Who is running the pharmacy business?
A story of introducing generic substitution to the market

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Abstract

This paper aims to describe a process in which well established routines within pharmaceutical industry are changed and new marketing practices shape the market. The focus of the study is on the consequences of the introduction of a new system of prescribing medicines. The main research questions are how the marketing practices change after routines are changed and thus, how the different actors have interacted, behaved and participated in the process.

The case study describes a process of an industry wide change when a new system to prescribe medicines, the generic substitution, was introduced in Finland in 2003. The case follows the process from its beginning until today, when it is still evolving. The key actors identified in the process are governmental authorities, pharmaceutical companies, wholesalers and pharmacies. All the actors have been influenced by the new system. They have own opinions of the effects of the generic substitution. Hence, their involvement in the story is visible and influential and we can ask who is running the business if any of them? As the case is of processual nature it shows actors’ behaviour and reactions during different time periods and thus, it becomes possible to see how the marketing practices are shaped and new routines are established. We argue that the dynamics in the process can be explained by the actors’ interpretation of the change and strive towards routines, which vary depending on their aims and apprehensions in different times.

Keywords: change, generic substitution, marketing practice, governmental authorities, routines
Introduction

Managing the markets and being able to shape them is a more or less idealistic situation. It does not however imply that actors would not like to steer the markets and try to influence them. Viewing markets as networks (Mattsson, 1985, Håkansson and Snehota, 1995, Turnbull et al, 1996) emphasises that markets consist of actors, activities and resources, i.e. markets are developed through exchange in relationships that are embedded in networks. As markets are socially constructed, the way the market is perceived by the actors also has an affect on the interaction between actors. Moreover, it implies that different actors view the market from their own perspective. The view on markets differs depending on the actors’ perceptions and consequently, the perceptions of an ideal market vary between actors.

Actors’ different perceptions and perspectives of markets can be analysed in relation to market practices. Especially social sciences have emphasised the importance of studying practice, but also IMP scholars have argued for the need to study the practical workings of markets (Kjellberg and Helgesson, 2004, 2005; Axelsson and Easton, 1992). Based on the performative view markets are constructed and shaped by concrete activities, taken by the actors. (Helgesson et.al 2004, Callon, 1998) Market practices can thus be seen changing as a result of the actors’ activities. Different marketing practices and sub-groups of them are interwoven and shape the markets as actors translate the practices according to their own perceptions (see Helgeson et.al. 2004).

In many industries the market practices have become routines. Routines are normally seen as productive competencies involving repetitive patterns of activities based on routine-specific investments in human and physical capital (Winter, 1990; Andersen, P.H: 2003). A routine is a patterns sequence of learned behaviour involving multiple actors who are linked by relations or communication and/or authority (Cohen and Bacdayan, 1994; in Andersen, 2003:160). Hence, the practices have been evolving until they have become routines that have been commonly accepted by the actors. Routines have become unwritten rules for actors, which has given certain stability to the market. According to Andersen (2003), routines are retained and inherited in some form of formal organisation. Consequently, it can be argued that markets that are characterised by routines signal certain stability as the routines are embedded in the organisational memory. (Andersen, 2003, Nelson and Winter, 1982) Routines can also be interpreted as a sign of markets where actors, often governmental authorities, try to regulate the market through rules and regulations. Governmental authorities often aim to create an ideal market as they perceive it. In line with the performative view on markets, governmental authorities can strive for their purpose of changing markets by establishing new rules and regulations, but this does not imply the market practices would actually be shaped as they aim. However, new rules and regulations will have an effect on the routines as the old patterns and norms are broken when the practices are changed. Breaking the established patterns for routines leads to a process where new practices are developed. Consequently, the development is originating from the actors who take their own view point and start acting according to it.

This paper aims to describe and analyse a process in which well established routines within pharmaceutical industry are changed and as a result of the process new marketing practices are created and start shaping the market. The focus of the study is on the process of the introduction of a new system of prescribing medicines, the generic substitution, and the consequences of the introduction. The main research questions are how the marketing practices change after routines are changed and thus, how the different actors have interacted, behaved and participated in the process.
Theoretical discussion

The driving assumption behind process thinking is that social reality is not a steady state – it is a dynamic process (Pettigrew, 1997;338).

The functioning of a market, its structural characteristics, and in particular, the unfolding of the market process, have been claimed important for any discussion of business behaviour (Snehota, 1990). Within the IMP tradition markets have been studied to be the frame for the exchange activities (ibid.) and hence, markets are viewed as sets of directly and indirectly connected exchange relationships between actors (Mattsson, 2004; Johanson and Mattsson, 1994; Cook and Emerson, 1978). Consequently, the IMP tradition or “markets-as-networks” perspective has regarded markets as open, complex and dynamic (Mattsson, 2004). One of the most important notions within the “markets-as-networks” perspective is that the market processes are driven by interaction between actors and that markets can be seen as continuously constructed by actors. (Blau 1964; Mattsson, 2004) Interaction is in other words an essential characteristic for business networks and actors become central in the network perspective as a consequence of the interaction.

Market practice can be defined as all activities that contribute to shape markets. Actors’ importance in market practice is emphasised by the statement that actors are involved in the production of market representations - the representation is what makes markets market-like. Actors who are involved in shaping of markets are also able to identify the activities that are relevant (Latour, 1996). Based on the conceptualization by Helgesson et.al (2004), markets can be defined as networks of translations – various market practices are interlinked through processes of translation. This is explained by Helgesson et. al. (2004) in a following way: “a changed rule is translated into tools that may alter the agency or seller. The implicated change in behaviour of the seller affects its exchanges with potential buyers. Through measurements and norms on what and how to measure, changed exchanges are translated into new images of an altered market, which might alter the norms or feed back and act directly upon the exchange practice… Taken together, these processes sum up to an image of markets as composites of ongoing practices where each activity is held in place by how it is linked to other activities”. Thus, according to this conceptualization markets are shaped through cyclical chains of translations that link different practices1. Translation is the glue that links the different market practices together. By translation the basic social process through which something – an idea, a rule, a text, a product, a technology, a truth, etc. – spreads across time and space (Kjellberg and Helgesson, 2004; Latour, 1986).

In line with Pettigrew (1997) actions drive processes, which are embedded in contexts that are shaping and shaped. Hence, the interchange between agents and contexts occurs over time and is cumulative (Pettigrew, 1997). The past will influence the future and time and history have a relevant role in the process. Routines are also based on social interaction as they are embedded in networks. Routines develop gradually over time, creating a system where firms select, memorize and operate according to a set of rules that become a common-sense constructs (see Andersen, 2003:161-162). Simultaneously, routines can be regarded as “selfish” (Andersen, 2003) as they exist beyond the lifespan of an organisation, meaning that they remain within organisations. Routines function consequently simultaneously as a break for the ability to respond to changes and restrict learning to that of new ideas consistent with existing knowledge (Andersen, 2003), but also as a guideline for actors to maximise their action in the market. When studying how different actors within the industry intervene in the introduction of generic substitution and how the routines are gradually changed by the actions that drive the process. Actors’ participation in the process becomes consequently as an interesting study object as they

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1 Helgesson et.al (2004) have divided marketing practices into three subgroups: exchange, representational and normative practices.
strive to balance the new situation as close as possible to the earlier routine based situation and make the most out of it.

**Methodology**

The study is conducted as a processual analysis where the focus is on the sequence of events that describes how things have changed over time (Pettigrew, 1997). The case study in this study describes a process of an industry wide change when a new system to prescribe medicines, the generic substitution, was introduced in Finland in 2003. The case follows the process from its beginning until today, when it is still evolving. The key actors identified in the process are limited to four groups: governmental authorities (National agency for medicine), pharmaceutical manufacturers, wholesalers and pharmacies. As these groups have very different views of the development of the industry and the market, they have been arguing back and forth since the launch of the new substitution system. Hence, we can ask who is running the business if any of them? All the actors have strong opinions of the new system and their involvement in the case study is visible and influential. As the case is of longitudinal nature it shows actors’ behaviour and reactions during different time periods and it becomes possible to see how the marketing practices are shaped. Moreover, the media has taken an interesting role in the process. Actors seem to communicate through the media when stating their viewpoints and arguing for their perspective but media also participated in the discussion and intervened in the development by starting its own enquiries within the field. Media has been revealing new hidden practices that have been embedded in the context. Consequently, we have conducted the study by analyzing articles and press releases in written media starting from year 2002 until today. Some additional material has also been collected during a national pharmaceutical seminar in November 2005, where all the key actors were presenting their perspectives of the recent development.

**The emerging theme - generic substitution**

Manufacturing of generic drugs has become more and more common during the recent years while older original drugs have lost their patent. As a result of this development generic manufacturers have been able to launch their substituting products, i.e. generic drugs. Simultaneously generic manufacturers have started a price competition between the original products and generics. Original products have become less expensive as they have been forced to lower their prices in order to remain on the list of medicines that are compensated in the health care system. Basically, there is no lowest price that pharmacies can charge for drugs when selling them, or when they are bought from manufacturers via wholesalers. However, there is a regulation stating that prescribed medicines should cost equally at all pharmacies much when sold to the end-consumers. Only the highest price is regulated and thus, pharmacies should price medicines according to the medical list of rates that is updated four times per year. Generic drugs have, thus, lowered the price of many commonly used drugs and improved national health care in many countries as the high costs of medical care have been cut down. Governmental authorities have therefore introduced a new regulation in many European countries, called generic substitution, in order to cut down society’s medical costs. Generic substitution involves the whole medical care system from doctors, who prescribe the drugs, to pharmacists, who sell the drugs, to consumers, who can choose between the different alternative products in the pharmacy. Generic substitution means that pharmacists have to recommend generic alternatives together with the original product, of which the consumer can choose the product she prefers. Basically, the only difference that remains between the products is the label and the price.

Generic substitution was launched in Sweden in October 2002 and in Finland in April 2003. This new regulation has not been warmly welcomed by everyone. For pharmacies it has meant decreased margins and thus, decreased income. Recommended generic products are decided by the medical authorities. The regulation of generic substitution means that the medical authorities
pick out a number of generic products from each medical category four times per year. The regulation obligates pharmacies to always have at least one of the recommended generic products available. When a three months period is over the recommendations may change. In practice this can mean increased warehouse costs as well as financial losses if pharmacies still have large stocks of the previous period’s generics.

Although the new regulation of generic substitution was implemented only two years ago actors within the market - manufacturers, wholesalers and pharmacies - have already been accused by the authorities for bending the new rules. The generic substitution has led to increased cooperation between pharmacies and manufacturers, who together have negotiated discounted prices for generics. Pharmacies can buy products for lower prices from the manufacturers if they agree to recommend the products as primary generic option for consumers. The discounts in percentage can vary between 2-20%. In this way manufacturers guarantee the availability of their generics for the consumers and pharmacies can raise their margins. Hence, the cooperation has strengthened the old relations between pharmacies and manufacturers.

From the authorities’ point of view the new discounts are against the good medical distribution practice - the National agency for medicines as well as the Ministry of Social Affairs and Health both disapprove the behaviour. They have officially stated that they perceive that this behaviour is violating the new regulation of generic substitution. Authorities’ opinion has been that manufacturers should sell their products for the same price to all pharmacies. Otherwise the discounts are unethical and against good practice. They see the problem from their perspective, which is that the end consumers will not benefit from the discount deals.

Interesting in the case is that the governmental authorities were not aware of the discount practice until the biggest daily newspaper in Finland, Helsingin Sanomat, started an investigation about the co-operation between manufacturers and pharmacies and wrote an article of the findings in March 2005. Governmental authorities responded immediately and in spring 2005 they therefore demanded a report from all pharmacies in Finland, where they wanted to find out what kind of agreements had been made and what kind of cooperation existed between pharmacies and manufacturers. The reports were handed in May 2005 and revealed that almost all pharmacies had agreements with manufacturers for generic discounts. However, the authorities also had to realize that the agreements were not violating any regulations or laws concerning pharmaceutical distribution. Because authorities could not act in any other way in the situation that had been created by the other actors, they stated that they will introduce a new regulation that will prohibit generic discounts as unethical action within pharmaceutical distribution.

In November 2005 when the yearly conference for pharmacy professionals was held, there was a special track in the programme on the topic “What’s new in the legislation”. One of the emerging themes was the generic substitution and the markets after the new regulation. All key actors, governmental authorities, manufacturers, wholesalers and pharmacies, where represented. The views on the same market were tremendously different and the presentations and the discussion revealed how differently the actors view the change. The National Agency for Medicines that controls activities within the market state that two main aspects have to be considered in the future: firstly, the wholesale prices should be the same for all pharmacies, independent of the size of the pharmacies’ sales volume and secondly, pharmacies’ sales margins should follow the regulations. Wholesalers see the discounts as a confusing practice. They are in between manufacturers and pharmacies and can hardly gain any profit from the discount practice. They also operate in several countries and all countries seem to have their own regulations about discounts, which is puzzling them. Pharmacies again see the situation as a way for governmental authorities to blame pharmacies for the high medical costs in the society. They argue that the discounts do not have such an effect in practice as authorities claim. According to pharmacies the price differences within the recommended product categories vary only 5% between the most expensive and the cheapest. Hence, they ask how much can the discounts rotten the moral within the markets. Instead they see the agreements as way to strengthen the generic substitution as manufacturers and pharmacies cooperate on different levels. Manufacturers again already seek
new co-operation models with pharmacies, if the discount agreements become illegal. Economically they will win if the discounts disappear, but at the same time it restricts even more the limited co-operation possibilities with other actors within the markets.

The new regulation of generic substitution has resulted in actual cut down of medical costs of 63.5 million euro during the first year. The savings have been greater than expected but they have mainly been a result of the competition between the pharmaceutical companies, original product vs. generic, which has brought about a general lowering of price levels on interchangeable drugs. Hence, the gains for the governmental authorities have been economically positive but on the other hand the relationships between the pharmacies and manufacturers, especially generic manufacturers, have been strengthened. For the actors the new regulation has given a reason for finding new routines.

Analysis

This study finds that actors have actively involved in creating new practices and that they have effectively used the media in stating their views and communicating with each other. Hence, the change occurred by a new regulation has relatively swiftly lead to new routines within the market.

As the process of what has happened after the launch of generic substitution, we will present the process in relation to the time line in the analysis. Hence, the activities and statements made in the media have been analysed and the peaks on the line will be summarised and analysed in the later version of this paper. Consequently, also media becomes as a relevant actor in the process.

Conclusions

As this paper is the first version of the presented study, it is still too early to offer any hesitated conclusions about the studied phenomenon. What we can, however, argue is that through the process we are able to see how the marketing practices are shaped and new routines are established. We can state that the dynamics in the process can be explained by the actors' interpretation of the change and strive towards routines, which vary depending on their aims and apprehensions.

References

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