

Crossing the Internet Line

Rx Internet Pharmacy Review

By Michael Lamey and Cameron Stuckey, Pangaea Consultants

The exponential growth of the Internet during the past decade, combined with considerable price variations between Canada and the U.S., has led to the development of a significant Internet pharmacy business in Canada. These Internet pharmacies aggressively target U.S. consumers, who can purchase prescriptions at a considerably reduced cost. Although the presence of online pharmacies is relatively new, the concept itself is not. In the late '80s, cross-border shopping operations made huge profits by offering products which could be purchased over the counter in Canada, but still needed a prescription in the U.S. The reach of Internet pharmacies is much broader than the pre-existing cross-border businesses of the late '80s, which were restricted by geography.

Estimated Internet sales in 2002 were \$200 million Cdn with an estimated 50% of purchases from American consumers who have no drug plans and would not have purchased at all unless the lower-priced Canadian drugs were available. Estimated sales of \$600 million Cdn are predicted for 2003 based on the recent phenomenon of U.S. Health Maintenance Organizations (HMOs) actually reimbursing for Canadian products from Internet pharmacies.

Mapping the Impact

To get a handle on the scope of the online pharmacy industry, Figure 1 illustrates the number of unique Internet pharmacies by province. The skewing in the geographic distribution of Internet pharmacies is due to differences in the acceptance and incentives offered provincially. Manitoba operates a majority of the online pharmacies with 35. The second largest market is in British Columbia with 12 such pharmacies. Quebec has only three, due to a lack of government support for these types of businesses.

The Internet pharmacy industry has recently formed its own association, the Canadian International Pharmacy Association (CIPA). This organization represents and supports the ethical and professional practice of international pharmacy, and ensures its members carry out the highest standards of practice. The CIPA's Web site is www.ciparx.com.

Scope and Implications

The scope of the price variations between the U.S. pharmacies and the Canadian Internet pharmacies is quite phenomenal. Some prescriptions cost over 250% more in the U.S. than in Canadian online operations.

From our review of more than 60 drugs, the difference between the Internet pharmacy price to the Canadian Ex-Factory price (*i.e.*, the price set by the manufacturer) is approximately 2:1. Online pharmacies are generating gross profits of approximately \$600 million.

Generally, the main focus of Internet pharmacy operations is chronic, high-priced medications. The dramatic U.S./Canadian price variance is due to the difference in governmental regulations in maintaining reasonable pricing following product launches in the two countries. Canada has effective regulations that control the pharmaceutical pricing following a launch, while the U.S. lacks these regulations, allowing for rapid price increases.

The radically lower prices in Canadian Internet pharmacies obviously please the U.S. consumer, but unfortunately have a negative impact on the North American pharmaceutical corporate revenues. Figure 2 shows the estimated revenues for the Canadian Internet pharmacy industry for 2003. The \$600 million is Canadian revenue, which would have been

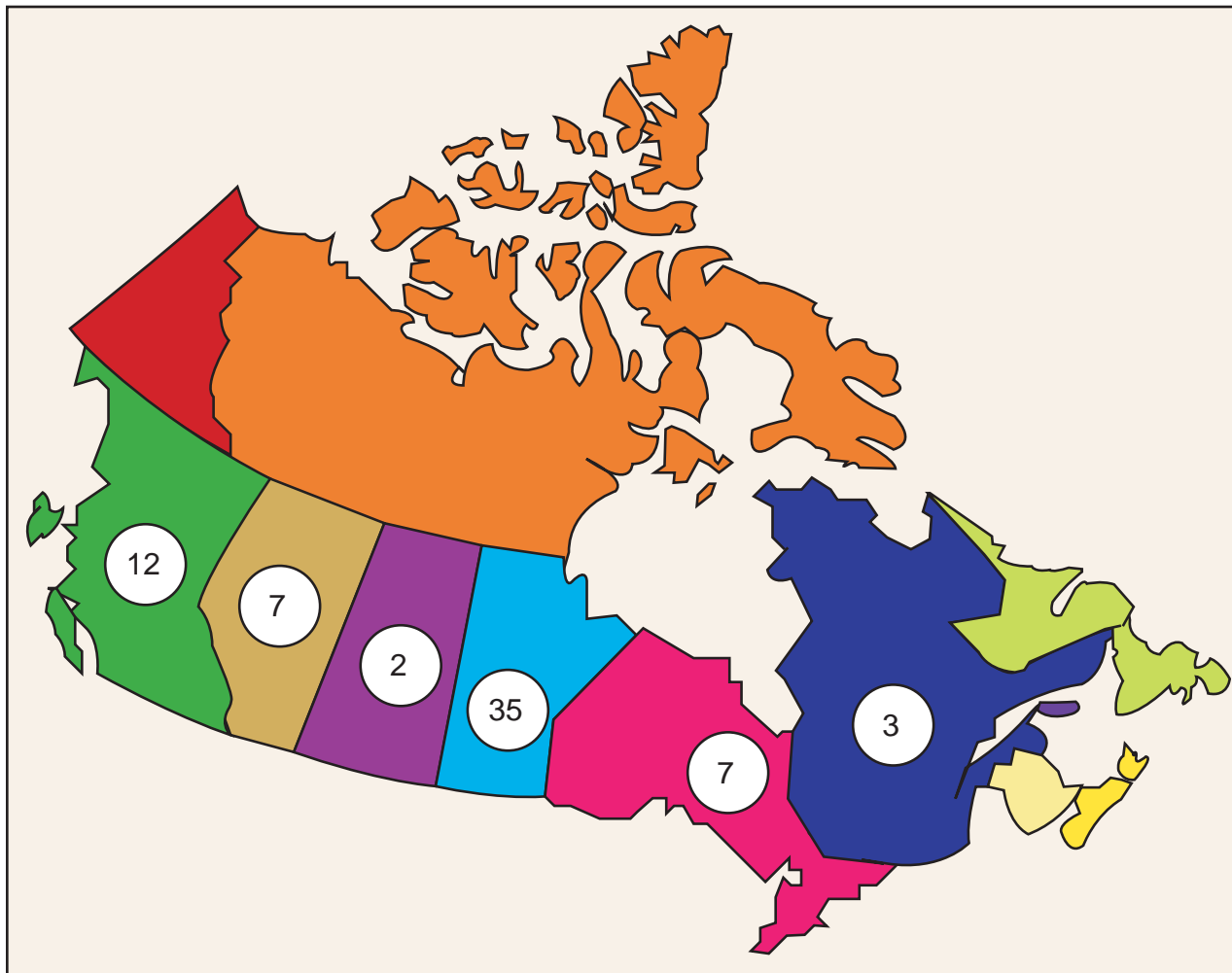
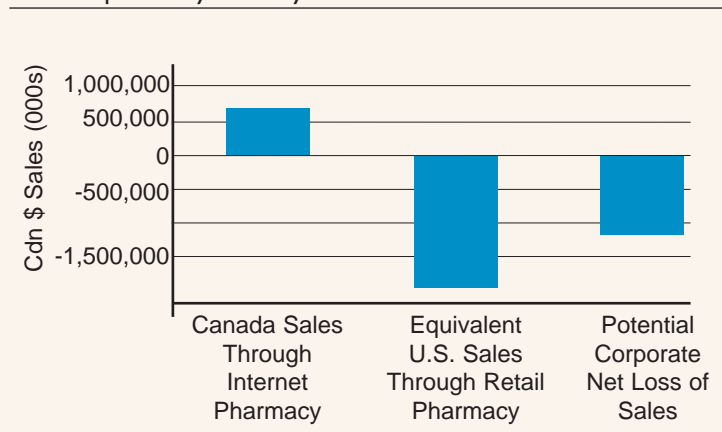


Figure 1. The number of Internet pharmacies in each province in Canada.

equivalent to \$1.8 billion Cdn in U.S. sales through traditional pharmacies; therefore, the pharmaceutical industry potentially loses the difference—\$1.2 billion Cdn due to the U.S. price being, on average, three times higher than the Canadian price.

There continue to be new developments within the Internet pharmacy industry. American Drug Club is a new Canadian pharmacy service that plans to open 360 service centres across the U.S. in 2003 in an aggressive program to offer Canadian-priced drugs to U.S. patients. The organization is a spinoff of Canadameds.com

Figure 2. Estimated revenues for the Canadian Internet pharmacy industry in 2003.



Source: Pangaea Consultants.

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based in Winnipeg, Manitoba. The openings will include kiosks in shopping malls and stand-alone storefronts. This may be the start of a daunting future for the bodies trying to regulate the growth of cross-border shopping, as such operations are positioned to expand their already substantial reach to American consumers.

Pangaea has developed a complete list of Internet pharmacies and a detailed report with formal recommendations and strategies updated as events occur.

Please feel free to contact Pangaea at (416) 516-3524 or www.pangaea-consultants.com should you wish further information. [CPM](#)



Rob Hamilton, president

Promotion at Biogen Canada Inc.

Robert Hamm, senior vice-president, North American commercial operations at Biogen Inc., is pleased to announce the promotion of Rob Hamilton to the position of president of Biogen Canada. In his new position, Rob will be responsible for leading the Canadian group to continued commercial success.

Prior to joining Biogen Canada as marketing director in September 2001, Rob worked for over 15 years at two other large Canadian pharmaceutical companies and held a number of senior sales and marketing positions.

A native of Kingston, Ontario, he holds BSc (honours) and MBA degrees from Queen's University. He will be based at Biogen Canada's offices in Mississauga, Ontario.

Established in 1998, Biogen Canada is one of the country's 50 largest and fastest growing biopharmaceutical companies.