmacies located in food and general merchandise stores are reported in the pharmacies trade group.

2. Compounded annual growth rate.

3. Includes prescription and over-the-counter drugs, vitamins and other health supplements.

4. Includes health and beauty products (non-electric).

5. Includes prescription and non-prescription.

Source: Statistics Canada, Quarterly Retail Commodity Survey.

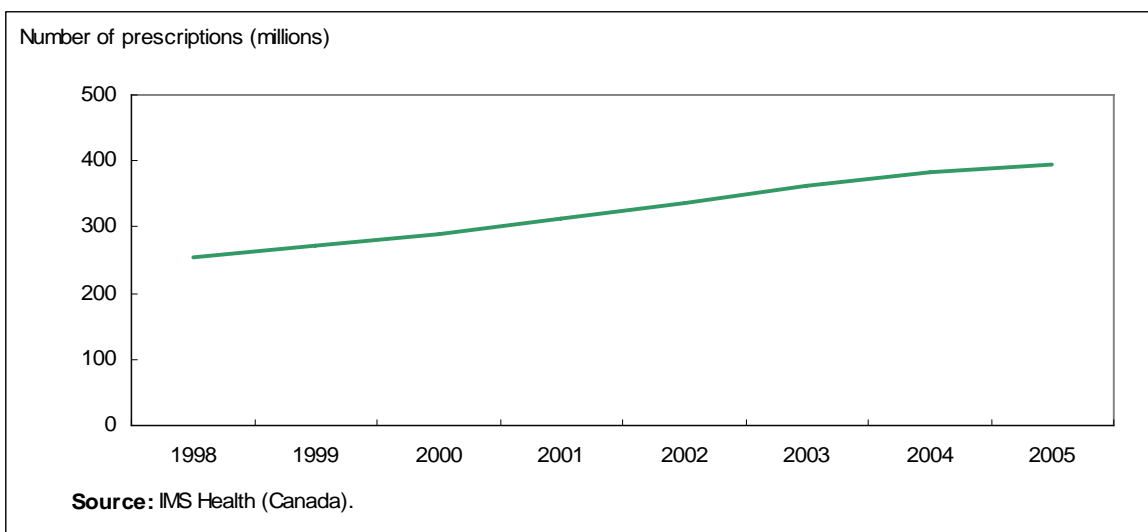
3. Significant changes were made to the Business Register and to the survey's methodology between 2004 and 2005. They affect the estimates from June 2005 on.

## Higher drug sales: Partly prices, mostly demand

Generally speaking, the growth in sales of a commodity can be attributable to two possible factors: higher prices or higher volume. Higher volume seems to have been the main factor in the rise of drug retail sales between 1998 and 2005.

The number of prescriptions filled by Canadian pharmacies, including new prescriptions and renewals, rose sharply from 1998 to 2005 at an average annual growth rate of 6.5%. In 2005, physicians wrote more than 395 million prescriptions, about 12 for each Canadian on average.<sup>4</sup>

**Chart 1 The volume of prescriptions increased non-stopped**



It is a well-known fact that senior citizens have greater health needs than younger people. The prevalence of chronic illness, activity limitations and disabilities is strongly correlated with age, and so is the use of prescription and over-the-counter drugs.

Canada's senior population has been growing faster than the population of any other age group in recent years. At present, more than 1 person in 10 is aged 65 or older. According to Statistics Canada's projections,<sup>5</sup> the proportion of elderly is destined to almost double in the next 25 years. The elderly would account for almost 25% of the population in 2031.

Changes in health care systems, the emergence of new treatments and the development of drug therapies have boosted the importance of drugs in health care and played a role in the transition from hospital care to ambulatory and home care.<sup>6</sup>

4. See IMS Health Canada, *What's New?*, <http://www.imshealthcanada.com> (accessed May 3, 2006).

5. See Alain Bélanger et al, *Population Projections for Canada, Provinces and Territories*, Statistics Canada Catalogue no. 91-520, 2005, <http://www.statcan.ca/bsolc/english/bsolc?catno=91-520-XWE> (accessed September 5, 2006).

6. See W. J. Millar, "Disparities in prescription drug insurance coverage," *Health Reports*, vol. 10, no. 4, Statistics Canada Catalogue no. 82-003, 1999.

In addition, drug prices have increased in recent years. Nevertheless, prices appear to be a less significant factor in the increase in consumer health spending. Between 1998 and 2005, the medicinal and pharmaceutical products component of the Consumer Price Index (CPI) rose at an average annual rate of 1.4%, compared with 2.3% for the CPI as a whole. Both the prescribed and the non-prescribed medicines components climbed more slowly than the full CPI.<sup>7</sup>

### Pharmacies lost ground to their competitors

Pharmacies still dominate the health and personal care market, but they have lost market share to other retailers.

Canadian consumers spent \$20 billion on prescription and over-the-counter drugs, vitamins and other health supplements in 2005. For every \$100 in purchases of these products, they spent \$76.90 in pharmacies, considerably less than the \$84.00 they spent in 1998.

The big winners in this trend were the food and general merchandise stores, which were able to take advantage of the increase in drug sales in Canada.

For every \$100 in drug purchases, consumers spent \$14.10 in food stores in 2005, up from \$10.30 in 1998. In general merchandise stores, they spent \$9.00 on drugs in 2005, up from \$5.50.

In other words, food and general merchandise stores have split the gains in their share of the drug market. Starting from a combined share of slightly more than 15% in 1998, they each captured just over 3.5% more of the market, reaching nearly a quarter of total sales in 2005.

**Table 2 Market share of trade group sectors, Canada by selected commodity groups,<sup>1</sup> 1998 and 2005**

Commodity groups	Pharmacies and personal care stores			Food stores			General merchandise stores			All other trade groups combined		
	1998	2005	1998 to 2005	1998	2005	1998 to 2005	1998	2005	1998 to 2005	1998	2005	1998 to 2005
	%		change	%		change	%		change	%		change
Health and personal care products	70.9	66.3	-4.6	13.9	16.4	2.6	13.1	16.0	2.9	2.2	1.3	-0.9
Drugs <sup>2</sup>	84.0	76.9	-7.1	10.3	14.1	3.8	5.5	9.0	3.5	0.2	0.1	-0.1
Personal care products <sup>3</sup>	44.4	42.2	-2.2	23.0	23.8	0.9	28.8	30.8	2.0	3.9	3.2	-0.8
Eyewear <sup>4</sup>	80.5	76.8	-3.6	0.2	0.6	0.4	5.6	16.2	10.6	13.7	6.4	-7.3
Tobacco products and supplies	6.0	2.5	-3.5	44.7	43.0	-1.7	18.4	23.2	4.8	30.9	31.4	0.4
All other goods and services	1.4	1.1	-0.3	21.4	19.6	-1.8	12.9	12.0	-0.9	64.3	67.3	3.0
<b>Total</b>	<b>6.9</b>	<b>6.8</b>	<b>-0.1</b>	<b>21.4</b>	<b>19.9</b>	<b>-1.5</b>	<b>13.1</b>	<b>12.7</b>	<b>-0.4</b>	<b>58.6</b>	<b>60.6</b>	<b>2.0</b>

1. In Quebec only, sales from pharmacies located in food and general merchandise stores are reported in the pharmacies trade group.

2. Includes prescription and over-the-counter drugs, vitamins and other health supplements.

3. Includes health and beauty products (non-electric).

4. Includes prescription and non-prescription.

Source: Statistics Canada, Quarterly Retail Commodity Survey.

7. For more details about indexes, see Statistics Canada, CANSIM table 326-0002.

## Opposite trend in the United States

Data for the United States are not available for the same reference years as Canadian data, so a direct comparison for the period 1998 to 2005 is not possible. Because over-the-counter drugs are classified differently in the two countries, a comparison is possible only for the health and personal care products group, a category that includes drugs.

In contrast to the situation in Canada, American pharmacies had a larger share of the health and personal care market in 2002 than they did in 1997. Their share rose about three percentage points.

This gain brought the relative positions of American pharmacies and their competitors closer to the situation in Canada. In 2002, pharmacies had 62.8% of the in the United States, compared with 66.5% in Canada. The share for American pharmacies was up from 59.8% in 1997.

On the other hand, the market share for the health and personal care market among food stores and general merchandise stores south of the border declined during this period, from 38.5% to 36.0%. Even so, this represented more than one-third of American consumers' spending on such products.

Overall, however, the pattern of retail sales of health and personal care products was similar in the two countries. As in Canada between 1998 and 2005, total sales in that commodity group in the United States grew much faster than sales of all commodities combined between 1997 and 2002. Sales of health and personal care products rose at an annual average rate of 9.4%, compared with 4.0% for all commodities combined.<sup>8</sup>

Population aging is affecting the United States as well, and demand is rising. Sales of health and personal care products hit US\$232 billion in 2002.

Prescription drug sales had almost doubled over 5 years to US\$135 billion in 2002. Between 1997 and 2002, they grew by an average of more than 10.0% a year.

**Table 3 Market share of trade group sectors, by selected commodity groups, United States, 1997 and 2002**

Commodity groups	Pharmacies and personal care stores			Food stores and general merchandise stores			All other trade groups combined		
	1997	2002	1997 to 2002	1997	2002	1997 to 2002	1997	2002	1997 to 2002
	%		change	%		change	%		change
Health and personal care products	59.8	62.8	3.0	38.5	36.0	-2.5	1.7	1.2	-0.5
Drugs (prescriptions)	80.7	81.0	0.3	19.3	19.0	-0.3	0.0	0.0	0.0
<b>Total of all goods and services</b>	<b>5.0</b>	<b>6.2</b>	<b>1.2</b>	<b>31.3</b>	<b>31.1</b>	<b>-0.2</b>	<b>63.6</b>	<b>62.6</b>	<b>-1.0</b>

Source: U.S. Census Bureau, *1997 and 2002 Economic Census: Retail Trade United States*, available at [www.census.gov](http://www.census.gov), February 19, 2004 (accessed August 31, 2005).

8. See U.S. Census Bureau, *1997 and 2002 Economic Census: Retail Trade United States*, available at [www.census.gov](http://www.census.gov), February 19, 2004 (accessed August 31, 2005).



### **Online sales of prescription drugs**

According to the Household Internet Use Survey (replaced by the Canadian Internet Use Survey), 4.9% of Internet users in Canada bought health and beauty products, drugs or vitamins in 2003.<sup>9</sup>

Online pharmacies account for a very small portion of drug sales. Drug sales by Canadian online pharmacies (which sell prescription drugs over the Internet) totalled \$726 million in 2005.

The total value of drug sales to the United States amounted to \$507 million, down 18.0% from 2004. Canadians bought \$219 million worth of prescription drugs over the Internet in 2005.<sup>10</sup>

### **Drugs make up a larger portion of pharmacies' sales in Canada**

Between 1998 and 2005 in Canada, drugs accounted for an increasing share of pharmacy sales, while the proportion of drug sales to total sales nearly doubled for food and general merchandise stores.

For pharmacies, 64.2% of sales came from drugs in 2005, compared with 58.4% in 1998. At the same time, the market share for food and general merchandise stores jumped from 2.2% to 4.0%.

The trend toward one-stop shopping may have drawn some customers to the food and general merchandise stores, especially for non-urgent drug needs. Adding drugs to their product line-up seems to have resulted in market share gains.

More and more, Canadian consumers can buy drugs while doing their regular shopping for groceries and household products. The presence of drugs in food and general merchandise stores is part of a trend toward the diversification of their product lines.<sup>11</sup>

The higher proportion of drug sales in pharmacies may be partly due to the drop in tobacco product sales. (It is important to note that without any increase in drug sales, the proportion of drug sales would have increased due to the drop in tobacco sales.) In several provinces, pharmacies are now prohibited by law from selling tobacco products. In others, professional associations have advised pharmacists not to sell them.

Between 1998 and 2005, sales of tobacco products in pharmacies plunged by \$150 million, one-third of what they were. As a result, tobacco products made up only 0.9% of pharmacy sales in 2005, down 1.2 percentage points from 1998.

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9. See Statistics Canada, CANSIM table 358-0022.

10. See B. J. Skinner, "Price Controls, Patents, and Cross-Border Internet Drugstores, Risks to Canada's Drug Supply and International Trading Relations," The Fraser Institute, *Critical Issues Bulletins*, February 2006.

11. See Guillaume Dubé, "Canadian Retailers Competing for the Consumer's Food Dollar," *Analysis in Brief*, Statistics Canada Catalogue no. 11-621-MIE2006038, April 2006, [www.statcan.ca/bsolc/english/bsolc?catno=11-621-M2006038](http://www.statcan.ca/bsolc/english/bsolc?catno=11-621-M2006038) (accessed September 5, 2006).

**Table 4 Proportion of sales of selected merchandise group sales by trade group sectors,<sup>1</sup> Canada, 1998 and 2005**

Commodity groups	Pharmacies and personal care stores			Food stores and general merchandise stores			All other trade groups combined			Total, all trade groups		
	1998	2005	1998 to 2005	1998	2005	1998 to 2005	1998	2005	1998 to 2005	1998	2005	1998 to 2005
	%		change	%		change	%		change	%		change
Health and personal care products	79.7	85.1	5.4	6.1	8.7	2.6	0.3	0.2	-0.1	7.8	8.7	1.0
Drugs <sup>2</sup>	58.4	64.2	5.8	2.2	4.0	1.8	0.0	0.0	0.0	4.8	5.7	0.9
Personal care products <sup>3</sup>	16.3	16.5	0.2	3.8	4.5	0.7	0.2	0.1	0.0	2.5	2.7	0.1
Eyewear <sup>4</sup>	5.0	4.4	-0.6	0.1	0.2	0.1	0.1	0.0	-0.1	0.4	0.4	0.0
Tobacco products and supplies	2.1	0.9	-1.2	4.5	5.0	0.5	1.3	1.3	0.0	2.5	2.4	0.0
All other goods and services	18.2	14.0	-4.2	89.4	86.3	-3.1	98.4	98.5	0.1	89.9	88.8	-1.1

1. In Quebec only, sales from pharmacies located in food and general merchandise stores are reported in the pharmacies trade group.

2. Includes prescription and over-the-counter drugs, vitamins and other health supplements.

3. Includes health and beauty products (non-electric).

4. Includes prescription and non-prescription.

**Source:** Statistics Canada, Quarterly Retail Commodity Survey.