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# Survival on the Reregulated Swedish Pharmacy Market

- The former monopoly Apoteket AB responds to  
competition

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*Albulena & Sofia*

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# Abstract

**Title:** Survival on the Reregulated Swedish Pharmacy Market -The former monopoly Apoteket AB responds to competition

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**Key words:** Pharmacy market, Reregulation, Competition, Sweden, Apoteket AB.

**Purpose:** The purpose of this thesis is to study how a state owned monopoly company, with historical responsibilities towards society, is affected by competition and how it uses its resources to maintain a strong position on the competitive market.

**Methodology:** This case study has been conducted by using qualitative methods. Primary data has been collected through interviews with managers and former managers within Apoteket AB. Secondary data such as published articles, homepages and Annual Reports have further been useful.

**Theoretical perspectives:** The market structure has been analyzed by using Porters Five Forces framework. Theories concerning strategy, change management and internal resources have been applied when discussing the internal organization of Apoteket. The TOWS matrix summarizes the two aspects.

**Conclusions:** Apoteket has a few competitive advantages over rivals because of their product credibility, tradition in the Swedish market and because of strong pharmaceutical competence. However, when faced with changed market conditions, Apoteket's traditional culture and operating structure are critical aspects that need to follow this change. When undergoing internal transformation, it is important to objectively evaluate the resources and capabilities in the context of a competitive market. Among others, Apoteket needs be careful not to overestimate its brand and should be cautious in their product development to not jeopardize the good reputation associated with

their brand. Nevertheless, the company could try to maintain a balance between their former responsibilities towards society, with the new commercial requirements by for example investing voluntary in social projects. Since price competition will remain regulated by authorities, at least during the process of the market reform, service improvements and strategic localization will be the most important means of competition.

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# 1 Introduction

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*This chapter introduces the research area and presents the purpose of the study. Demarcations will follow and finally a disposition will be presented to clarify the structure of the thesis.*

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## 1.1 Background

Society is constantly evolving due to globalization, technological development and political decisions; hence change, renewal and transformations should today be regarded as normal activities for companies (Coulson-Thomas, 2005). Barely anyone could escape noticing that an increasing amount of industries are affected by market changes, and high level of competition is common (Grant, 2008). Furthermore, political reregulations<sup>1</sup> to enhance competition in different industries have received more attention in recent decades (Anell, 2005). Pro-competitive policies of this nature are often argued to increase productivity which would benefit both the consumer and the nation. Companies in these industries are forced to find new means to compete in order to adapt to the new market conditions. In Sweden, industries such as the electricity market, the telecommunication market, postal services, the airline industry and the railway market have been subject to pro-competitive policies (Larsson, 2003).

The pharmacy market in many European countries has traditionally been characterised by single firms that are working under tight government control (Anell, 2005). However, many countries are in the process of introducing pro-competitive policies in this industry as well. In Iceland and Norway, pro-competitive policies were introduced in 1996 and 2001 respectively (ibid.).

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<sup>1</sup> The term "reregulation" refers in this paper to pro-competitive policies introduced by the government to increase competition in a market which was formerly dominated by a monopoly.



In Sweden, the state owned company Apoteket AB has had the sole right to supply pharmaceuticals since 1970. Different factors have contributed to increased attention of pro-competitive policies and discussions regarding a reregulation of this market have been carried out for decades. A downturn in the Swedish economy during the 1980s gave rise to a desire to improve efficiency by increased competition. The membership in the European Union was another factor (Anell, 2004). However, in the end, the final decisions regarding reregulations are always made by politicians and the pro-competitive policies regarding the pharmacy market in Sweden were introduced after the Liberal Coalition won the election. The reregulation process market was generally carried out in four steps:

1. Nicotine substitutes are sold freely in other stores than pharmacies, March 2008
2. The medical market for hospitals opened up for competition, September 2008
3. New rules for operation of pharmaceuticals and opened possibility for other companies besides Apoteket AB to sell prescription medicine, July 2009
4. Convenient stores with permit are allowed to sell non prescription drugs to customers over the age of 18, November 2009. (Medical Products Agency)

With the reregulation of the pharmacy market the government hopes to achieve better availability of medicine, a wider product variety and improved service. Further, better efficient use of resources and stimulation of new technical and organizational solutions regarding pharmaceutical supply are believed to be triggered by competition. The competition might also, according to the government, enable price pressure on non-prescription drugs that will benefit consumers. Empirical studies have shown a positive relation between productivity growth and competition. (S2008/184/HS)

To promote freedom of competition the Swedish Competition Authority has pointed out the significance of selling parts of the monopoly Apoteket as to prevent it from obtaining strategic advantages over rivals (S2008/184/HS). In addition to this, 466 of 930 pharmacies, organized into limited clusters consisting of between 10 to 199 pharmacies, have been sold (AR 2009 3<sup>rd</sup> quarter). 150 pharmacies are reserved for small business owners to enable small market shares as well (OAB a).

As a move to ensure a fair market competition for all potential actors, and to actualize the desired objectives of the market reform, two new public companies were established to implement the market changes. June 2008 Apoteket Omstrukturering AB (OAB) was founded to supervise the processes to restructure

the pharmacy market (OAB b). The state owned OAB is the new holder of Apoteket AB and operates under the authority of the Swedish Ministry of Health and Social Affairs (OAB c). OAB will operate until the reregulation process ends and the conditions for equal competition is ensured for all players in the Swedish pharmacy market (OAB b).

Apotekens Service AB was established in July 2009 and its mission is to provide all market players the currently used IT system, and other IT infrastructure required to operate in the market. The main task is to provide the same standard national IT infrastructure to all pharmacies on the competitive market (Apoteksservice).

Further, the Swedish Competition Authority has decided that a national brand for all pharmacies should be designed. This to create equal competitive conditions and raise comfort for the consumers. Following the same arguments, the term “Apotek” (pharmacy) is also open for every pharmacy to use (S2008/184/HS).

## 1.2 Problem discussion

The question of reregulations is controversial and the political debate is not unified. One thing is sure however, when introducing pro-competitive policies, the former monopoly is no longer protected against competition and the company faces an entirely new situation where protecting market shares and finding new means to compete becomes central questions (Grant, 2008).

Why some companies succeed to adapt to the external environment and others fail, is many times a mystery. For organizations, the difficulty often lies in successfully changing internally due to new external demands. To survive, companies therefore often need to create new action plans and renew their strategy (Grant, 2008) and change, renewal and transformation could therefore be regarded as normal activities today (Coulson-Thomas, 2005).

As Apoteket AB is no longer protected from competition, the company needs to change or create new strategies to meet the new market requirements. However, during the transformation process of the market, Apoteket AB is restricted, through a so called “stand still agreement” by the government, to not undertake any kind of strategy that would give them competitive advantage over future rivals until other pharmacies are established. Apoteket AB will thereafter continue to remain state-owned but the company will not have any specific responsibility towards society after the reregulation period has ended. The critical issue for Apoteket AB is thus to find a way to become competitive while being cautious not to disappoint their customers who are used to the traditional pharmaceutical services and the common belief that the company has certain societal responsibilities.

The process of the pharmacy market reregulation in Sweden is ongoing and the duration of the process is yet unclear. Because of this, it is difficult to determine the exact consequences of this reform. However, it is interesting to study how the former monopoly Apoteket AB is affected by the external environmental changes and how the company can use its internal resources to efficiently meet competition while maintaining a balance between commercialized behaviour and social expectations.

The above background and discussion has resulted the following purpose.

### 1.3 Statement of purpose

The purpose of this thesis is to study how a state owned monopoly company, with historical responsibilities towards society, is affected by competition and how it uses its resources to maintain a strong position on the competitive market.

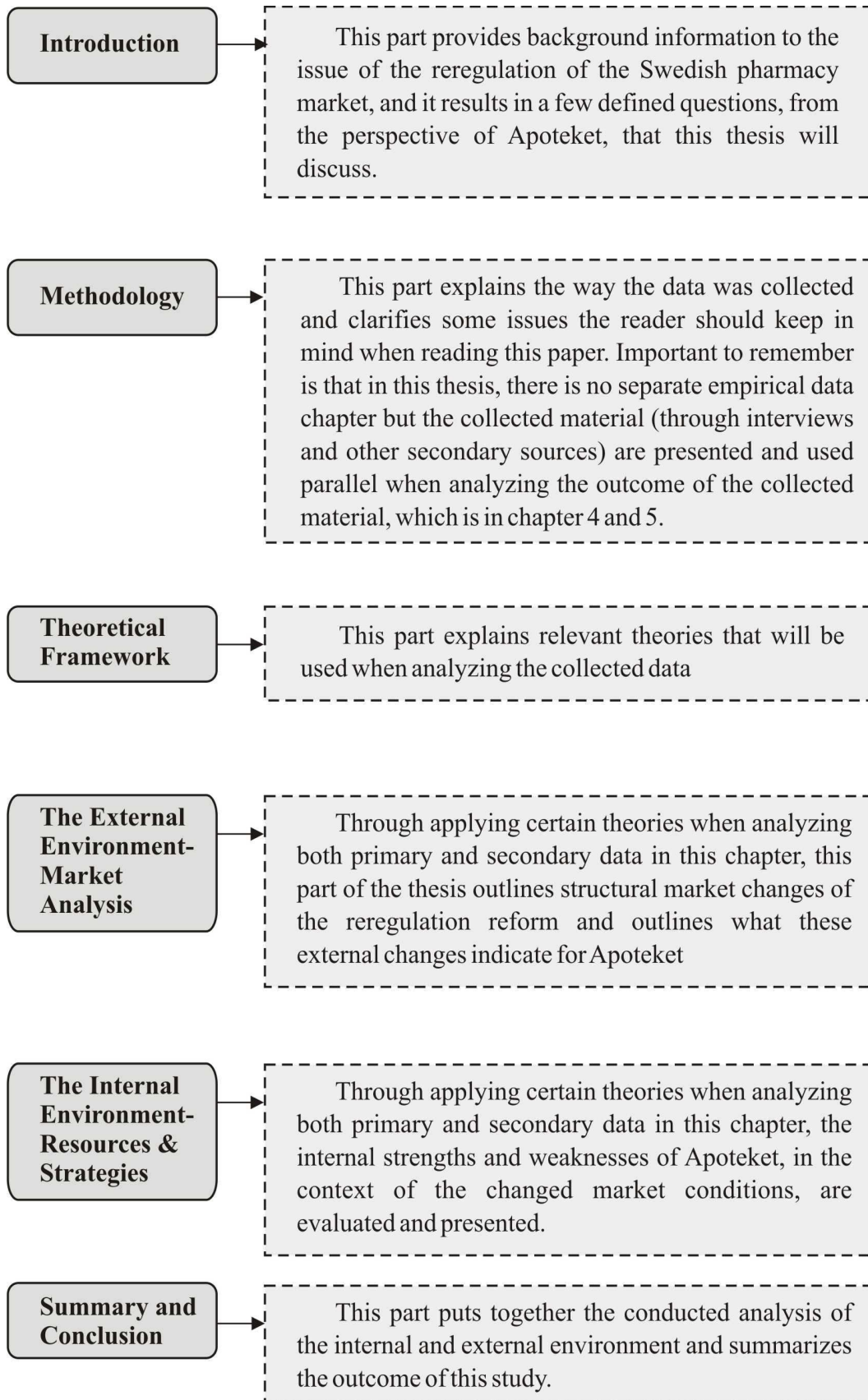
In order to answer this purpose, below questions are relevant for the study:

- How will the pro-competitive policies affect the structure of the pharmacy market in Sweden?
- How is the former monopoly, Apoteket AB, affected by the market changes?
- What opportunities and threats is Apoteket AB facing in the new competitive market?
- How has Apoteket AB tried to use its resources and capabilities to maintain a strong position in a competitive market?

### 1.4 Demarcations

As the reregulation process is complex and involves a number of actors and perspectives it has been necessary to make certain demarcations. This thesis is limited to only study the case of Apoteket AB. It will therefore not focus on other actors in the pharmaceutical value chain. The thesis highlights the perspectives of managers within Apoteket AB and excludes perspectives of employees, the government and the society. Another demarcation has been done to not examining hospital pharmacies; this study hence only covers pharmacies that sell directly to consumers. Apoteket use different strategies for different types of pharmacies, therefore we found it necessary to make a restriction.

## 1.5 Disposition



## 2 Methodology

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*This chapter is designed to show the reader our process of making choices regarding method and data collection with the intention to increase transparency and to ensure the creditability of the study. The chapter ends with demarcations of the study.*

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### 2.1 Choosing Approach and Method

The choice of research method should be based on the problem and purpose of the thesis (Holme & Solvang, 1997), which in our case is to understand how a former monopoly is affected by competition and how it uses its internal resources to maintain a strong position in the market. Our intention is to gain an overall picture of the situation of Apoteket and this thesis will therefore try to capture different perspectives within the company. An overall picture will hopefully enable an increased understanding for the social processes in this context. This structure usually demands, due to time- and resource limitations, a study of a single or a few instances (ibid.). This study is limited to only examining the case of Apoteket AB. When only studying one object it is easier to understand the phenomenon in-depth. Furthermore, case studies are usually used to gain understanding about the complexity of an organization (Lundahl & Skärvad, 2009).

The above description verifies and motivates that a qualitative method is being used. A qualitative method is more flexible and the setup makes it possible to make changes during the research if the authors find it necessary (Holme & Solvang, 1997; Bryman & Bell, 2005). As this study to some extent is based on interviews and it is never clear in advance what information we will gain from the respondents, being flexible is essential for this study.

The material used to analyse the external environment and the market structure is mainly based on secondary data such as Annual Reports and different publications. When describing and analyzing the internal conditions of Apoteket, primary data from interviews are added in order to present the current situation in the organization and to complement the information collected from secondary sources. As the pro-competitive policies and their implications are analyzed from

a management perspective, interviews have been carried out with managers at different levels in Apoteket and two former member of the top management team. The purpose of interviewing managers at different levels regarding the market reform is to nuance and enrich the study with different perspectives.

## 2.2 Data Collection

It is important that the collected data reflects different perspectives of the situation in order to give a complete and accurate picture of studied object (Patel & Davidsson, 2003). This has been done when collecting both secondary- and primary data.

### 2.2.1 Secondary data

Secondary data has been collected in order to increase the authors' understanding about the pharmacy industry, the reregulation process and the company Apoteket. Since the reregulation process is ongoing, the subject has frequently been mentioned in the newspaper. It has hence been interesting and useful to look at newspaper articles. Chapter 4 is mainly based on secondary data such as research on reregulation processes in other Nordic countries and information from the market players' homepages. Annual Reports from 2007-2009 have further mainly been used in order to describe Apoteket's changing strategies in Chapter 5. Investigations and reports from governmental authorities have also been used frequently throughout the thesis. We are aware of the importance of critically reviewing secondary data as this information is analyzed and interpreted by others and might be subjective (Lundahl & Skärvad, 2009).

### 2.2.2 Primary data

#### *Selection of interviewees*

To increase the gained information and to maximize the use of interviews, respondents with considerably knowledge about the studied phenomenon have been selected (Holme & Solvang, 1997). Another criteria for the respondents selected is that they are managers and have been working at Apoteket during the period when a reregulation has been discussed. Furthermore, as this thesis strives to give an overall picture of the situation, respondents in different positions with different perspectives were selected. Hence, taken these criteria into account we chose to talk to someone from top management (Brand director), one regional director and four local managers. Even though we have chosen an internal perspective we decided to also interview two former members of the top

management team of Apoteket. These two respondents' possess, through their earlier positions in the company, great knowledge about the organization and the reregulation process but do have a distance to the situation, which we find necessary. Access to the brand director and these two key persons has been very valuable for this study.

When it comes to the number of interviews, this is a consideration taken due to the information needed and of course also the possibility to get access to respondents.

### *Preparations and Establishment*

We started off by contacting the Brand director who is a member of the corporate group of Apoteket. She is working with strategic questions and is well aware of the reregulation process. After this, local managers were contacted. The customer phone service at Apoteket was not willing to give us contact information to local store managers therefore we personally visited, all stores in Lund and Malmö, that will remain state owned. This gave us a chance to introduce ourselves and to describe the purpose of the thesis. The expectation from the beginning was to book interviews with local managers but as many people were restrictive and wanted approval from their managers we decided to ask for e-mail addresses so that we could get back with further information. At this time we also contacted the Regional director of Öresund. As he was positive and accepted the interview proposal, we could further get back to the local managers with arbitrariness.

An interesting observation is that the local managers that we did not see in person before the interview, kindly denied with the argument that they did not have any information to share or due to shortage of time in the month of December. This could possibly show the importance of establishing contact through personal meetings.

By further contacting the two former top managers we gained necessary background information regarding the governmental implementation of the pro-competitive policies.

All respondent are referred to with their title instead of name as their position is what is important for the study.

### *Interview procedures*

The interviews were all carried out through personal meetings. They were conducted at the workplace of the respondents and in all interview situations we tried to establish an atmosphere in which the subject could feel safe enough to talk freely. This is according to Kvale (1996) essential in order to achieve a good interview. The main reason is however that it currently is a turbulent time for

Apoteket and the situation is therefore a sensitive subject to many. It is therefore important that the respondents feel comfortable.

Only the respondent and the interviewers<sup>2</sup> were present during the interviews. As the respondents are/or have been managers at different levels within the company and possess great knowledge within the area, both authors participated in the performed interviews. One could then be responsible for the interview and the other could concentrate on attendant questions (Lundahl & Skärvad, 2009).

The interviews had a semi-structured character with sequences of themes to be covered, as well as suggested preliminary questions. This gave possibility to make changes in the chosen themes and questions as well as the opportunity to follow up the answers given (Kvale, 1996). Another advantage is that a semi-structured interview opens up for a more free conversation where the respondent can elaborate within his or her area of expertise and provide important information that was not originally included in the questionnaire. The themes and questions were adjusted to fit the interviewee as different groups of respondents require different interview approaches<sup>3</sup>. (ibid.)

Semi-structured interviews are common and recommended when the aim is to collect soft data, for example people's thoughts and expectations (Lundahl & Skärvad, 2009). In this study, the respondents' perspectives and thoughts on the reregulation process and the strategic changes within the organisation is the main data collected.

To avoid misinterpretations or the risk of losing important information most interviews were recorded with a Dictaphone. In that way the interviewer can concentrate on the dynamic of the interview which could be captured in its entirety, without any interruption of the need to take notes (Kvale, 1996). A disadvantage is however that the presence of a tape recorder can affect the answers given by the respondent and there is a risk that some information will be left out (Patel & Davidson, 2003). This was experienced when interviewing the first local manager who sometimes hesitated to answer questions that was perceived as sensitive. We therefore decided to only take notes when interviewing other local managers.

All interviews were performed during the time period December 14<sup>th</sup> to December 22<sup>nd</sup> 2009. The duration of the interviews varied between 30 minutes and 2.5 hours.

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<sup>2</sup> Who are also the authors of this thesis

<sup>3</sup> Please see questionnaires in Appendix 2



Interviews were carried out with four out of ten local managers in Apoteket AB, located in Lund and Malmö. These cities were chosen due to the fact that both authors live in Lund. It is reasonable to question the possibility to generalize the answers given because of the low number of respondents in this category, however nothing implies that the result of the interviews would have been any different if the number of respondents would have been higher or if they would have been working in other cities similar in size. This because the company, on a national level, generally shares a common culture, structure and operational system.

## 2.3 Criticism of sources

The reliability of all sources used throughout the study have constantly been evaluated and questioned with the aim to increase the credibility. The material used in the theoretical framework is written by known researchers within the area of strategy and change management. All sources are published in recognized scientific journals within the areas.

Internet has contributed to making information from all over the world available for anyone. This has resulted in problems to determine what information is essential and not (Lundahl & Skärvad, 2009). Therefore this study is restricted to mainly using information published on governmental homepages, Annual Reports of Apoteket, newspaper articles and information published by competitors. All sources are not objective but as long as the authors are aware of this and question who wrote the document and in what purpose, this does not have to be a problem (Patel & Davidson, 2003).

There is always a risk that the respondents within Apoteket tried to give a better picture of the company than is actually the case; we did however not get that impression. The interviews with former members of the top management could also contribute to give more objective information about the company and complement/support the information gathered from managers within the organisation. All interviews were further held in Swedish but translated into English and there is always a risk for misinterpretations. In order to minimize this risk, both authors of the thesis have read the transliterations and double checked the translation.

Since the study focus on one single company, Apoteket, the findings from the case study is specific to this company. Converting the results of the study into general rules regarding reregulation processes therefore needs to be done with caution. The result can however in some aspects still be seen as guidance for state owned companies that are preparing to meet competition.

# 3 Theoretical Framework

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*The theories presented below clarify an organization's need for strategic changes to survive and prosper in the constantly changing environment. In order to adapt and/or create new profound strategies, both the internal conditions and the external environment has to be taken into account. Porter's Five Forces will be used to analyze the industry, while the internal conditions will be discussed by using theories of Change Management, the Resource Based View and VRIO. The internal and the external perspective are thereafter compiled in a TOWS-matrix to see what strategies that can be generated.*

---

## 3.1 Strategy

There are a number of definitions to describe what strategy is. This thesis is however using below general definition by Bruzelius and Skärvad:

*"Strategy is the art of using a company's resources and capabilities to achieve its goals."*

(2004:157)

Strategy in an organizational context involves all plans, policies and principles that guide and unify a number of specific actions to defined targets. It answers the question of where to compete- corporate strategy, and how to compete –business strategy. (Grant, 2005) Note that this case-study only deals with the second strategy level.

A company's strategy is portrayed by the company's vision, mission, business-model and their strategic plans in terms of performance goals, the approaches to achieving those goals and the resource allocation (ibid.).

There are many different perspectives on how strategy is developed and formulated. A company's strategy may be planned in advance, it may emerge over time, or it may have some elements of both. However, neither the planned nor the emergent approach appears to be universally effective, and each must be matched to an agreeable context before implementations success can be reasonably

expected (Slevin & Covin, 1997). Yet, common characteristics of a successful strategy can be drawn:

- \* The strategy formulation has to be simple, consistent and long-term;
- \* Strategy should be based on a profound understanding of the competitive environment
- \* It should appraise the companies' resources objectively.
- \* Essential for a successful strategy is that it should be implemented effectively through the organization. (Grant 2005:7-11)

Strategy is a tool to achieve sustainable competitive advantage and outperform rivals in a market. It is about doing things different from rivals and rests upon unique activities that are chosen through trade-offs. Strategy is also about combining all different activities so to achieve a sustainable and a non-imitative competitive advantage (Porter, 1996). The unique activities are chosen by positioning the firm in accordance to either a specific group of customer need, customer accessibility or by offering a wide range of un-differentiated products to a wide range of customers. Different positions require for example different equipments, employee behaviour, different skills and management systems (ibid.). Therefore, trade-off decisions among different activities are inevitable in order to be competitive in a market. (ibid.)

A well formed and easy communicated strategy directs the company towards achieving its goals and aligns different management behaviour within the business (Collins & Rugstad, 2008).

A general model that embraces the above thoughts on strategy is presented below and it also describes the different factors that strategy is affected by. Strategy is here presented as a bridge between the company and its environment and is determined by both internal resources and different external environmental forces.



Figure 1. The basic framework: Strategy as a link between the firm and its environment  
(Grant 2005:12)

The above figure illustrates that strategy analysis requires both a good understanding of the company's internal capabilities and resources and of the industry structure. Further, one should not disregard the importance of different factors that influence the company's external environment, such as the social and demographic structure, the technology or governmental policies. These factors

have implication on the matter of why and how a certain strategy is developed in a company (Grant, 2005).

## 3.2 Industry Analysis

As earlier shown in Figure 1, a company's strategies and pattern of actions to compete and to remain competitive on the market are grounded on its internal resources and capabilities and its external market conditions.

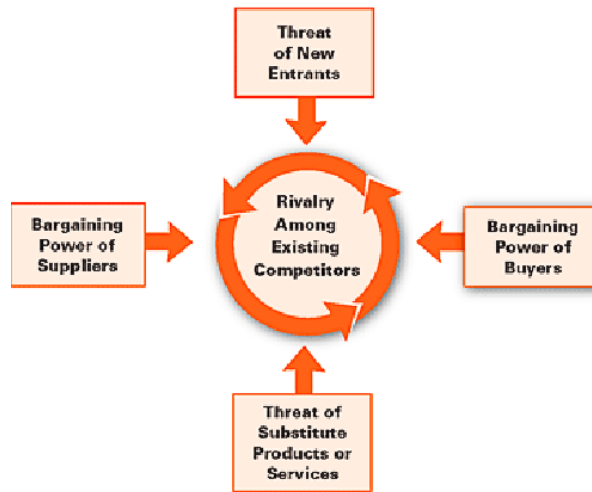
Competitive industry analysis is important for a company to compile when working with strategic business decisions since competitors partly determine the organization's success. A competitive analysis provides managers with the understanding needed to craft a strategy that fits the company's external situation. (Thompson & Gamble, 2008) It should cover information on the main market competitors, their objectives, their strengths and weaknesses and how the company can predict their future moves. The benefits of such analysis are many. It enables industry benchmarking and helps the firm to identify opportunities and threats given the actions of rivals. (Hoque, 2003) The competitor analysis approach assumes that companies with high emphasis on competitor analysis will perform better than the company with no such coverage in their strategic choices (ibid).

The underlying theory of how industry structure derives competitive behaviour and determines industry profitability is provided by industrial organization (IO) economics. The two reference points are the theory of monopoly and the theory of perfect competition which form end points of the spectrum of industry structures. The monopolist can appropriate in profit the full amount of value it creates. At the other extreme, perfect competition exists where there are many firms supplying an identical product with no restriction on entry or exist, hence the rate of profits falls to a level that just covers the firms cost of capital. In the real world, industries fall between these two extremes. Most manufacturing industries and many service industries tend to be oligopolies: they are dominated by a small number of major companies (Grant, 2008).

With an understanding of the factors affecting the market environment the company can better find its key success factors needed to survive and prosper in an industry which requires that the firm offers what customers desire. Key success factors are the means to competing. An industry analysis can be outlined with Porter Five Forces Framework, which will be explained in the next chapter.

### 3.2.1 Five Forces Framework

There are a number of competitive forces that shape strategy. Porter's model defines them as:



*The Five Forces That Shape Industry Competition; M.Porter 2006:2*

Figure 2. Porter's Five Forces

1. Threat of entry- New entrants to an industry increase competition by the introduction of new, or similar, products and services. Factors that prevent the threat of new entrance are for example: economic of scale, capital requirements, product differentiation, access to distribution channel, cost disadvantage independent of market scale and governmental policy.
2. Threats of substitute products- The availability of substitute goods affect the profit margins and sales volumes of a firm. They limit the potential on an industry by placing a ceiling on the prices firms can charge.
3. Bargaining power of suppliers- A supplier group can make use of bargaining power and capture more of the value by charging higher prices, limiting quality or services, or shifting costs to industry participants. The suppliers have high bargaining power if: there are a few concentrated companies, if the supplier group products are differentiated, if its customers face high switching costs and if the supplier group possess a creditable threat of forward integration.
4. Bargaining power of buyers- Powerful customers (the opposite side of powerful suppliers) can compete with the industry by forcing down prices, demanding better quality or more service (thereby driving up costs) and therefore capture more value for themselves by putting industry participants off against each other- all at the expense of industry profitability.

- Rivalry among existing competitors- competition among company rivals is a significant force that shapes the strategy of the firm. The intensity of rivalry is dependent on different dimensions upon which the existing rivals compete. These dimensions are: price, advertising, brand name, product introduction, distribution channels, and after-sales services. (Porter, 2006)

### 3.3 TOWS

SWOT is a commonly used model when organizations identify the threats (T) and opportunities (O) in the external environment and organization's internal factors such as weaknesses (W) and strengths (S). A modified version of this model, the TOWS matrix, matches the known sets of variables in a table in such a way as to facilitate the generation of strategies (Procter, 2000). TOWS puts variables in relation to each other instead of only identifying them, which is why we see an advantage in using TOWS instead of SWOT.

As a conceptual framework, TOWS combines the external and internal factors to the enterprise, and help develop new ideas, strategies and tactics based on these variables for the effective and efficient achievement of the organizations objectives and mission (Weihrich, 1982).

#### TOWS Strategic Alternatives Matrix

	<b>External Opportunities (O):</b> - -	<b>External Threats (T):</b> - -
<b>Internal Strengths (S):</b> - -	<b>SO</b> <i>"Maxi-Maxi"-Strategy</i>  Strategies that <b>use strengths</b> to <b>maximize opportunities.</b>	<b>ST</b> <i>"Maxi-Mini"-Strategy</i>  Strategies that <b>use strengths</b> to <b>minimize threats.</b>
<b>Internal Weaknesses (W):</b> - -	<b>WO</b> <i>"Mini-Maxi" Strategy</i>  Strategies that <b>minimize weaknesses</b> by <b>taking advantage of opportunities.</b>	<b>WT</b> <i>"Mini-Mini"-Strategy</i>  Strategies that <b>minimize weaknesses</b> and <b>avoid threats.</b>

Figure 3. A simplified version of the TOWS model (developed by Weichrich, 1982:10).

Through this model, it is possible to systematically scan the internal and external environments, structuring information inputs to be used in the analysis and identifying key relationships between environmental variables to then produce competitive strategies (Procter, 2000). A TOWS analysis enables a better understanding of the strategic choices by which the organization can establish how it can tackle issues such as how to take advantage of the strengths, how to circumvent its weaknesses, and how to best seize the opportunities and manage threats (Wehrich, 1982).

### 3.3.1 The External Environment: Threats and Opportunities

Many diverse factors need to be considered when analyzing the external environment, including problems of inflation, energy, technological change and government actions. Wehrich (1982) divides external factors into the following categories:

- *Economic factors*; such as the level of employment, the availability of credit and the level of prices.
- *Social and Political factors*; Social developments influence the business strategy and managers are often confronted by a mass of federal, state and local laws and regulations.
- *Products and Technology*; Products need to be adjusted to technological changes. It must be remembered that in almost all situations success is only temporary and product innovation is needed to ensure a competitive advantage for the firm. Of course, innovation is also costly and risky and the failure rate of new products is high; yet, a policy of no innovation at all may cause the demise of a company.
- *Markets and competition*; number of rivals, industry structure, type of competition etcetera.
- *Other factors*; Different factors that might be particularly important to a specific firm. The availability of raw materials, suppliers and the transportation system are a few examples.

### 3.3.2 The Internal Environment: Weaknesses and Strengths

Strategy is as earlier mentioned about matching a firm's internal resources to the opportunities and threats that arise in the external environment. The reason why the internal resources are important to discuss is because the external environment is more unstable, whereas internal capabilities has and is viewed as a securer base for creating strategies (Grant, 2008). The greater change in a firm's external environment, the more likely it is that internal resources and capabilities will have to work as the base for a long-term strategy (ibid). However, it is important to mention that the ability of a firm's resources to achieve competitive advantage

cannot be determined without taking the broader context into account (Dess et al, 2008).

The primary question of strategy has earlier been limited to industry selection and positioning. The resource based view (RBV), on the other hand, emphasizes the uniqueness of each company and suggests that the key to profitability is through utilizing differences instead of imitating others. Establishing competitive advantage through the development of resources and capabilities, rather than trying to avoid competition, has therefore become the primary goal for strategy today (Grant, 2008). Fundamental to the internal resource view is that a firm must seek a detailed understanding of its resources and capabilities. Such understanding would provide a base for choosing strategies that take advantage of an organization's key strengths. It would also help developing the firm's resources and capabilities. Resources are all assets owned by the firm and "capability" is what the firm can do (ibid.).

Companies possess three types of resources; tangible, intangible and organizational capabilities. Tangible resources are in general easy to account, they include the physical and financial assets that an organization use to create value for the customer. Physical resources could be equipment, machinery or the company's plant. Financial resources are a firm's cash, accounts receivables etc. Intangible resources are on the other hand much more difficult to identify and as a result of that also harder to imitate. These features are often embedded in unique processes and routines. Typical examples of intangible resources are human resources such as experiences of employees, trust and effectiveness of team work. Another example is innovation resources with technical expertise and ideas. Reputation resources are a third example and include brand name, reputation with customers' reliability and product quality. Also, a company's culture could be counted as an intangible resource. Organizational resources are capabilities that firms use to transform inputs to outputs. (Dess et al, 2008) In other words, an organizational capability is what the company does in order to reach a desired result (Grant, 2008). Examples of organizational resources are customer service, excellent product developing and great processes (Dess et al, 2008).

RBV is a very helpful framework for gaining knowledge as to why some companies are more profitable than others. RBV is further useful in developing strategies for individual businesses by revealing how core competencies in the firm can help exploit new products or market opportunities. (Dess et al, 2008)

According to Barney, it is vital to keep in mind that a firm's strength and capabilities do not automatically lead to competitive advantage in the marketplace (Dess et al, 2008). In addition, competitive advantage is achieved if the firm resources fulfil the following four criterion of being: *Valuable*, *Rare*, *Imperfectly Imitable* and *Organization*. These criterions are together called the VRIO framework (De Wit & Meyer, 2004).



Resources need to be valuable in the sense that they enable strategies that improve the company efficiency and effectiveness. At the same time the resource needs to be rare. If a valuable resource is possessed by many companies, they all have the opportunity to exploit the resource in the same way, which will give no single firm the competitive advantage. It is furthermore hard to judge how rare a resource must be in order to generate competitive advantage. If a firm possesses a resource that is both valuable and rare, this might lead to a first mover advantage. However, sustainable competitive advantage can only be achieved if firms that do not possess the resource cannot imitate them (De Wit & Meyer, 2004). The fourth and last criteria is as earlier mentioned *organization* and address that in order for any of the resources to provide a sustained competitive advantage, the company must be organized to best exploit its resources. To coordinate various functions with one another is difficult and not something that many companies are good at. However, companies that succeed in doing so have at least temporary advantages over their competitors. Finally, aspects within a firm that are valuable, rare and not easy to imitate can be resources used to achieve sustained competitive advantage, but only if the company is organized to utilize its resources. (Barney & Wright, 1998) All above mentioned factors are therefore important to keep in mind when evaluating company resources.

## 3.4 Internal Company Analysis

### 3.4.1 Environmental changes and their implications for a company

An organization is a living, open system dependent on its environment for survival (Goodstein & Burke, 1991). In a world of new technologies, transforming economies, reforming governments and dynamic competition, the actual question is how and in what direction organizational changes *must* occur (De Wit & Meyer, 2004). Fact is that organizations tend to change primarily because of external pressure rather than an internal desire or need to change (Goodstein & Burke, 1991). Managers must deal with new government regulations, new products, growth, increased competition, technological developments, and a changing workforce (Kotter & Schlesinger, 2008). Change, renewal and transformation should therefore be regarded as normal activities (Coulson-Thomas, 2005).

In approaching an organizational change situation, managers explicitly or implicitly make strategic choices regarding the speed of the change effort, the amount of preplanning and the relative emphasis they will give to different approaches. Successful change efforts seem to be those where these choices both are internally consistent and fit some key situational variables (Kotter & Schlesinger, 2008). There are a wide variety of approaches to change available and there are equally a wide range of situations in which these can be deployed.

One very familiar example of an environmental factor that obliges organizations to change is when a new competitor snares a significant portion of a firm's market share. The skilled organization will be alert to early-warning signs of such external changes so that it can move promptly to make internal changes designed to keep it viable in the changing external world (Goodstein & Burke, 1991). However, strategy changes that emanate from changes in the industry structure can give possibility for companies to exploit new strategic positions more easily (Porter, 1996).

### 3.4.2 Managing change

To successfully manage and grasp the opportunities that a new strategy enables, it is suggested that before the action plan is conducted, there should be a valid understanding among all members of why the change is necessary and why the company needs to confront it (Chrusciel & Field, 2006). Further, to understand the issue of strategic renewal, it is important to look at what is actually being renewed and what is being changed in the strategy. Nevertheless, the size and the speed of the organizational changes are important factors to consider for a successful strategy renewal (De Wit & Meyer, 2004).

A fundamental large-scale change in the organization's strategy and culture would require a total transformation, refocus, and reorientation of the strategic focus (Goodstein & Burke, 1991). These fundamental changes are directed towards creating a new direction of the business and find a new fit between the basic set-up of the firm and the characteristics of the environment (De Wit & Meyer, 2004). On the other side, organizational changes can also have the nature of fine-tuning actions, to fix problems, make adjustments, and modify procedures and other similar modest changes that improve the organization's performance without fundamentally changing the organization (Goodstein & Burke, 1991).

The speed of strategy change or strategy renewal often lie somewhere in between two extreme points, depending on the situation. At one end, change strategy calls for a very rapid implementation, a clear plan of action, and little involvement of others. At the other extreme, the speed of change is characterized with a much slower change process, a less clear plan, and high involvement of many people other than the change initiators. This second type of strategy is also considered to significantly reduce resistance (Kotter & Schlesinger, 2008).

There are two main organizational areas that are subject to strategy renewal: Business system and Organizational system. The first deals with the issue of “how a firm makes money” in terms of the specific configuration of resources, value added activities and product/service offerings they apply to create value for the customers. The second area of change embraces the issue of how the firm is organized in terms of organizational structure, the processes applied to integrate and coordinate individual members work, and the organizational culture that make

up the ground of the individuals' beliefs, values and norms in the company. (De Wit & Meyer, 2004)

For managers the challenge is to implement strategic changes on time, to keep the firm in step with the shifting opportunities and threats in the environment (De Wit & Meyer, 2004). In so doing, ongoing communication and the need to work with all members' awareness of the organization's ability to deal with changes is very important for a successful change transformation (Chrusciel & Field, 2006).

### *Internal barriers to strategy changes*

Organizational change efforts are often held back due to different forms of human resistance. Change indicates disturbance of the status quo and may be considered as a threat by the employees because it changes the existing ways of doing things. As a result of this, needed reorganizations are often late and generate huge losses in effectiveness costs (Kotter & Schlesinger, 2008).

The most common source of resistance to changes is the fear of losing something of value and a belief that the change is of no sense for the organization. Also, resistance is shown when there is a misunderstanding about the change and its implications among the people, and when there is a low tolerance for change (Kotter & Schlesinger, 2008).

Successful change strategies require a common understanding and agreement among all colleagues about what they are trying to achieve so to enable and ease commitment to the objectives of the organization. It is essential to ensure that people are aware of the needed changes and are enabled to act. Therefore, managers must identify the internal barriers the changed strategy may cause and find good ways of managing the situation to benefit from the external change. Seen from another angle, the absence of problems could indicate a lack of ambition (Coulson-Thomas, 2005). Therefore, to maintain a successful transformation it is important to work with all employees to create winning attitudes in the whole organization and to ensure a balance between change strategy and capability. Implementing strategic changes is challenging and not always the easiest for a manager, but the absence of such a plan is destructive even for the brightest strategy. (ibid.)

An efficient strategy implementation is a vital ingredient for the success of a strategy, since it recognized that without an effective implementation system, the strategy itself will not be sufficient to generate the planned outcome. Strategy implementation involves different processes through which members of the organisation understand, accept, and commit to the strategy. Successful change management is dependent on an efficient communication system and information flow that enables the creation of a common understanding and participation of all members, and a system that helps resolve potential conflicts effectively during the process. (Kerr & Jackofsky, 1989). To enhance good performance, all activities should fit with the organizations strategic plans because every activity affects one another in a direct or indirect way (Porter, 1996).

### 3.4.3 Critical aspects of change management

There are a set of common organizational factors that frequently show up in the context of organizational change. These common forces are important to consider when working with strategy execution since they affect the business performance in various ways.

- **Organizational structure-** or ways in which labour is divided into tasks in which hierarchy is the oldest form and common even for today's organisations (Grant, 2005). Hierarchy is apparent in large and complex organizations because it enables good coordination and control of units. However, critics claim that hierarchy minimizes the human characteristics, such as creativity, emotions and their interactions (ibid.). Adding, removing or shifting personnel in various operational tasks, in relation to the desired outcomes, is the most traditional approach to lead the organization towards the desired state (Bourgeois & Broadwin, 1984). When undertaking changes, it is crucial to prepare all different divisions and levels to the changing environment and to motivate and influence employee behaviour (Miller, 1997).
- **Culture-** Is a variable that drives strategy and influence the internal organisation (Dobni, 2003). It rests on mutual commitments between the individual and the organization and embraces the acceptable values and norms created jointly by the employees (Kerr & Jackofsky, 1989). Due to this, in every effort of change a manager should take into account the cultural and personal transformation triggered and required by the changed strategies (Westlay, 1990). The effects of a changed strategy are best implemented when supported by a changed culture (Dobni, 2003). For a successful implementation of changes, the mind-set of managers and frontline employees are critical for the strategy's breakthrough (Fine et al, 2008).
- **Communication and Participation-** To create a sense of ownership of a strategy throughout the organization would simplify the process of change management and ease its implementation. Therefore, a communication and information flow between managers must exist (Kerr & Jackofsky, 1989) at all times to everyone, regardless of which areas and departments that are involved in the change process (Nobel, 1999). A well formed communication system allows employees to participate in crafting strategies or help solve organizational issues. Participation may result in better understanding of the changes and hence even a higher degree of acceptance of the new strategies among managers at different levels (Kerr & Jackofsky, 1989). This might help resolve differences in perspectives and help create a consensus within the organisation. Lower-level managers are better able to manage their staff and to exercise the strategy if they know where the business is heading and why. If the top

management is the only one who has the whole picture, all major decisions must be made at the top which might lead to an inadequate leadership at a local level (Beer & Eisenstat, 2000). With greater understanding and commitment, a better match between strategy requirements and the managers is created (Kerr & Jackofsky, 1989).

### 3.5 Theory summary

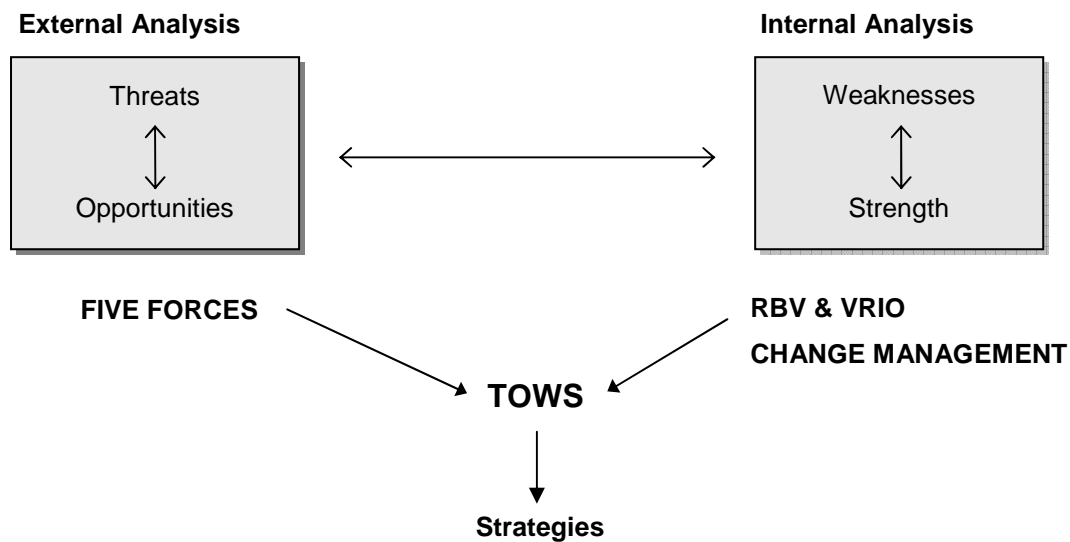


Figure 4 A summary of the theories used

(Created by the authors)

Above Figure 4 illustrates how the theories described earlier are applied in this study and how they are connected to each other. An external analysis will be conducted in Chapter 4 by using Five Forces framework to identify Apoteket's possible opportunities and threats during and after the reregulation process. To take advantage from the opportunities and to minimize threats, it is important to examine the internal resources of Apoteket. This will be done by applying the Resource Based View perspective and the VRIO framework in Chapter 5. Change management theories will also be applied in this chapter to capture the process of adapting internally to a new situation. The analysis in chapter 4 and 5 follow the structure outlined in the theory chapter with an exception for 5.3 (internal resources) which is built on the theoretical parts in chapter 3.3.2 (TOWS – the internal environment). In Chapter 6, the threats, opportunities, weaknesses and strengths will then be consolidated and summarised in TOWS which can then be used to see how Apoteket exploit its resources to create or change strategies in order to succeed on a competitive market. The theories are chosen because of their relevance for this study, and because they are frequently used in research within Business Administration.

# 4 The External Environment - Industry Analysis

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*The changed market structure will be analyzed with Porters Five Forces and consequences of the pro-competitive policies will be discussed. Relevant experiences from reregulations on pharmacy markets in other Nordic countries will also be taken in consideration.*

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## 4.1 Threat of new Entrants

The Swedish pharmacy market has until now been a monopoly and it has therefore not been any possibilities for other actors to enter the market. The government's pro-competitive policies indicate a high threat of entry since the former monopoly Apoteket AB has been reduced in size and other actors now are encouraged to enter the pharmacy market and have equal access to the same distribution channels. Product differentiation as a barrier to entry is only possible for non-prescription drugs, however, the products related to the core business in the pharmacies are more or less standardized (Anell, 2005). Vertical integrations between pharmacy groups and wholesales could present another barrier to entry since it makes it more difficult to set up independent pharmacies. This integration would make it harder for other actors to get the same benefits from wholesalers and vice versa (Anell, 2005). Such attempt by the former management team of Apoteket AB and the wholesaler ICA was hampered by the government in September 2009. The former board of directors was then forced to resign as these actions were regarded as unfair by OAB and the Ministry of Health in comparison to the other, then not yet established, market competitors (svt). This governmental intervention can be seen as a necessary action to prevent vertical integration and thereby obtain low entry barriers. Further, price competition (which will be discussed in part 4.6) remains regulated by the authorities, which gives rise to both positive and negative effects for the issue of entry barriers. However, detailed governmental interventions and regulations such as regulating the opening hours or type services are not noticeable so far.

The capital requirements on the other side are high both for the companies buying existing pharmacies and for the new companies that wish to establish on the market from scratch. Location, product assortment and service are all costly. However, by law, the pharmacies in Sweden are only required to have at least one pharmacist and part from permission from the Swedish Medical Products Agency (LMV) nothing else is required (OAB d). With all this in mind, barriers to entry could therefore be considered low.

According to Grant, most manufacturing and service industries tend to become oligopolies that are dominated by a few, but major, market players. One consequence of the pro-competitive policies in both Iceland and Norway was a concentration of the pharmacy market (Anell, 2005). However, concentrated markets can be competitive as long as the barriers to entry are low and a fear of potential competitors exists. In other words, not only the current level of market concentration is important for the competition but also the potential number of competitors that may enter the market (ibid.). A majority of the interviewed respondents believe that there will be a concentration of the pharmacy market in Sweden as well. This would imply that it will be hard to pre-determine competitive behaviour because individual actors easier influence the market (Anell, 2005). To attract new competitors and to enhance the positive effects of a competitive market, it is crucial that the barriers to entry are kept low. As been discussed above, the Swedish government seems to be aware of this fact and has taken actions<sup>4</sup> to minimize the barriers to entry by regulating the price and hampering Apoteket to develop competitive advantages until other pharmacies are established.

## 4.2 Threat of Substitutes, Products or Services

The pharmacy market could be divided in two separate markets. One includes prescription free medicine and merchandises and the other contains prescription medicine. This is important to keep in mind when discussing the result of competition when it comes to substitutes.

Generally 80% of Apoteket's pharmaceutical sales constitutes of prescription medicines which are issued by prescribing physicians (Anell, 2005), prescription medicines are therefore not voluntarily chosen by the customers. Substitutes for this type of products are hence limited. There are for example customers that choose to use naturopathic drugs or use other types of treatments instead of

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<sup>4</sup> For example the access to common infrastructure, the stand still agreement and that all market players are allowed to use the term "apoteket".

purchasing medicine at Apoteket. However, we consider the amount of alternative goods as relatively low because prescription medicines are scientifically developed and tested and hence more consumed.

The other part of the pharmacy market, prescription free medicine and merchandise goods (like beauty and skin care products), are more likely to be threatened by substitute goods triggered by competition. New market players with different profiles will most likely increase the range of substitutes for non prescription and merchandise goods. This is believed to occur since, currently, the profit margins are relatively higher for these products (50 % of Apoteket's profit constitutes of these products) and they might even increase further (Interview Brand director, Läkartidningen).

An important factor that partly determines the level of threat from substitute goods is customers' tendency to switch among products that are similar in function. In the case of medicine, this tendency could be considered low mainly because of the specific nature of the product. The customer often does not possess the knowledge of what the medicine consists of and therefore other things, for example the brand reputation influences the purchasing behaviour. This indicates that the threat of substitutes for prescription free medicine and other merchandises is important to keep in mind; however, this threat should not be overrated.

### 4.3 Bargaining Power of Suppliers

The price setting of pharmaceuticals influences the structure and hence the profitability of the pharmacy industry, therefore it is important to understand the price conditions on the pharmacy market in Sweden. The price setting also determines the investment possibilities, the incentives of new actors to enter the market and the opportunity to achieve the goals of the pre-competitive policies with increased availability and improved service. The products in pharmacies can be divided into non-prescription drugs, prescription medicine (including both original and generics medicine<sup>5</sup>) and merchandises.

During the period of the monopoly market, purchasing prices of medicine to the pharmacies and the prices to the end consumers were set by TLV<sup>6</sup> for all prescription based drugs.

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<sup>5</sup> Generics: The patent of the medicine has expired and the medicine can be produced by others than the original producer.

<sup>6</sup> Swedish Medical Product Agency (TLV)



The Old Price Model		
Prescription Medicine	<u>AIP</u>	<u>AUP</u>
	Fixed	Fixed

AIP: The purchasing price for pharmacies  
AUP: The end price to the consumers

Figure 5 (Model based on information from an interview with a former manager at Apoteket)

However, other product groups such as non-prescription drugs and merchandises that are also found in pharmacies were not price regulated during that period and the possibility for price pressure will continue after the market reform. What has changed as a result of the reregulation decision of the pharmacy market is that the new price model that will be applied during the reregulation phase enables competition for certain prescription medicine.

The New Price Model		
Prescription Medicine	<u>AIP</u>	<u>AUP</u>
Rx/Patent	Max	Fixed
Rx/Parallel	Max	Max
Rx/Generics	Fixed	Fixed

AIP: The purchasing price for pharmacies  
AUP: The end price to the consumers

Figure 6 (Model based on information from an interview with a former manager at Apoteket)<sup>7</sup>

Prescriptive medicine will remain regulated by TLV during the reregulation process, which implies two things: First, pharmacies do not have any possibilities to influence neither their own purchasing price nor the final price to customers, and second, the pharmacy suppliers are unable to exercise any level of bargaining power towards pharmacies. The only difference between the old and the new price model on prescription medicine is that the new treats different types of medicine differently, whereas the old treated all prescription medicine as one group.

The pro-competitive policies will most likely give rise to un-proportionally increased number of pharmacies compared to medicine producers, and in un-regulated markets this would normally result in increased supplier bargain power. However, with the tight price-regulation on prescription drugs, the possibility to negotiate continues to be limited. As long as pharmacies purchasing prices for

<sup>7</sup> Parallel medicines are imported from other EU- countries and have to be approved (Läkemedelsverket).

medicine are predefined by TLV, the relation between suppliers and pharmacies remain controlled for the product category which makes out approximately 80% of the total sales of Apoteket- prescription medicine.

How prices for prescription medicine will be regulated in the future is still not clear (TLV Remiss, 2009). However, some argue that a looser price regulation will lead to better market efficiency (Jönsson, 2009).

## 4.4 Bargaining Power of Buyers

A larger number of pharmacies will in the future compete for the same customers. This inevitably gives buyers more bargaining power because they now have more possibilities to choose and decide where to make their purchases. Porter argues that powerful customers can capture more value by forcing down prices and demanding better quality and service. Experiences from the pro-competitive policies applied in the pharmacy market in Norway and Iceland have resulted in competition based mainly on improved service and increased availability (Anell, 2005).

The motives behind increased market competition have been to ensure best resource allocation and to generate market efficiency which in the end should benefit the consumer. Consumer awareness regarding medicine consumption and the availability to information further increases the bargaining power of buyers who are today more equipped to require better products or services. However, despite customers' increased bargaining power, Fölster (1993) argues that their capability to review information regarding prices and quality is often overrated. This phenomenon might again be linked to the very specific nature of the product, and customers' tendency to switch, also among prescription free medicine, could therefore be considered as low.

## 4.5 Rivalry among Competitors<sup>8</sup>

According to Porter (2006), rivalry is a significant force that shape strategy. He further states that the intensity of competition depends on factors such as: price, advertising, product introduction, brand name, distribution channels, and after-sales services. In order to see how the pharmacy market might be affected by pro-

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<sup>8</sup> Parts of the presented data about competitors are based on information gained from the interviews.

competitive policies and how the market structure will change, it is important to look at what means to compete companies will apply. To compete with adjusting the price is according to Porter one of the most important and most powerful tools. The possibility to compete with price on prescription medicine is however as earlier mentioned very restricted. Price competition is therefore mainly possible for prescription free drugs and merchandises.

When looking at the means of competition in Norway and Iceland, pharmacies have shown to compete mainly on the basis of improved availability of services. One example of extended service is the increased opening hours. Furthermore, new pharmacies have in many cases been located close to existing pharmacies with a high sales volume. Attractive locations have therefore become an important source of competition. (Anell, 2005) The competitive behaviour in these Nordic countries are in general likely to be seen in Sweden as well, and most market players will consider location and improved service as important means to compete.

As pharmacies will not be able to expand the total sales of prescription drugs (as these are prescribed by doctors), the competition will evolve in attracting as many customers as possible from others (Anell, 2005). Pharmacies will therefore most likely try to compete with non-prescription drugs and own-label products.

The largest market players in the pharmacy market, apart from Apoteket will be two venture capital companies, 'Apoteket Hjärtat' and 'Medstop Holding AB' that have acquired 108 and 62 pharmacies respectively, 'Kronans Droghandel Retail AB' with initially acquired 171 pharmacies and 'Vårdapoteket Norden AB' with 24 pharmacies located mainly in hospitals. The two first-mentioned actors are mainly focused on building modern and effective pharmacies in terms of good service and product offerings. 'Hjärtat' will focus on circulation diseases and 'Medstop' is a developer of own labelled products in the area of skin and body care, vitamins and prescription free drugs. Kronans Droghandel is mainly focused on establishing, reconstructing and opening new pharmacies in supermarkets and commodity stores with new signs and product variety. 'Vårdapoteket Norden' has been very clear with pointing out that they will focus on inpatient care. New pharmacies are expected to be established by Europe's largest cosmetic company 'Boots' that will provide similar products but in the pharmacy and Åhlens which will be the first to receive permission from the Medical Products Agency to run pharmacies.<sup>9</sup>

With this, a market is created with the four acquirers, Apoteket AB, the pharmacy-group and new established actors. The CEO of OAB, Eva-Britt

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<sup>9</sup> Please see Appendix 1 for more detailed information about the competitors.

Gustafsson, states that this gives a good market structure with plural actors, varying focus and geographic coverage (Hallandsposten, 2009).

Note however that competition from retail and convenience stores is not included in the analysis of competition among rivalries. The reason is that there are much dissimilarity among pharmacies and retail stores, such as differences in their core business, which determines the means on competition.

## 4.6 Implications for Apoteket

The above described structural changes in the Swedish pharmacy market indicate fundamental changes in Apoteket's market conditions. They destabilize the company's secure selling of pharmaceuticals and force it to find skilful tactics to compete and remain a competitive market player in the long run. The increased competition, in terms of the acquired pharmacies and expected pharmacy establishments, implies therefore many threats for Apoteket who lacks competition experience due to the fact that it has been a monopoly for 40 years. However, thanks to the fact that Apoteket's market share will be around 35 percent after the reregulation process, the threats are of smaller scale at least in the beginning because of the company size.

On the other side, Porter (1996) argues that changes in industry structure trigger strategic actions that initiate the exploitation of new strategic positions, hence, Apoteket is therefore now also introduced to new market opportunities. Since Apoteket will not have company specific responsibilities towards society after the reregulation process, the company will be able to make their own strategic decisions. In other words, the company does not have to serve everyone but can choose what customer segments to focus on and what products to offer. Moreover, the customers will receive more bargaining power with the market change and will also be able to demand better products and services which in turn could trigger Apoteket to perform better.

Considering Apoteket's size, it is important for the company to find a balance between the opportunities and threats in the new market environment. The company will be restricted to act freely if its market share exceeds 35 percent. There might even be a risk that it will be difficult for Apoteket to implement new strategies as competitors could complain, and argue that Apoteket is misusing its dominant position in order to gain competitive advantages.

The current price model regarding prescription medicine can be regarded as both positive and negative. It is positive in the sense that it creates a stable competition ground where the small pharmacies operate on equal conditions since the

possibility to negotiate with suppliers is limited. On the other side, the price regulation may indicate inefficiency and fewer opportunities for profitability for pharmacies which in turn can negatively influence the availability and desired service as a lead of higher costs to run a pharmacy. It might also increase the entrance barriers and make it less attractive for potential competitors to enter the market.

Given the previous presented industry changes, relevant threats and opportunities for Apoteket are extracted and categorized according to Weihrich (1982) categorisation of external factors:

	<b>Threats</b>	<b>Opportunities</b>
<b>Economic</b>	- Reduced market share and turnover	- Possibilities to influence prices on non prescription drugs and merchandises - International expansion
<b>Social and Political</b>	- Customers might still expect Apoteket to take responsibility towards society? - “Stand Still Agreement”	- No additional responsibility towards society, the company is “free” to do what it likes.
<b>Products &amp; Technology</b>	- Substitutes (non prescription drugs)	- Possibilities to extend the product variety - Improved processes
<b>Market &amp; Competition</b>	- Employee loss - International competition - Customers increased power - Competitors know how to compete for customers and locations	- Opportunity to niche
<b>Other factors</b>	-	-

Figure 7. A summary of Apoteket’s Threats & Opportunities

The possibilities to accurately evaluate the dimensions and the means of competition among the numerous actors is somewhat limited due to the fact that the market players have not yet begun to operate in the pharmacy market. Despite the basic fact that is available today about the competitors, uncertainty of how the competition will evolve still remains. Considering differences in some aspects of competitive behaviour in Nordic countries, it is difficult to forecast the exact shape of competitive behaviour in the Swedish pharmacy market (Anell, 2005).

Due to this, it is vital that Apoteket works on strengthening its internal resources and capabilities to prepare the company to meet different market behaviours. The next chapter will discuss Apoteket's internal resources to give a complete analysis about the opportunities and threats that the pro-competitive policies carry.

# 5 The Internal Environment- Resources & Strategies

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*This chapter provides a discussion regarding Apoteket's internal organisation and how the process of changing internally has evolved due to the pro-competitive policies. Central topics are change management, cultural changes and internal resources.*

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## 5.1 Managing change

The operations within Apoteket are controlled with a scorecard that highlights four perspectives: Finance, Customers, Processes and Employees (AR, 2008). The strategies and objectives in each focus areas clearly show how Apoteket will work in the future:

AREA	OBJECTIVES 2012	STRATEGIES
<b>Finance</b>	<ul style="list-style-type: none"> <li>* Profitability on the same level as the best operators in this line of business.</li> <li>* To preserve and further develop a strong brand</li> </ul>	<ul style="list-style-type: none"> <li>→ Develop new offers to private consumers and to the nursing and healthcare market</li> <li>→ Strengthen Apoteket as part of the health industry</li> <li>→ Increase international presence</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>* To be leading in the areas of pharmaceuticals and health products</li> </ul>	<ul style="list-style-type: none"> <li>→ Develop innovative solutions and services with a focus on health</li> <li>→ Increase market knowledge for Apoteket Farmaci</li> <li>→ Focus on the customer treatment</li> <li>→ Introduce new forms of operation, such as franchise pharmacies.</li> <li>→ Multichannel strategy- different sales channels will cooperate with- and reinforce each other</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>* Efficient processes using modern IT systems</li> </ul>	<ul style="list-style-type: none"> <li>→ Refine the operations. Clarify the efforts and focus on the offers and services aimed at the nursing and healthcare market</li> <li>→ Introduce vertical integration in order to ensure own control over product sourcing</li> <li>→ To develop the leading logistics solutions in the industry</li> <li>→ To manage important sustainability issues</li> </ul>

<b>Employees</b>	<p>To be the attractive alternative for those who wish to develop in the areas of pharmacy, leadership, professionalism and entrepreneurship</p> <p>→ Strengthen management and employees in the development towards increased competition</p> <p>→ Strengthen Apoteket's brand- directed at the employee market</p>
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Figure 8

Apoteket AB Annual Report 2008:11

The core values that the company will work with are as follows:

- Creditable- always provide high standard and reliable products to the customer
- Considerate- meet the needs of the individual in accordance to their living standard and take responsibility for the consequences of the operations and also contribute to a good environment and society which promotes health.
- Innovative- interesting company with new ideas
- Proactive- contribute to the development of the health industry (AR, 2008:11)

When adapting to the changed market conditions, the top-management within Apoteket has realized that internal changes are inevitable. The CEO expresses the need to develop new business opportunities and states that central restructuring efforts are being made in order to achieve good profitability (AR, 2008). Year 2008 was devoted to intensive restructuring work in order to confront the new operators (ibid).

During the transformation period, Apoteket continues to have responsibilities towards society because they are obliged to ensure a safe supply of pharmaceuticals throughout the country during this period. Thereafter, Apoteket will not have any specific responsibility towards society but is able to compete on equal conditions as everyone else. (Interview, Regional director) Apoteket will still be state owned and is thus dependent on agreements with the government. However, whatever these agreements include, there is a strong belief that Apoteket will become more commercialized. (Interview, former top manager)

Furthermore, not a single Apotek will close during the transformation period, and Apoteket will continue to supply medicine to rural areas until the market stabilizes, that is until the acquirers take over the clusters and new pharmacies are established. After that, localization will be a question of profitability. Apoteket is also in charge to provide the infrastructure with IT-solutions and other operational systems to all market players. Until the pro-competitive policies are fully deployed, Apoteket is due to the stand still agreement not allowed to promote their products, implement new projects or plans that could give the company advantages relative the competitors. 1<sup>st</sup> of July 2009, the pro-competitive policies entered into force and the market was opened for other players (Apoteksservice).



However, there are still today no noticeable changes for the customer since there are yet no new established pharmacies and the acquirers have recently taken over the clusters. The process is therefore extended and the exact date when the process is considered complete is not clearly defined. This would imply that until the new actors have actually entered the market and the process is considered accomplished, Apoteket is locked in and unable to roll out their strategic plans.

The pro-competitive policies and the change in industry structure influence Apoteket's operations and drastically change its conditions in the pharmacy market. According to Goodstein & Burke (1991), the external pressure, rather than the internal desire, is often the primary reason to why companies change. A reregulation of the pharmacy market has, as earlier mentioned, been discussed for decades. All discussions and debates regarding the market reregulation could be regarded as signals to the former monopoly. This has enabled Apoteket to prepare for these market changes in an early stage which, according to Goodstein & Burke (1991), gives better possibilities to execute internal changes that fits with the new external conditions.

Apoteket has, as earlier mentioned, made internal changes in the organisation and will continue to make a lot of changes in the nearest future. As the company is still operating under the stand-still agreement many things are today only plans but Apoteket's strategies for the future are clearly expressed in the Annual Reports and by the Brand director. One of the major concerns is that the company will no longer be able to do everything but will have to prioritize, and according to Porter (1996), well thought prioritization is a prerequisite for a good strategy.

*We have until now been able to do everything, we have had a lot of people and a lot of money. To prioritise and to have courage to choose what not to do will be the greatest challenge of all.* (Brand Director)

Apoteket do not plan to be a cheap alternative in the future but not a high class alternative either. The company will offer good products for a good price to many people. People must be able to afford at least parts of the product range. The vision is "a life in health" and the company will widen the product range to strengthen this vision. The management team has decided to focus on two customer segments, families with children and adults from 45 years. The last customer segment is named "an active life" and refers to a period in life when people get more time for themselves. (Interview, Brand director) The management team has also indicated that Apoteket is considering international expansion which is also mentioned in the Annual Report from 2008.

## 5.2 Critical aspects of change management

### 5.2.1 Structure

Even if the company is restricted to implement certain strategies in the market, much internal effort has been made to prepare the organization to meet new challenges and opportunities that follow the reregulation. Changes in strategies implies, according to De Wit & Meyer (2004), changes in either how the company will internally organize in terms of structure and/or what activities it will reinforce in order to be profitable and deliver value to customers.

When it comes to the structure, Apoteket is built on a hierarchy structure where the government is the owner and has exclusive rights on the management. Following the hierarchy line, the board set the framework for the company and the CEO commands the business within these directives. All pharmacists are employed by this single body (Apoteket, 2009). According to the Regional director, Apoteket has by tradition been bureaucratic and top-managed. During the period of pharmacy monopoly, the customer did not have a choice but to make its purchases at Apoteket and did not hold any power. It was therefore also internally understood that the employees working closest to the customer had the least power within the organisation. The company is now working on changing the hierarchic system and the structure completely. The pyramid will be turned up side down and this is a major challenge for the managers but also for the employees (Interview, Regional director):

*The employees working in the stores are fostered into an old and hierarchic system where orders are given from the top. All of a sudden they are required to think themselves but they don't usually say "wow finally" but rather "it is you [top management, authors' remark] that should make the decisions.*

Following the structural changes, from early 2009 it was decided to have one local manager working in each store. This change was made to maintain the business during the reregulation process and to have local managers as a link between the top management and the employees (Interviews, local managers).

Since Apoteket has been top managed for almost 40 years, changing the structure is a rather difficult change that requires a whole new way of thinking. In addition, this new mind-set requires a large-scale internal transformation of values and should result in a reorientation of the strategic focus (De Wit & Meyer, 2004).

## 5.2.2 Changing the culture

As a result of the competition, the management today recognizes the importance of having a more commercialized operation than what has earlier been the case. The need of changing the culture is clearly expressed by the Regional director:

*The old culture must be torn and from the remaining ruins, the new Apoteket AB will rise. If this is not done, it will be hard to survive.*

Apoteket has been working with changing the internal culture since 2006-2007. All 11 000 employees were informed about the future and how the top management was thinking in 2007. During 2008-2009, different activities with managers and employees were carried out to inform and give guidance of how to think in terms of the vision, "a life in health". (Interview, Brand director) Apoteket has earlier been associated with diseases and the culture has during 40 years been based on pharmaceutical knowledge. As a lead to become more commercialized, the Regional director points out that for the last two or three years Apoteket has been much focused on figures and selling results. This has according to him enhanced the results and Apoteket is selling a lot more commercial goods today than a couple of years ago. The customer will hold great power in the new pharmacy market with the choices they are offered. The Regional director further points out that this increases the importance to meet the requests and needs of the customer. During the last five years the employees have therefore been requested to think in terms of customer request and service. These changes in values all aim to prepare the company towards becoming more market oriented. Furthermore, the Brand director expresses the urge of leaving the general responsibility to society but to continue working with Corporate Social Responsibility. The new strategic focus is thus, to judge from both the Annual Report and the interviews, to become more commercialized and market oriented.

Different tools has been used in order to change the culture of the company and one attempt is that all the employees that work in stores now share the same dress-code from fall 2009 (Interview, Local manager). Discussions with local managers have also shown that extended opening hours will be introduced in some stores. The implementation of these types of changes has been carried out through different approaches. The Regional director explains:

*Changes have been carried out through work on changing the attitudes of the employees by education and physical adjustments. The largest underlying factor is the leadership and that managers' constantly "nag" about commercialization, the power of consumers and that one is a seller and not only a pharmacist.*

Overall, the Brand manager does however not think that changing the culture has been especially hard:

*There is a positive feeling among most employees and many of them think that it is great that something is happening. This is why I do not think that the change has been particularly hard to implement.*

The Regional director argues that employees have become more business oriented but states that the journey to transform the culture has far from ended. Many of the local managers understand the need to sell more complementary products and merchandises; however, they still think that the pharmaceutical knowledge is more important (Interviews, local managers). These differences in opinions among managers at different levels would imply that the old culture is not yet totally replaced with a more commercialized focus.

Cultural changes of this nature could be very time consuming and changing the company values is a major challenge for Apoteket (Interview, Brand director). The early and slowly implemented preparations could though be beneficial in succeeding. Both internal education programs and the constant talk about customer request, service and customer power could be considered as factors that contribute to changing the company culture in Apoteket. Also, simple tangible changes such as rearranging the products in the shelves and sharing a common dress code to create a sense of belonging could strengthen and shape the “new” culture.

Vital for the implementation of successful change strategies is a solid and good communication system, since according to Coulson-Thomas (2005) a common understanding among colleagues also enables commitment from the employees to achieve the objectives of the organization.

### 5.2.3 Communication

The communication during the reregulation period is perceived to be good by some respondents and less efficient by others. All local managers express that they are satisfied with the information and the updates provided by the top management; however there is also a desire to know more of what is happening within the organisation. One manager states:

*We receive as much information as possible. I wish we could receive more but it is not possible. What the top management is working on cannot leak due to the stand-still agreement.*

Another local manager agrees and continues with saying:

*I think that the information flow has worked well. This is a very special situation and I fully understand and respect that it is not possible for the top management to communicate everything.*

However, the lack of communication has resulted in a situation where a lot of employees have felt uncertainty during the reregulation process. This simply because the employees did not know if their store would change owner or if they would continue to work as before. (Interview, Local manager)

The Brand director argues that they have not been able to communicate the new business concept or the future plans in details during 2009 because of the stand-still agreement. This results in a situation where everyone is unaware of the planned actions after the reregulation process. As soon as the stand-still agreement ends, Apoteket will begin the implementation of the new strategies and projects very rapidly. To get everyone to understand, accept and carry out these plans on such a short time period is perceived as a great challenge by the Brand director.

The Regional director is satisfied with the communication from top-management during the transformation period. However, he wishes that there would be a greater understanding and consideration for opinions from employees. In general, the local managers shared the same thoughts regarding this issue and clarifies that the opportunities to share opinions has been available via the intranet. Despite this, the level of participation is perceived as low by local managers.

An efficient communication system which enables employees to understand why a change is necessary could contribute to minimize resistance and help resolve potential internal conflicts during the process (Kerr & Jackofsky, 1989). This since an efficient information flow could help the employees in Apoteket to create a common understanding and jointly rebuild a culture.

According to Coulson- Thomas (2005), successful strategy changes require a common understanding of what to achieve. When it comes to Apoteket, all the interviewed managers argued that changing the organization is a must rather than a desire and the general impression received is that all the managers understand why Apoteket has to change now. The local managers understand that the organization will change to become more commercialized but have not received enough information to know exactly what strategies will be implemented after the reregulation process. When the stand-still agreement reaches its end, Apoteket will immediately start to roll out the new business concepts and plans. These strategies will in the end be realized by the employees at a local level. The Brand director stated that it is a major challenge to get everyone onboard in implementing the strategies quickly, and this because the local managers and the employees in lower levels are not yet aware of the detailed actions the top-management has planned. According to Kotter & Schlesinger (2008), the speed of change affects the resistance level among employees where a very rapid

implementation of strategic plans could lead to higher resistance than if the process was slow. A rapid change often indicates a clear plan of action and little involvement of others than the change initiators. If the change process is slow, as it has been during the preparations, there is often a less clear plan with higher involvement of people other than the change initiators. The future strategies planned by the top management seems to be unclear to the store managers who have not received clear thoughts about what strategies will be implemented in the future. Another reason for the vague plans could be that the company has focused on changing the mindset of the employees and the company values. These changes allow a certain degree of subjective interpretation and are therefore time consuming. However, during these slow and early begun changes in Apoteket, our respondents at lower managerial levels express a very little level of involvement in the change process despite the possibilities to comment on the intranet. This fact is somewhat controversial to Kotter and Schlesinger's arguments since the level of participation is low despite the slow change process.

Apoteket will, as mentioned above, begin to implement all new strategies very quickly. The Brand director clearly described that the company is well aware of what strategies to execute and how they will to be implemented when the stand-still agreement ends. This implicates that Apoteket has a clear action plan which might be an advantage; however, the high speed of implementation might increase resistance among the employees, since they have to absorb everything on such a short period of time. It is therefore very important for managers to identify potential sources of resistance and find ways to handle these situations if they appear. The work on values and norms may lay a solid ground for continued acceptance and low resistance also in future strategy implementations. However, a more rapid change might increase the resistance among the employees and it would be dangerous to think that all barriers to implement new strategies are tackled.

### 5.3 Internal resources

The main resources that were brought up during the interviews as important means to compete for Apoteket are categorised into the brand name of the company, the employees and their knowledge, their products and services. These topics cover information and arguments about how the resources are conceived by Apoteket and how they will be used in the future. According to Barney & Wright (1998) competitive advantage could be achieved if the firm resources fulfil the following four criterion of being: *Valuable*, *Rare*, *Imperfectly Imitable* and *Organization*. The resources discussed by the respondents will therefore be evaluated by this classification.

### *Brand name*

The brand name of Apoteket was discussed by almost all respondents as an important pillar to build competitive advantage, especially in the early stage of competition. According to the respondents, the brand “Apoteket” includes attributes such as confidence, loyalty, safeness, and credibility. Currently, the brand name is top rated in Sweden among many other well known companies, and is placed after Google, IKEA and Orrefors (Superbrands). However, in what way the brand will be affected by rivalry is not entirely clear.

Even though the respondents consider the brand name to be a strong resource, they have expressed clear concerns regarding the risk of overrating the resource. Relying solely on this factor as a mean to compete can be dangerous according to the respondents who gave following explanations to why:

*Since many of the competitors will acquire our stores and keep our staff, they will naturally have access to much of what our brand contains.*

(Brand director)

*Everyone talks about how strong the brand name of Apoteket is. However, I believe that the brand name is more associated with the pharmacy industry than with the company.*

(Regional Director)

*It is dangerous to think that the customers would chose us only due to our strong brand name, they will of course be curious what other companies has to offer as well.*

(Regional Director)

Apoteket is a well-known and top rated brand in Sweden. It is *valuable* for the company as customers associate it with creditability and knowledge. This might enable the company to realize strategies and give an advantage over rivals when promoting new products because of the support from customers. The brand name Apoteket could be considered *rare* in the sense that the company has been the only actor in the pharmacy market for several years. In addition, the brand has become a part of the Swedish society and tradition, which makes it unique.

In the strategies stated in the Annual Report (Figure 8) there is an emphasis on image building, and the Brand director also clarified that Apoteket will continue to associate its operations and products to the fulfilment of the vision “a life in health”. This new vision is overall consistent with the company core values

*Creditable* and *Considerate*. *Creditable* since all products<sup>10</sup> and services need to be reliable to keep the good reputation and *Considerate* because the company wants to contribute to a society which promotes health (see the core values below Figure 8).

Because the brand name consists of intangible resources such as culture, history and knowledge, it is difficult for competitors to imitate this resource. However, it has also been argued by both the Brand director and the Regional manager that the brand name of Apoteket is associated with the whole Swedish pharmacy market and not to the single company Apoteket AB. This would imply that the brand name actually is *not imperfectly imitable*. Furthermore, market players that acquire already existing pharmacies earlier owned by Apoteket do not only take over the stores, but also the employees. At the same time, new established pharmacies will also hire new personnel and employees at Apoteket might chose to work for competitors instead. This scenario would indicate that the rivals will share some of the values included in the brand name of Apoteket.

The brand is associated with a high level of expertise and pharmaceutical knowledge and these *organizational* resources have as earlier mentioned pervaded the organization. However, the question is how the brand name will be affected with the changing direction towards commercialization.

### *Employees*

The pharmaceutical competence and the skilful employees are not only recognized as powerful competitive advantages by the respondents within Apoteket but also highlighted by the two former members of the management team. One of them stated that the personnel is competent, good at what they do and loyal to the customers. According to him, the employees at a local level might even be those who have corrected many of the mistakes made during the implementation of the pro-competitive policies. Furthermore, the employees at pharmacies in Sweden are considered unique since, unlike many other countries, they are authorised pharmacists and therefore have a personal responsibility when serving medicines (Interview, former top manager).

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<sup>10</sup> See page 46, under subtitle "products" for further discussions regarding products



However, despite the general belief in employees, some concerns regarding this resource were brought up:

*We have great documentation and very knowledgeable personnel to attract customers [...] I am convinced that the employees will be one of Apoteket's internal strengths. However, the competitors will most likely also have good staff, but we all differ as sellers, and in the end it is all about selling.*

(Regional Director)

The Regional director further explains that it would be wrong to settle down with the relief of having competent employees, and that the company must change in a direction set by the customers. He further stressed that it would most likely not be affordable to continue to have the same number of pharmacists in the future since customers are unlikely to pay for the extra pharmaceutical information (Interview, Regional director).

The average age at Apoteket today is rather high and the Regional director is afraid that this might be a disadvantage for the company in the competitive market. The majority of the older employees within the company today are educated pharmacists, devoted to the scientific part of medicines and healthcare. The new competitive market will however also require good selling techniques and increased service (Interview, Regional director). Furthermore, employees with a higher average age are more expensive in terms of salaries. Nevertheless, the managers within Apoteket are afraid that this factor hinders a successful implementation of new strategies. One local manager even confirms that she sees employees with a higher average age as a problem and hope that it will be easier to implement changes when some employees have retired (Interview, Local manager). The employees can therefore also be considered a weakness within Apoteket. A further concern is that it is not possible to replace old employees with new staff because of the principle "first in last out" regulated by the Swedish Employment Protection Act (1982:80 22§ part 3). Experienced pharmacists are also more expensive since their salaries are higher which could be a disadvantage for Apoteket. Moreover, the young personnel are according to the majority of the respondents expected to be the ones who of curiosity and other reasons are willing to work in other pharmacies. However, it is important to point out that the competitors acquiring Apoteket's stores will have the same employees and maybe the same problems.

As seen in Figure 8, employees are one of the highlighted perspectives in the Annual Report 2008 where the objective is to attract those who wish to develop in the areas of pharmacy, leadership, professionalism and entrepreneurship. One strategy that will be used to fulfil these objectives is to strengthen management and employees in the development towards increased competition. Another aim is to become an attractive employer. All respondents pointed out that the employees, with the knowledge they possess, are one of the most important and valuable resources for the company. The value of the local employees might even increase

with the pro-competitive policies since they are directly connected to the customers who gain increased power in the new market structure.

Employees as a resource could not be considered to be rare since there are many qualified pharmacists working at Apoteket today that will be available for all market players. Furthermore, with the pro-competitive policies it will only be necessary to have one certified pharmacist working during opening hours in order to receive permission to operate (OAB d). Since it is commonly believed that the pharmacy market will become more commercialized, pharmacies will most likely search for other qualities than pharmaceutical expertise when recruiting new people. It will many times not be necessary for competitors to imitate the employees of Apoteket since they as earlier mentioned will have access to this important resource.

It may appear controversial that the employees are considered as an important resource and that the strong brand name to some extent is associated with the employee knowledge, as they at the same time are seen as an obstacle when implementing changes.

### *Products*

The Brand director states that competitors most likely will try to imitate Apoteket's resources and do whatever they can to position themselves close to the company when it comes to the business concept. The Regional director believes that it will at least take one year until the customers can notice any differences between stores and that the first visible changes are different signs and dress codes. Talking about differences compared to competitors, the Brand director states:

*“The main differences between us and our competitors will be the product variety”*

The Brand director confirms that Apoteket will offer more products in the future but she further emphasises the importance of keeping good quality and credibility. This should be done by connecting every product to excellent knowledge. (Interview, Brand director)

Products and campaigns have been launched to reach the new vision of “a life in health” so to stop associating pharmacies with only diseases, but to health. One local manager highlighted that they have made some changes in the store such as increasing the number of shelves in order to organize the products better. She further points out that their local strategy is to widen the product range:

*We will become better at selling and recommending complementary products to customers, but of course with the customers' best in mind. We also put more effort in Apoteket's own label products and will also work more with beauty care products in the future.* (Local Manager)

Following this, another local manager pointed out that the company is offering good products, decent prices and well documented products. The Brand director however points out that currently Apoteket has included some products in their product assortment that could be questioned from a scientific perspective. Examples of such products are vitamins, water and hair accessories. (Interview, Brand director)

The Brand director declares that Apoteket in the future will choose between two directions when it comes to products. They could either focus on the health sector and cooperate with nurses and health institutes or focus more on beauty care products. Compound trading towards merchandises is however believed to be very risky according to one of the former top managers who think that Apoteket should focus on their core activity, i.e. to offer prescription medicine. He even states that companies that do not focus enough on the core activity will most likely not last on the pharmacy market. He further notes that there are no pharmacists included in the group executive board of Apoteket today and draws the conclusion that the core activity is not enough prioritized by the management team (Interview, former top manager).

Apoteket will in the future, as mentioned, differentiate by either focusing more on beauty-care products or to cooperate with the healthcare. The connections with the health sector are unique because Apoteket has knowledge of the system and has established contacts already, and therefore has good insights in this area. It is for these reasons that the former top manger argues that Apoteket should focus on the core activity of the business and focus on the health care sector.

One of Apoteket's core values mentioned in the Annual Report 2008 is that the provided products should be reliable and have a high standard. Equally important is that the company should be innovative and come up with new ideas, products and processes of improvement. At the same time, according to the Annual Report, the company will provide products that yield high profitability. The Brand director further explains that Apoteket will offer products at affordable prices so to attract the majority of people and products will be developed with good knowledge and quality that live up to the good reputation of the brand. Important to keep in mind is that Apoteket should never prioritize profitability before quality so to not jeopardize the reputation connected to the brand. Apoteket has, as earlier mentioned, begun to offer products such as water and different vitamins whose credibility, seen from a scientific perspective, could be questioned.

In general, two perspectives have been shown when it comes to products. The first perspective emphasise the importance of being innovative and to widening the product range to attract customers. The other perspective highlights the importance of focusing on the core value and would suggest that Apoteket only offer credible products that are associated with the reliable brand name. It is important to consider both perspectives and to prioritize credible products before

high profitability margins. Products, as tangible resource for a company, is usually a resource that is sensitive to competition, however, if the products succeed in capturing these values and perspectives they are then also more likely to be *valuable* and *rare*. Furthermore, if Apoteket scientifically tests all own labelled products, their products are surely harder for competitors to *imitate*. For this reason, products that do not necessarily require any scientifically testing, like hair-ribbons, are not something that would contribute to building the reliable brand name and could therefore be avoided. Important to highlight in this case is that prescription free medicine and merchandises are subject to imitation.

Regardless of what niche Apoteket chooses, important is that the products always are supported by science so to differentiate the company from commodity store and to avoid the risk of loosing credibility.

#### *Service*

As a result of the pro-competitive policies, Apoteket will also work on improving the service towards customer. The Brand director explains further:

*I think that this [the pro-competitive policies, authors remark] will result in better loyalty offers connected to certain pharmacies, but also better service in terms of availability and improved customer treatment*  
(Brand Director)

One example of increased service, given by a local manager, is that her store now is sending a text message to the customer's cell-phone when the prescription medicine is available to pick up. Another store has removed closing during lunch time and other stores are planning to extend the opening hours. Further actions to improve availability, carried out in one stores, is to join information meetings in the church (Interview, Local manager).

Service in terms of improved customer treatment, increased availability including better location and better opening hours, are usual means to attract customers, as have been the case in other Nordic countries when their pharmacy markets were reregulated (Anell, 2005). Service will be important for Apoteket because product differentiation of prescription medicine is low and this particular product category constitutes 80% of their total pharmaceutical sales (Anell, 2005). Since physicians assign prescription medicine, it is not possible for Apoteket to increase the sales to one customer. It is however possible for the company to attract customers from rivals. Service is further a direct linkage between the company and the customer and therefore affects the way customers perceive the company. It is therefore vital for Apoteket to offer extended customer values with good services.

Service, as an intangible resource, has great possibilities to be valuable, rare and imperfectly imitable for Apoteket. Service is used to create customer value and to achieve long term relationships that would benefit the company in the long run. The wide range of possible services that Apoteket can offer enables the company to differentiate from rivals and in that way become more attractive. The fact that

service is dependent on knowledge and customer treatment, it has great potential to be company unique and could therefore be harder to imitate. Apoteket has to consider good service as a part of every activity in the organization for this to be possible.

It is noticed that the local stores already has begun to improve service and to find new ways to satisfy the customers. To send a text message to the customer when the prescription is ready, to attend information meetings or to adjust opening hours in accordance to the district health centres are all minor, but important, attempts to increase service and to deliver customer value. Since service is mostly executed by the employees, they are also most likely to find solutions to every day problems. It is therefore important for the management in Apoteket to encourage the employees to communicate their opinions and suggestions to higher levels in the organization and to the other stores. In that way stores can learn from each other and jointly create a good service culture that would enhance their possibility to differ from rivals. Service might then create sustainable competitive advantage. This would contribute to the realization of Apoteket's stated desire to develop innovative solutions and services with a focus on health and is also in line with their strategy to focus on customer treatment.

## 6 Summary & Conclusion

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*The main findings of the study are summarized through the TOWS matrix which briefly presents the outcome of the analysis and further highlights potential beneficial strategies and possible pitfalls Apoteket could consider when planning approaches to efficiently meet competition.*

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Apoteket will have a first mover advantage since the company is already established and does not have the same need of capital requirements to invest in stores, equipment etcetera. The competent personnel and their insights to the health sector are unique for Apoteket since the company has good knowledge of the system and established contacts. Additional advantages of being a monopoly company for a long time is the strong, historical image Apoteket has created in Sweden and the accumulated knowledge the employees have about the infrastructure of the operating systems in the market. In addition to above, people's tendency to switch among medicine suppliers is low due to the nature of the product, and because their capability to review information regarding price and quality is considered low. In general, the Swedish population has furthermore high confidence in products supplied by Apoteket. Therefore, Apoteket has an initial strong competitive advantage over rivals. Further, Apoteket has good possibilities to survive the changed market structure because it will be one of the largest pharmacies and the low entry barriers give Apoteket the opportunity to expand. Apoteket has own label products and the company's refocus on figures and selling result has resulted in increased sales of commercial goods.

However, the traditional culture and structure within Apoteket do not support the competitive environment and the company lacks competitive experience. It is therefore necessary to adjust its internal operations to the external environment so to exploit the new opportunities and minimize the threats competition implies. Early preparations on changing the company towards commercialization has shown to give results, considering the enhanced selling of commercial goods and the changed attitudes of higher managers. However, some of the local managers still prioritize the pharmaceutical knowledge as more important than the competence to sell more complementary goods to customers. A concern in the change process of Apotekets culture and structure is the high average age of the current employees since they might be more reluctant to change. The general

belief is however that it has been fairly easy to change the mind-set and the culture within Apoteket as a result of preparing for competition.

When the stand still agreement expires, Apoteket will introduce and implement new strategies quickly which will affect the employees. Important is that Apoteket does not take for granted that the process of implementing new changes will be as easy as it has been. If these plans have a strong commercialized focus, resistance from local employees might arise. The employees might feel that pharmaceutical competence will be undervalued in relation to the required commercialized competences.

Apoteket's means of competition to achieve sustainable competitive advantage are argued to be improved service and product variety. Possibilities to compete on price are limited since prices on prescription medicine will continue to be defined by TLV. Since physicians issue the prescriptions, it is not possible for Apoteket to influence the sales of this product category. The company can however attract customers to purchase the medicine in their stores. The possibilities to sell non prescription drugs and merchandises then also increase. Price competition will therefore mainly be focused on the last mentioned categories.

To attract customers and to build long term relationships, various types of services that add customer value can be developed. Personalized service, such as sending sms to the customer when it is time to pick up the medicine or attending information meetings, are very tactical ways to deliver customer value. The local stores, because of their close relation to the customer, may have good suggestions of how to increase service. It is therefore very important to have a good communication system that enables an increased participation of the local managers in decision making, and encourages them to find new ways to increase efficiency and engage in problem solving. Benchmarking between stores within Apoteket is another way of developing best practise.

Further analysis show that it is risky to heavily rely on and overestimate the brand as a competitive resource. This because rivals have access to much of what the brand name Apoteket covers, such as the IT infrastructure and the knowledge the employees possess. With this in mind, Apoteket's means to compete will most likely be service improvements and product assortment.

Since the possibility to compete on price is limited and the brand reputation might be associated to the pharmacy industry and not one single company, the product assortment and the loyalty programs Apoteket will offer are crucial for their future performance. Because of the stand-still agreement, the projects and plans of Apoteket are not realized yet and therefore cannot precisely be evaluated. However, regardless if the company decides to focus on the health care sector or on the consumer sector, it is vital for Apoteket to carefully choose the right products that are in line with customers' expectations and products that are covered by the core values of the company. One of Apoteket's largest advantages

is the credibility of their products. Therefore, Apoteket should not widen its product range by including products that might be questionable from a scientific point of view so to not jeopardize their reputation.

With regard to both the industry analysis and the analysis of internal resources; threats, opportunities, weaknesses and strength can be outlined in a TOWS-matrix (see page 53). These factors are presented from Apoteket's perspective. The model serves as a summary of the evaluated internal and external variables triggered by the market reform. Further reasons for applying this framework are to understand and perhaps enrich the current considered strategies by the top management team of Apoteket presented in their Annual Report.



	<p><b>External Opportunities (O)</b></p> <ol style="list-style-type: none"> <li>1. No societal responsibility, freedom to niche and to choose customers</li> <li>2. Possibilities to influence prices of certain products</li> <li>3. International expansion (AR 2008)</li> </ol>	<p><b>External Threats (T)</b></p> <ol style="list-style-type: none"> <li>1. Reduced market share and turnover</li> <li>2. Strong competitors (competition on employees and locations is expected to be high)</li> <li>3. Threat of substitutes for prescription free drugs and merchandises</li> <li>4. Choosing the wrong path might result in decreased creditability</li> </ol>
<p><b>Internal Strengths (S)</b></p> <ol style="list-style-type: none"> <li>1. Knowledge about the business infrastructure</li> <li>2. Historical insights about the Swedish pharmacy market</li> <li>3. Owns the whole customer base today</li> <li>4. Will be one of the largest market players</li> <li>5. Corporate name associated with good reputation and credibility</li> </ol>	<p><b>SO ("Maxi-Maxi"-Strategy)</b></p> <ul style="list-style-type: none"> <li>* Use the reputation to negotiate (O 1, 2,3 ; S 2, 5)</li> <li>* Use the knowledge about the infrastructure and the Swedish society to better find a matching niche with the companies resources and capabilities (S1,2 ;O 1)</li> <li>* Due to the brand reputation and company size, Apoteket has the possibility of being price flexible on prescription free drugs and merchandises (S 4, 5; O 2)</li> </ul>	<p><b>ST ("Maxi-Mini"-Strategy)</b></p> <ul style="list-style-type: none"> <li>* Introduce new products and improve service (S 1,2,3,5 ; T 1,2,3)</li> <li>*Be careful to not overestimate the brand (S5; T4)</li> <li>* Launch credible products that are in line with the brand reputation (S2, 3, 5; T 2, 3, 4)</li> </ul>
<p><b>Internal Weaknesses (W)</b></p> <ol style="list-style-type: none"> <li>1. Traditional culture</li> <li>2. High employee average age</li> <li>2. No experience of competition</li> </ol>	<p><b>WO ("Mini-Maxi" Strategy)</b></p> <ul style="list-style-type: none"> <li>* Introduce different incentives to encourage a changed culture (W1, O1)</li> </ul>	<p><b>WT ("Mini-Mini"-Strategy)</b></p> <ul style="list-style-type: none"> <li>* Benchmark with competitors (W1, 3; T 2)</li> </ul>

Figure 9: TOWS applied on Apoteket

## 6.1 Concluding reflections

The fact that Apoteket will not continue to have a specific responsibility towards society after the reregulation process ends, will affect their future decisions and strategies. The management within Apoteket should be careful when choosing the new patterns of developments because it is possible that the Swedish population will still expect Apoteket not to strive towards profit maximization and expect the company to still take certain societal responsibilities. One way to maintain the trust of the population might be to take some voluntary responsibility towards society and to be involved in different philanthropy projects. Examples of this could be to sponsor projects or sport events. Another example that also is connected to increased and improved service could be to offer health guidance which has already been discussed by some pharmacies. This action could show that the company is taking some responsibility but it also results in improved service in different ways which the customers might appreciate. With time, most people will probably understand that a competitive behaviour is needed to survive.

The future for Apoteket is uncertain and how the company will perform in relation to competitors remains to be seen. The management within Apoteket believes that the company is as prepared as it could be and the sustainability of the preparations will now be tested. If the governmental goals with the pro-competitive policies will not have the desired outcome, there is a risk that end consumers will be negatively affected, and there is furthermore a probability that Apoteket will be expected to take societal responsibilities again and backup the failed process. Also, since the decision of the market reregulation was a political decision, interesting is to see what happens if the social democratic party wins the election this autumn.

Reregulations of different markets are common globally, and in Sweden, these political reforms have been experienced more during the recent decades. The outcome of this study is very specific to the pharmacy market, since consumers themselves do not chose what prescription medicine to purchase. The result of this study does however show the importance of changing internally to meet competition. It further highlights critical aspects important to consider when changing the organizational culture and structure so to enable successful implementation of future strategies. Another lesson that can be drawn from this study is that it is very easy to overestimate the resources and capabilities of a former monopoly as the company has never before been subject to competition.

## 6.2 Future Research

Since this study has been performed *during* the reregulation process, some consequences are hard to see at this point. Interesting would therefore be to evaluate how the pharmacy market actually has evolved when the process has stabilized and new market players have entered the market. It would further be interesting to see how Apoteket in the long run will be affected by the pro-competitive policies, what exact strategies will be implemented after the stand-still agreement has expired and whether or not the company will be able to compete on equal terms as other market players.

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## 7.3 Interviews

Brand manager: 14-12-2009, Stockholm

Two former members of the top management: 14-12-2009, Stockholm

Regional director: 15-12-2009, Malmö

Local managers: 10-12-2009 – 22-12-2009, Lund & Malmö

# Appendix 1 – Information about the market players

As part of the Swedish Government sell-off of the pharmacy monopoly, 466 pharmacies, grouped into eight limited liability clusters (10 to 200 each), were offered for sale to big market players. Four partners have signed stock transfer agreement for the acquisition of the eight pharmacy-clusters, the sum of which went up to 5,9 billions SEK. The transactions are conditional on the approval of the Swedish Medical Products Agency and the Swedish Competition Authority, and on the buyers accessibility to the IT-solutions. (OAB b)

**1. Apotek Hjärtat**, owned by venture capital company Altor, acquire cluster 1 and 8 that comprise 208 pharmacies (OAB e). The Altor Fund III is a private equity fund, invests in companies in the Nordic region with a focus on value creation through growth initiatives, strategic development and operational improvements. Current and previous investments within the health care sector include Aco Hud, Ferrosan and PaloDEX, and within the retail sector Byggmax, Dustin, Euro Cater and Helly Hansen (bolagsfakta, a)

Altor's investment objective is sustainable performance improvements in order to build the strongest possible business over time, improvements as enhanced revenue growth, margin expansion and capital efficiency" (altor)

The acquisition of over 200 pharmacies puts Apotek Hjärtat in a strong market position from the start, with a clear ambition to grow faster than the market as a whole and the company sees a strong opportunity to expand the business in the area of pharmacy service. Its ambition is to build the leading Swedish pharmacy retail chain in terms of competence, quality of advice, product offering, and operational efficiency. (bolagsfakta, a). Apotek Hjärtat has attracted a set of exclusive advisors that will work together with the management team and the board, among others the former CEO of Apoteket AB Åke Hallman, the most recently President of Swedish Medical Products Agency Gunnar Alvan, the former Chief Legal Council of Apoteket AB Dag Johannesson and the former advisor to Apoteket AB Steinar Stokke. Such competence, Apotek Hjärtat will be a very valuable component in achieving our ambition to develop the leading Swedish pharmacy chain (ibid.)

**2. Kronans Droghandel Retail AB**, owned by Oriola-KD och KF, acquire cluster 2 that comprise 171 pharmacies (OAB e). The cooperation between these two partners in early 2009 to strengthen their position in the re-regulated pharmacy

market aimed to prepare for the acquisition of pharmacies and to jointly establish new pharmacies among other at Coops supermarket and commodity stores.

Kronans Droghandel has for more than a year prepared itself for the market re-regulation with the aim to become one of the leading pharmacy-chains in the country. The future planes are to reconstruct and open new pharmacies, put up new pharmacy signs, introduce new inspiring product variety at the same time as Kronans Droghandel guarantees a safe usage of medicine and advisory for the customers. The partners see the future with reassurance because the benefit of taking over a well working operation with knowledgeable and competent personnel (kronansdroghandel).

With service-minded personnel and safe and effective support system, in combination to an inspiring assortment and attractive stores the company believes too many new and satisfied customers (bolagsfakta, b).

**3. Medstop Holding AB**, owned by the venture capital company Segulah, acquire cluster 3, 4 and 5 that comprise 62 pharmacies (OAB b). Segulah is a private equity investor that owns and develops medium-sized companies in Nordic countries. The companies they invest in are “profitable, stable and are run by engaged ambitious company leaders” (segula).

Medstop business concept is to meet and develop the pharmacy market with modern and effective pharmacies that are obtainable by its offerings and its ways of meeting people. Medstop offers products in the area of prescription and non-prescription drugs, pharmaceutical commercial goods, and also its own branded products it develops in the area of skin- and body care, vitamins and prescription free drugs. The customers will be served by experienced personnel and Medstop will also supply advisory for the prescribed medicine and for self-care. Customers will be met with a new sign, partly owned developed quality and customer adjusted products, exciting offers and an excellent customer service and educated personnel. Medstop's ambition is to build up a strong and reliable position in the Swedish pharmacy market through modern pharmacies and competent personnel where safety is the core value. (medstop)

Medstop is recognized as a strong entrepreneurial spirit combined with experience in the pharmacy market and in retailing, and they have a good number of employees who earlier have had leading roles in Apoteket AB (bolagsfakta, c)

**4. Vårdapoteket i Norden AB**, owned by Investor and Priveq Investment, acquires cluster 6 and 7 that comprise 24 pharmacies (OAB e). The pharmacies are located on-site in hospital and concentrated in central and southern Sweden, and will have 250 employees with solid pharmaceutical skills and backgrounds. (press release) Vårdapoteket aims to become a strong market player in the Swedish pharmacy market, and it will operate close to care provision.

Vårdapoteket will offer a broad range of products and services for patients, their relatives and care staff in partnership with healthcare providers. (ibid.)

# Appendix 2 – Questionnaires

## Local Managers:

1. How long have you been working in Apoteket AB, and what work tasks does your current position involve?
2. How has the reregulation influenced the work in your office? Have you noticed any visible changes from the 1<sup>st</sup> of July 2009 in your pharmacy?
3. How do you consider the change process in the organization, how has the information channels worked during this market reregulation period? Have you been updated with information and have you felt any level of participation in the change process?
4. What do you consider as Apoteket's strongest resources upon which the company can build its competitive advantage? On the other side, what are Apoteket's weaknesses from your point of view?

## Regional Director of Öresund

1. How long have you been working in Apoteket AB, and what does your position as a regional chief imply?
2. How does the competition influence the operations in the pharmacies? What changes are noticeable (physical as subjective changes) in the company and in the pharmacies?
3. What does a competitive market imply in terms of Threats and Opportunities for Apoteket?
4. What are Apoteket's strengths to meet these new market changes? What do you consider as the company's main competitive advantage over rivals?
5. What are Apoteket's main weaknesses and disadvantages?
6. Is Apoteket well prepared to meet the competition? In what way? And how has the work on preparing the company been implemented, by which means?
7. What desired backgrounds are required when recruiting managers?

8. How has the information flow during this transformation period worked? Do you feel that you been updated about potential changes in the company as a lead of the work towards the new market conditions? Have you felt any level of participation?

### Brand Director

1. What does the competition mean for Apoteket AB and how has the company changed as a lead of the pro-competitive policies?
2. What does the competitive market imply in terms of Threats and Opportunities for Apoteket?
3. What do you consider as Apoteket's strongest competitive advantage and how will the company differ from rivals? What are the company's weaknesses?
4. How will the company choose to profile itself in the market?
5. Is the company prepared for competition, how? For how long and in what way has the preparations been done?
6. Have you faced any form of resistance from employees when managing the change process? How has the strategy implementation been carried out during this transformation period?
7. What is Apoteket's future vision, and how do you think the company will develop in the future?

### Former members of the top management team of Apoteket AB

1. What do you generally think about the reregulation and the competition in the Swedish pharmacy market? How has Apoteket AB handled this market transformation?
2. What are the challenges facing Apoteket AB now when the market is reregulated and opened for competition? What are the company's advantages?
3. How will Apoteket manage the balance of being state owned and now forced to face commercial requirements?
4. How will the competition in the Swedish pharmacy market evolve and what consequences will this have for Apoteket AB?