SHOPS PLUS

Understanding the Growth of Pharmacy Chains in Latin America

Lessons for sub-Saharan Africa and Asia

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Summary

Governments and donors around the world are seeking to better leverage private pharmacies to increase access to priority health products, including family planning. As they do so, they have encountered challenges related to quality of products, appropriate counseling, and reporting. In sub–Saharan Africa and Asia, interventions to address these challenges have often been limited in scale due to the fragmentation of the pharmaceutical retail sector in those regions. Latin America's experience with the consolidation of retail outlets into pharmacy chains can inform the efforts of governments and donors to overcome fragmentation–related challenges. Over the past three decades, pharmacy chains have emerged and expanded across the region in countries such as Brazil, Chile, and Mexico. The USAID–funded Sustaining Health Outcomes through the Private Sector (SHOPS) Plus project examined the factors that contributed to the expansion of the chains and their impact on key health areas such as family planning. Understanding how various factors facilitated and limited the growth of pharmacy chains in Latin America, and the subsequent benefits and risks for public health, can help governments and donors capitalize on opportunities emerging in sub–Saharan Africa and Asia.

Keywords: Latin America, pharmacies, family planning, reproductive health, contraceptives, networks and franchising, human resources for health, medicines

Photo: Presidencia República Dominicana

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SHOPSPLUS
Public-private engagement for better health

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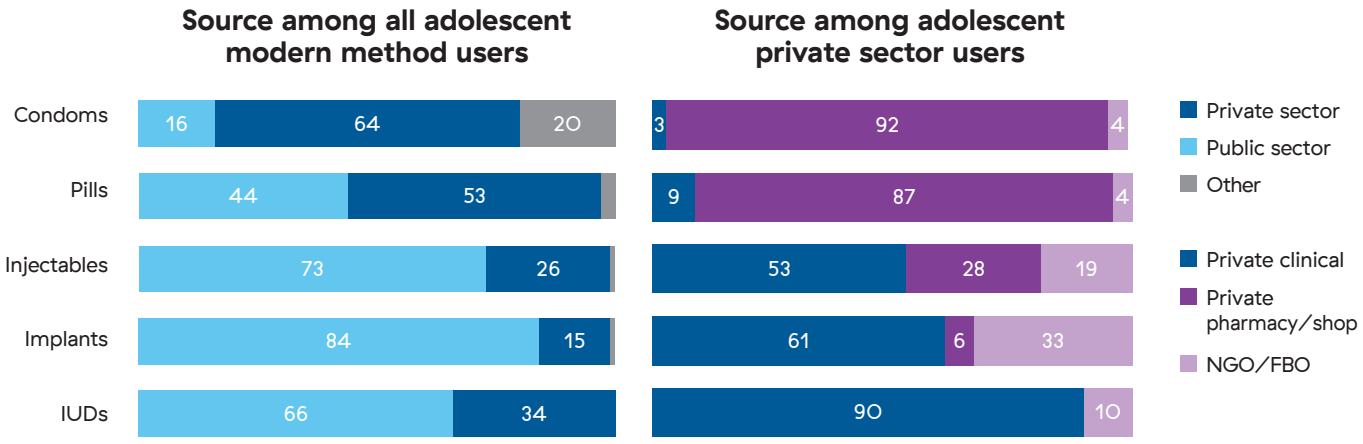
Understanding the Growth of Pharmacy Chains in Latin America

Lessons for sub–Saharan Africa and Asia

In many countries, pharmacies and other private retail shops are the first points of contact with the health system. These outlets routinely serve as the primary sources of health products, including for family planning products and services. They are often preferred by priority populations such as youth. The USAID-funded Sustaining Health Outcomes through the Private Sector (SHOPS) Plus global analysis of modern contraceptive sources among adolescents found that more than half of urban and more than one-third of rural adolescent users rely on private sector sources, with pharmacies an important source for short-acting methods such as condoms and oral contraceptive pills (Figure 1).

Figure 1. Role of pharmacies in youth's access to family planning



Source: Bradley and Shiras (2019)

Photo: Wikimedia Commons

Globally, the ability of private pharmacies to offer quality products and services is limited by a range of factors. These include human resource constraints, such as high staff turnover that requires frequent and costly investments in training; supply chain barriers, such as commodity stockouts that limit the range of products the pharmacies offer at any point of time; and regulations that limit the family planning choices available in these outlets. Poor integration of pharmacies into the larger health system exacerbates these challenges. In many countries, the pharmacy retail sector is fragmented and dominated by small "mom and pop" outlets. As a result, governments often have limited ability to effectively regulate and oversee these outlets and donor interventions to improve pharmacies' performance face significant costs reaching scale (HIP 2013).

Box 1. A focus on pharmacy chains

There are multiple types of retail drug outlets that vary in scope and size. Pharmacies are registered outlets with a trained pharmacist on staff and are legally authorized to sell a wide range of prescription and over–the–counter medicines. Many countries also have formal and informal lower–level drug shops.

In contrast to pharmacies, drug shops are usually more numerous, do not typically employ a trained pharmacist, and can sell a much more limited subset of nonprescription and prepackaged medicines (HIP 2013). Donors and governments have increasingly looked to leverage drug shops in public health programs due to their prevalence and proximity to local communities. Working with drug shops poses similar challenges to pharmacies and challenges are exacerbated by the larger number of drug shops, the more limited training of drug shop staff, and the similarly fragmented market. While there have been some donor–funded efforts to organize drug shops, there has been much more global progress at the pharmacy level. This brief therefore focuses on learning lessons from the experiences of organizing pharmacies into chains. It is likely that the lessons contained in this brief could be adapted to inform similar efforts targeted at the various levels of retail drug outlets.

In many middle- and upper-income countries, pharmaceutical retail markets are much more consolidated, with pharmacy chains serving the market at scale. Pharmacy chains are private and often for-profit businesses that operate two or more pharmacies under the same name with similar branding. In the middle- and upper-income countries where chains have emerged, they tend to have higher revenue and profits, and larger geographic footprints than their independent competitors. These resources could mean that pharmacy chains are a potential model to address some of the challenges raised by fragmentation in lower-income countries. The global literature highlights several opportunities for pharmacy chains to increase access to priority health products and services, including by:

- Strengthening product procurement and distribution mechanisms to make quality-assured products more consistently available and convenient to purchase;
- Standardizing processes to improve quality, efficiencies, and compliance with regulations;
- Lowering costs to consumers thanks to increased negotiation power and targeted, differentiated pricing strategies;
- Increasing oversight of individual pharmacies through corporate governance mechanisms; and
- Providing streamlined entry points for governments and donors to reach large numbers of pharmacies.

The literature also highlights the limitations of pharmacy chains, including factors that might hinder the realization of their possible benefits. Generally, these limits relate to their nature as for-profit entities. For example, a study in Bengaluru, India, found that while chains exerted strong influence on staff behavior, they often focused most heavily on business practices—such as good customer service—that would encourage clients to return, rather than best public health practices (Miller, Hutchinson, and Goodman 2018). Additionally, the growth of pharmacy chains has led to the rapid consolidation of pharmacy retail markets in several Latin American countries, raising concerns from regulators and consumers about their impact on pricing and equity (Corpart 2018a; IFC 2017; Clark 2017).

Learning from Latin America's experience

Over the past several decades, pharmacy chains have rapidly expanded in countries throughout Latin America, bringing new models to markets and shaping consumer behavior. In Chile, Colombia, and Peru, only a handful of retailers (three or four) now operate more than three-quarters of the countries' pharmacies. In Mexico, pharmacy chains increased their market share by 28 percent in a seven-year period, accounting for 88 percent of pharmaceutical sales by 2014 (Copart 2018a). As these chains have expanded, many have also begun to grow beyond their original borders. For example, FASA, a Chilean company, operates 1,000 stores in Peru, Brazil, and Mexico; Farmacity, the largest Argentinian chain, expanded into Colombia (IFC 2017; Wharton, U. Penn 2005).

Photo: Talea Miller

Photo: Presidencia República Dominicana

Similar consolidation has already begun—albeit in more nascent stages—in some countries in sub-Saharan Africa and Asia. For example, the Kenya-based Goodlife pharmacy chain incorporates telemedicine services and a sophisticated payments platform alongside a core pharmacy that reaches over 600,000 customers through more than 20 outlets located in high-traffic retail centers and gas stations, and near health clinics in East Africa (Sunderji 2018). Understanding how Latin American chains emerged and grew could inform strategies to support these efforts by highlighting how donors and governments can support pharmacy chains to maximize their benefits for public health and minimize their limitations. This includes understanding the factors that can contribute to or limit the emergence and growth of the chains, as well as how donors and governments can maximize their contributions to public health goals and best practices.

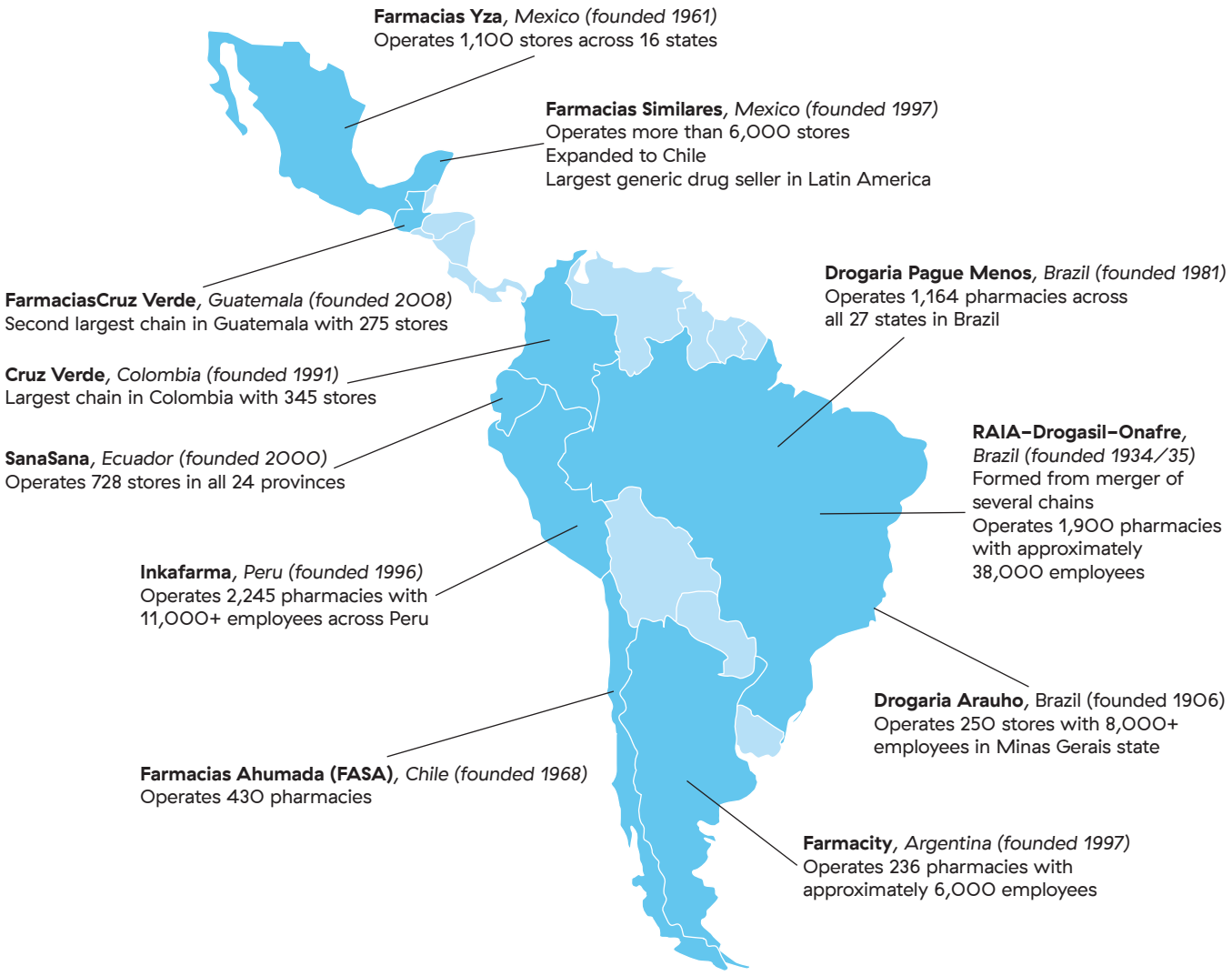
To learn from the rise of pharmacy chains in Latin America, SHOPS Plus reviewed literature in English and Spanish, including donor and government reports; case studies of chains across the region; and global, regional, and country level market intelligence reports. To complement this review, the project conducted 28 key informant interviews with government and pharmacy chain representatives and local experts across the region (see Annex A). Due to concerns regarding public perception, several pharmacy chains did not respond to the SHOPS Plus team's request or declined to participate, which limited the quantity and quality of data available to the team. This brief is intended to provide donors and governments with an overview of the types of pharmacy chains in the region and the different strategies they used to grow. It outlines how both the enabling environment and demand and supply factors facilitated or limited the expansion of pharmacy chains and discusses implications for donors seeking to strengthen their contributions to public health and family planning. It ends with a discussion on how lessons from the Latin American experience can inform future donor and government investments in other country contexts.

Pharmacy chains in Latin America

Overview

Latin America's pharmacy retail sector experienced significant consolidation over the last several decades through the growth of pharmacy chains, which reshaped retail markets and supply chains. Figure 2 highlights a selection of pharmacy chains from Latin America. The chains offer a wide variety of products and services, operate under varying types of ownership models, and have grown in multiple ways. The success of the chains has attracted external investment. International companies like CVS, General Atlantic, Alliance Boots, and Walgreens Boots Alliance have begun to enter the region through the acquisition of established local players (ELAN 2016, Corpart 2018a).

Figure 2. Select examples of pharmacy chains in Latin America[1]



[1] The authors made this selection based on the availability of information for pharmacy chains in the region.

Models for growth

SHOPS Plus found that pharmacies used three basic strategies to expand their businesses from standalone outlets into fully fledged chains:

1. **Wholly-owned outlets:** Under a wholly-owned model, one individual or corporation directly owns and operates each individual outlet within the chain. The growth of these chains usually began with an owner of an existing pharmacy using their own resources to either buy a competitor or open a new outlet. Based on the available data, this type of model tended to be smaller in scale compared to other models as expansion required significant upfront costs on the owner's part.

2. **Franchises**: Under the franchise model, new locations are not owned directly by the chain, but rather by the franchisees who operate under strict branding and business requirements outlined by the company. This strategy helped chains expand their footprint at a lower cost compared with wholly-owned outlets. Also, compared to wholly-owned chains, franchise models tended to grow larger. In some cases, chains that first emerged through a wholly-owned model shifted to a franchising approach to facilitate more rapid growth. Further consolidation in the pharmacy retail sector occurred over the years as various chains purchased and merged with their competitors to achieve greater economies of scale.

3. **Cooperatives**: Other chains established themselves through looser affiliations that bound together existing independent pharmacy outlets. For example, the Cooperative of Small Drug Retailers (COPIDROGAS) in Colombia formed in 1969 when 20 independent pharmacy stores banded together to form an umbrella cooperative body that could increase their purchasing power and strengthen their voice in negotiations with manufacturers and distributors. For 45 years, the cooperative focused on procurement and financing issues for its members, but in 2015 it launched its first chain, Farmacenter. The new chain comprised branded COPIDROGRAS members that met certain criteria for quality and operations. This model is less common than the more traditional aforementioned models.

Product offering

In general, pharmacy chains sell similar types of products. All of the chains examined sell a mixture of health and other products. Health products include branded, generic, prescription, and over-the-counter medicines, as well as vitamins and general wellness products. They all offered male condoms, oral contraceptive pills, and injectables. In addition, several of the chains in Brazil also sold implants and IUDs that clients could purchase and take to a health facility for insertion. Inspired by CVS and other US-based chains, several

chains in Brazil, Argentina, and Mexico have sought to increase their appeal to middle- and upper-class clients by including wellness checkups, blood pressure screenings, counseling for specific services (e.g., family planning and immunizations), lab testing, and in some cases, onsite health clinics.

Increased access to generic medicines has helped pharmacies bring down the costs of medicines for their clients in several countries. For example, generics represent 45 percent of medicine sales in Chile (IMS Health 2016). These generics come both from increased production by domestic manufacturers and from having more access to international supply chains facilitated by supportive regulatory regimes (e.g., tax exemptions, effective and rapid quality assurance mechanisms), pharmaceutical partnerships, and other factors. With the increased purchasing power that comes with their market shares, many chains have reported an ability to negotiate better terms with international manufacturers directly or with local distributors (Copart 2018a). This increased access to affordable medicines has led to the development of several chains that focus almost exclusively on lower-income populations, leveraging access to quality generic medicines and strong brand recognition (Box 2).

Photo: Jeso Carneiro

Box 2. SanaSana: Ecuador's pharmacy chain for low-income customers

SanaSana is Ecuador's largest chain in terms of the number of company-owned and -managed pharmacies and the second largest in market share. Fybeca Group Corporation SA (GPF) launched the first SanaSana pharmacy in a low-income neighborhood outside Quito in 2000. GPF viewed SanaSana as a complement to its existing high-end pharmacy chain, Fybeca, which the company had operated since 1957 and which targeted upper-income, urban populations. Prior to the launch of SanaSana, no Ecuadorian pharmacy chain catered specifically to the urban poor. GPF built on its decades of experience managing Fybeca pharmacies, a robust distribution infrastructure, and strong brand name to successfully grow its operations.

GPF introduced SanaSana pharmacies in low-income neighborhoods in cities with a Fybeca presence to facilitate product distribution. The company focused on expanding franchises into locations not already adequately served by pharmacies, offering a large selection of products and services, better prices, and an enhanced customer experience for low-income clients. The brand has become prominent for its affordable prescription and nonprescription medicines, personal care products, general merchandise, and mobile phone airtime and utility bill payment services.

Since its launch in 2000, more than 720 SanaSana pharmacies have opened in cities, towns, and rural areas across Ecuador. As the chain expanded, it developed several point-of-sale formats adapted to the different types of locations. These formats included:

- *Counter-only stores* (launched in 2000) that sell pharmaceuticals and a small selection of non-pharmaceuticals such as personal hygiene products and some refreshments from behind a counter.
- *Counter plus self-service stores* (launched in 2004) that sell the same selection of medicines behind the counter, plus a wider selection of self-service non-pharmaceutical products.
- *Large format stores* (launched in 2011) that sell both behind-the-counter medicines, and the widest selection of self-service non-pharmaceuticals (e.g., beauty and child care).

GPF leveraged several resources to support SanaSana's growth. It used new digital technologies to improve its supply chain by shifting from manual to automatic distribution and implementing an integrated retail management system. GPF also capitalized on franchise owners' strong connections to local communities to better understand what the target clientele valued. It provided SanaSana franchise owners with a range of tools (e.g., market segmentation analysis, financial assistance, operational and IT support, and tailored commercial strategies) to support their operations and growth. It also offered one of the strongest benefits and training packages in the industry, which helped it attract and retain staff, especially youth (IFC n.d.). GPF also received a $30 million loan in 2016 from the International Finance Corporation to develop its state-of-the-art distribution center with the aim of lowering logistic costs and improving its storage and transportation standards (IFC 2016).

Investments for growth

Beyond health and wellness products, pharmacy chains throughout the region have sought to capitalize on increased purchasing power in their countries due to growing economies by transforming into one-stop shops that also sell a broad range of non-health products (Box 3). These products include general merchandise, beauty products, home supplies, and electronics. Chains and experts interviewed revealed that these non-health products—especially beauty products—can often be sold at higher margins. By adding these products, chains can attract new customers and generate additional profits from existing ones—profits that they can invest in their businesses to improve operations or expand their footprint. Data from Brazil in 2017 revealed that more than one-third of consumers had increased their number of trips to the pharmacy in the previous year, primarily to purchase products that they had bought elsewhere through other channels (Clark 2017). A number of factors contributed to the new purchasing patterns: accessing advice from pharmacists, higher-quality products, convenience, and attractive pricing. Anecdotal evidence from interviews with pharmacy experts also indicate that donor and government-funded general public health campaigns contributed to increased demand for specific health products at pharmacies. With the increased revenue and profits from the sale of higher-margin products, many chains have reinvested in their businesses to strengthen delivery systems, adopt new sales strategies, and conduct more outreach and advertising to build demand.

Photo: Ariadna Creus and Àngel García

Box 3. Cruz Verde: A "mini-market" pharmacy chain in Guatemala

As pharmacy chains emerged in Guatemala, many began to negotiate directly with manufacturers to access better prices, decreasing the role and importance of distributors in the pharmaceutical supply chain. In response, one local distributor, Bodegas Farmaceutica S.A. (BOFASA), partnered with Cruz Verde Guatemala to launch its own pharmacy retail chain, Cruz Verde, in 2008. Though it is the country's newest chain, Cruz Verde has become the largest one in terms of market share over the past 10 years. To maximize profits and support the chain's quick expansion, BOFASA pursued a "mini-market" one-stop shop model, similar to the CVS model, that offers a range of products including health products, food, drinks, airtime, personal care and beauty products, and US remittances exchanges. Though Cruz Verde stores don't have clinics, staff also provide basic health services including vaccination and counseling for chronic diseases (e.g., high blood pressure, diabetes, depression).

Cruz Verde's growth has been fueled by investments in several strategic areas:

- *Market research*: The chain identified underserved areas where it invested in opening new pharmacies, increasing access to priority products including contraceptives.
- *Supply chain*: BOFASA provides Cruz Verde with a strong supply chain, which enables it to provide a wider range of products more reliably than its competitors.
- *Brand awareness*: The chain has invested heavily in advertising campaigns to drive demand and raise awareness of the Cruz Verde brand across Guatemala. It has also invested in online platforms to get potential clients information on health products they offer, such as emergency contraceptives.
- *Human resources*: Cruz Verde pays the highest salaries in the market and offers continued training on management and customer service to its employees. These investments help attract and retain qualified staff, which the chain believes builds increased brand loyalty among its clients.

While Cruz Verde has invested heavily in marketing, it acknowledged a missed opportunity for greater collaboration with government in public health promotion campaigns. During the SHOPS Plus scan, the organization highlighted that it has the platforms and interest in forming public-private partnerships to strengthen these efforts, but noted that they need support from governments and donors to educate pharmacists on how to better guide patients.

Chains have significantly invested in multipronged advertising strategies. Most chains noted that they have larger marketing budgets than independent outlets, which they have used to increase demand for priority products and services, including contraceptives. Pague Menos in Brazil, for example, organizes events in its stores to raise awareness regarding a wide range of health areas. In addition, it participates in health campaigns and invests in building the capacity of its staff so they better serve clients' health needs. Inkafarma in Peru uses its blog to reply to client questions and provide information on priority products such as contraceptives.

Another key investment that many of these chains made was the development of online and phone-based retail options to increase reach. Almost every chain identified during this scan offered online sales of its various products; chains that did not have online sales gave clients the option to order products by phone. Chain owners indicated that these platforms had helped them reach new clients and make products that clients might be hesitant to purchase in person (such as family planning products) more accessible. Stakeholders also noted that online platforms can be a significant source of a chain's business; forty-six percent of Raia Drogasil-Onofre's revenues now comes from online sales (Box 4).

Box 4. Onofre: Continuously investing in innovation

The Onofre pharmacy chain in Brazil started in 1934 when Arlindo Arede, a Portuguese immigrant, opened his first store in Rio de Janeiro. Onofre continued to operate on a small scale until opening its second store in São Paulo in 1957. When Arlindo's grandchildren, Ricardo and Marcos, took over ownership in the 1970s, they quickly realized they needed to expand the business to survive in the competitive marketplace. To fuel growth, company leadership invested in a number of innovations to make Onofre pharmacies more convenient and affordable for clients. Over time, these innovations included:

- Becoming the first pharmacy chain in Brazil to introduce drug discounts in 1957.
- Becoming the first store in Brazil (outside of the supermarket industry) to use a checkout system in 1970.
- Pioneering drive-through medicine sales in 1980.
- Launching an e-commerce platform in 2000.

Many of these innovations were intended to bring down the chain's operating costs, which could be passed on to their customers in the form of lower prices. In 2004, Onofre expanded on these strategies by building out many of its pharmacies into "megastores" that offered a wider variety of health products and higher margin beauty products. As a result, Onofre expanded to 45 stores in five states (Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, and Vitoria) by 2013. In that year, CVS purchased the company in its effort to expand its footprint outside the United States. Under CVS ownership, the chain sought to adopt many features of the US chain's business to the Brazilian market, including expanded online sales, new Onofre Clinics (modeled on CVS's MinuteClinics), and self-checkout kiosks. These investments—especially the expanded online platform—were intended to further increase Onofre's accessibility to potential clients outside of the geographic areas where the chain operated brick-and-mortar stores. In 2019, CVS sold Onofre and its 50 stores to Raia Drogasil, Brazil's largest pharmacy chain.

Key factors facilitating and limiting the emergence and growth of pharmacy chains

Stakeholders highlighted a number of facilitating and limiting factors related to the policy and regulatory environment, demand, and supply that affected the emergence and expansion of pharmacy chains in Latin America. These factors not only helped determine when and where pharmacy chains emerged, but also the business practices they adopted and growth strategies they pursued.

Government's role

Demand and supply

Key factors facilitating the emergence of pharmacy chains in Latin America were the regulations related to pharmacy ownership. In all countries in the region where chains have emerged, regulations permit an individual or a company to own more than one pharmacy. This is not the case everywhere. A previous SHOPS Plus policy scan of 32 countries in Latin America, Africa, and Asia found that many countries place limits on both who can own a pharmacy (i.e., requiring that pharmacies be owned and staffed at all times by a trained pharmacist) and how many they can own (Riley, Callahan, and Dalious 2017).[2] These rules are partially justified by a desire to ensure quality oversight by adequately trained personnel. In many countries, they are also motivated by a desire to protect traditional mom-and-pop pharmacies. Regardless of the motivation, these rules limit the ability of corporate actors to invest in the retail sector and can inhibit the emergence of chains.

While more permissive ownership rules can facilitate the emergence of chains, they can also present their own challenges. In several Latin American countries, permissive regulations have contributed to the development of markets that are dominated by only a few chains. Stakeholders in the sector raised concerns about the ability of these dominant chains to "fix" prices, with countries such as Peru sanctioning chains for price-fixing (Peru Reports 2016).

Requirements regarding pharmacy staffing

Most countries, including Argentina, Brazil, Chile, Colombia, and Mexico, require pharmacies to be staffed by pharmacists. Thanks to donor and government investments in human resources for health in Latin America, pharmacy chains had a large enough pool of qualified pharmacists to recruit from as they grew. In many countries in sub-Saharan Africa and Asia with much more limited human resources, it would have been more difficult for pharmacy chains to achieve scale without investing in training new pharmacists by, for example, offering scholarships.

As they have grown, pharmacy chains, associations, and cooperatives in Latin America have started investing in professional development, creating an opportunity for effective public-private collaborations. Chains have begun offering training in key areas related to quality of care, pharmacy management, and government regulations to continuously strengthen the capacity of pharmacists and improve customer satisfaction. For example, the Colombian Association of Drug Retailers (ASOCOLDRO) provides professional development opportunities to permanent staff from affiliated pharmacies and guidance for complying with government rules and regulations.

[2] Of the 32 countries scanned, the following had regulations related to ownership for pharmacies and drug shops: Ghana, India, Nigeria, Senegal, Tanzania, Uganda, Philippines. Kenya, Benin, Côte d'Ivoire, Pakistan, Togo, Afghanistan, Haiti, Indonesia, Madagascar, Mauritania, Nepal, Rwanda, and Yemen, had ownership regulations for pharmacies only.

Product and price rules

Government regulations had a significant impact on the types of products that pharmacy chains offered and prioritized as they grew their businesses in Latin America. For example, easy and reliable access to generic medicines and health products supported the growth of pharmacy chains targeting lower- and middle-income populations. Prompted by convenient access to quality assured generic medicines, many countries in Latin America developed regulatory environments that contributed to the increased use of generics. For example, Argentina, Brazil, Colombia, and Ecuador require that prescriptions be written out in their generic names (FIP 2017). Similarly, Chilean regulations allow pharmacies to substitute a generic for a branded prescription medicine (IMS Health 2016). This type of regulation allows low-cost pharmacy chains that focus exclusively on generics to flourish, as it enables their staff to switch to lower cost generics in lieu of branded products, something that is not permitted in countries like Great Britain and India (IMS Health 2016).

Similarly, government regulations can promote or limit the ability of pharmacy chains to contribute to public health objectives. For example, in November 2019, the Ministry of Health in Peru proposed a regulation that would require pharmacies to carry and make available the full range of products on the essential medicines list, including all contraceptives, at all times. While laws in most countries in the region are permissive about the sale of different contraceptive methods at pharmacies, they still impose restrictions that have caused many stakeholders interviewed to de-emphasize family planning as a significant focus of business. For example, no country in the region allows over-the-counter sales of emergency contraception and only four (Chile, El Salvador, Mexico, and Venezuela) allow clients to access it at a pharmacy without a prescription (ICEC n.d.). Similarly, only Guatemala, El Salvador, Honduras, Belize, Venezuela, and Paraguay formally allow clients to access oral contraceptives at a pharmacy without a prescription (OCs OTC Working Group n.d.).

Regulations related to price setting and product sourcing also impact a chain's ability to profitably provide lower-margin priority health products or to innovate and introduce new products. Some countries limit chains' sourcing for generics while a complex registration process in other countries limits chains' ability to offer new products. Stakeholders highlighted Guatemala as an example of a country with a complex and lengthy registration process for health products. A few countries in the region, including Colombia and El Salvador, impose price ceilings on medicines and health products to promote affordability of priority products (Riley, Callahan, and Dalious 2017). The price ceilings on medicines were important factors behind the decision of several pharmacy chains to diversify their product portfolio to include higher-margin products such as beauty, general wellness, and other non-health products to increase their revenue and ultimately expand their chain.

Complexity of regulatory environment

As chains grow in size and geographic footprint, they may encounter unanticipated regulatory complexity, especially in decentralized systems. Stakeholders in Brazil mentioned that many regulations that influence their businesses vary from state to state and between the federal and state levels. One highlighted that they had to establish an expanded tax department due to the complexities of tax laws at the federal and state levels. As chains enter new states, they must take the time to understand and adapt to that state's rules and regulations or risk failing to comply. Overly complex or inconsistent regulations can therefore add additional time, money, and manpower costs as pharmacy chains adapt to meet each local government's requirements.

Role of pharmacy councils and associations in pharmacy chains' expansion

Stakeholders revealed that pharmacy councils and associations in several countries, including Argentina and Chile, initially resisted their chains' development, viewing chains as an attempt to corporatize medicine or as a threat to traditional independent mom-and-pop stores. Even when chains have successfully emerged in these countries, councils and associations have tried to contain their growth. To counter this force, chains are beginning to organize among themselves. In Brazil, some chains came together to create a formal association, the Brazilian Association of Pharmacy and Drug Shop Chains (ABRAFARMA). ABRAFARMA's goal is to strengthen the voice of these chains in the development of new policies. It represents its members in policy dialogue, files legal proceedings on their behalf, and channels new information back to the chains to help them strengthen their businesses.

Varying interest levels in public-private partnership

Stakeholders indicated that pharmacy chains have an interest in collaborating with government partners, but that such collaboration has been limited by perspectives that the chains focus exclusively on profit maximization. However, some government partners have recognized the potential of public-private partnerships. For example, the Chilean Ministry of Health highlighted how pharmacy chains have increased access to contraceptive products by offering a wider range of family planning products than can be found in the public sector. Similarly, the Peruvian Ministry of Health is conducting a campaign to raise pharmacists' awareness of corporate social responsibility and quality concerns to motivate them to participate more actively in public health programs (Vasquez 2019). Certain governments have established partnerships with chains to expand access to products. For example, the Brazilian chains Onofre, Drogaria Araujo, Drogaria Pacheco, and Drogaria São Paulo offer products subsidized by the government through the *Farmacias Popular* program.

Driving scalable growth through strong demand and supply

Increased awareness of and demand for health and family planning products

Increased demand for health products was an important factor in the emergence of pharmacy chains. Stakeholders highlighted government and donor investments in behavior change, health promotion, and social marketing programs as having indirectly supported their businesses by increasing awareness of, demand for, and willingness to pay for health and family planning products. Pharmacy chains have built on these initial investments with their own branded promotions and health campaigns. For example, Cruz Verde developed and implemented an awareness-raising campaign about emergency contraceptives to build demand for the product.

Pharmacy chains have also benefited from evolutions in how clients demand their health care. Many noted that—especially among growing upper- and middle-income segments—clients are increasingly demanding quicker access, better quality, and more tailored experiences. This changing demand has informed how pharmacy chains train their staff, emphasizing convenience and high-quality customer service and developing tailored loyalty programs to encourage repeat customers, which Onofre has done in Brazil.

Demand-related constraints remain, however. Many pharmacy chains have struggled to expand in areas with poorer populations due to the limited purchasing power of these populations, which makes it difficult for pharmacy owners to become profitable. Stakeholders highlighted how persistent taboos regarding family planning have also affected demand for contraceptive products

in certain areas, thereby curbing the growth of chains' family planning business. In response to these varying levels of demand, pharmacy chains may choose not to open stores in underserved areas that seem unprofitable at first glance, or they may choose to adapt their offering as SanaSana has to remain profitable in these more challenging areas. Such decisions may affect the geographic access of vulnerable populations to priority products.

Increased capacity to pay for health and family planning products

Millions of Latin Americans ascended from lower- to middle-class status over the last decade, leading to more disposable incomes in the region. Health financing and social insurance programs across Latin America also increased their reach and improved their viability, enabling greater numbers of lower-income populations to seek care. In high- and upper-middle-income countries in the region, all modern contraceptive methods are typically available through the social health insurance schemes that cover a majority of the population. However, in lower-middle-income countries, despite the free provision of most family planning services in public health facilities, stockouts and implicit rationing present substantial barriers to accessing family planning through the public sector, thereby driving patients of all income levels to the private sector (Fagan et al. 2017).

Pharmacy chains greatly benefited from the population's increased purchasing power and actively pursued contracts with public health financing programs to be able to serve lower-income populations. Pharmacy chains' growth may have been limited to higher-income segments if it were not for the existence of financially viable health financing programs and governments' willingness to contract with pharmacy chains. In Chile, Farmacias Ahumada participates in the National Health Fund (FONASA) and also developed the program "Ahumada with you" to help patients with chronic diseases access medicines at lower cost. The *Farmacias Popular* program in Brazil (e.g., Drogas Pague Menos) offers a list of products, including contraceptives, which are subsidized at a 90 percent rate. In Argentina, chains participate in social insurance programs for medicines, with the National Institute of Social Services for Retirees and Pensioners (PAMI) covering 36 percent of beneficiaries (Bisang, Luzuriaga, and San Martin 2017). In Colombia, pharmacies and chains contract with the social security program on an individual basis to offer medicines to insurance patients.

The population's increased capacity to pay for pharmaceutical and consumer health products also provided an opportunity for pharmacy chains to expand their portfolio of products and services. Many chains began to widen their offering of health products and introduce new services, cross-subsidizing higher- and lower-margin products including contraceptives, to profitably meet client needs. Stakeholders expressed concerns regarding donor investments that could limit their ability to grow. Specifically, they cited that previous donor-funded social marketing programs could contribute to market distortions. They noted that support for subsidized products—unless clearly targeted at those in need—could limit the willingness of those with the ability to pay commercial prices to do so. With profit margins already low for many health products, donor investments could limit the emergence or growth of pharmacy chains or motivate them to expand their more profitable wellness and beauty offerings at the expense of their health portfolio.

Strategic investments to enhance customer convenience, satisfaction, and loyalty

Pharmacy chains in Latin America benefited from strong capital markets and access to internal and external financial resources. Though quite a few

chains grew organically through direct contributions or contributions from affiliates (e.g., ISSEG model), often further growth was facilitated through market consolidation (mergers and acquisitions of competitors). Mergers and acquisition financing in particular was key to facilitating the expansion of retail pharmacies. External global pharmaceutical firms' investments in local companies have also helped bring in new expertise and capital.

As they consolidated, many chains leveraged the efficiencies and savings gained to invest in piloting and upgrading new products, systems, and platforms (e.g., e-commerce) (Harsono 2018). Chains focused on increasing the accessibility of their locations, products, and services to increase customer satisfaction and growth—examples of investments included:

- *Stronger automated supply chain/inventory management systems to ensure increased availability of products*.
- *Expanded product delivery mechanisms (including home delivery) and e-commerce*. Home delivery and e-commerce services offered by multiple chains in Mexico and Brazil may make it easier for vulnerable populations to purchase products without fear that they may otherwise avoid due to stigma or embarrassment (e.g., family planning products). The cost of these delivery mechanisms varies depending on the business model and location of the chain, which impacts accessibility.
- *Expanded supply of low-cost and, in some cases, free medical checkups and exams on site*. For example, Cruz Verde in Guatemala offers vaccinations and other specialized services in some of its pharmacies.

These types of investments are set to continue and expected to soon also include a range of basic diagnostic services (Corpart 2018a).

Capacity of local supply chain and strength of partnerships

The presence of reliable, quality national and international manufacturers in the region has supported the growth of pharmacy chains by facilitating:

- *Access to quality products*, often at lower cost when purchased in bulk or when produced in country due to the lack of import taxes. Stakeholders in Argentina stated that the in-country presence of contraceptive manufacturers' (local and global) facilitated the supply of a wide range of family planning methods. SanaSana identified bulk buying as a key strategy to manage input costs as part of its low-cost business model.
- *Rapid growth and use of locally manufactured generics*, supported by increased public trust in generics and the expiration of several dozen patents of popular branded prescription drugs (Corpart 2018b; Global Health Intelligence 2018). Local generic producers across Latin America are growing at 28 percent per year, giving pharmacy chains increased access to lower-cost inputs that they can then pass on to clients (ELAN 2016, Corpart 2018a).
- *Partnerships with suppliers and distributors* to reduce stockouts and decrease costs. Raia Drogasil-Onofre and Pague Menos (Brazil), Socofar (Chile), Quicorp (Peru), Almacén de Drogas (México), and National Cooperative of Drug Retailers (COOPIDROGAS) (Colombia) have all established such partnerships. Through vertical integration, pharmacy chains can ensure they have a strong and reliable supply chain in place while minimizing waste and reducing the opportunities for markups along the supply chain (Kurata 2017; IFC 2017). Many social enterprises in sub-Saharan Africa and Asia are already exploring how to develop partnerships with e-commerce platforms to support inventory management and distribution.


DIGOXINA
GLIBENCLAMIDA
Glucerna
Cloprim 5
Nitrofurazona

Considerations for future support

Most pharmaceutical markets in Asia and sub-Saharan Africa are expected to grow in the coming years, attracting new investments in the pharmacy retail sector (Harsono 2018). Pharmacy chains have already started to emerge; South Africa-based Clicks is one of the most successful examples (Box 5).

Box 5: South Africa's first pharmacy chain

Clicks is the first retail pharmacy chain to emerge in South Africa. Founded by Jack Goldin in Cape Town in 1968, Clicks started off as a retail chain selling consumer goods. Despite Goldin's vision of selling health products and medicines, South African regulations placed strict limits on who could own a pharmacy and how many they could own. Over the next 35 years, the chain expanded nationwide, fueled by its strong retail sales. When the government revised its rules to allow corporate pharmacy ownership in 2003, Clicks began adding pharmacies to its existing stores. Since Clicks opened its first pharmacy in 2004, it has opened more than 500 pharmacies in 650 stores, as well as 200 in-store clinics. The clinics offer a wide range of primary care, including family planning services such as consultations, injections, and implant insertions and removals. In 2003, Clicks acquired United Pharmaceutical Distributors, South Africa's leading national pharmaceutical wholesaler. In 2016, the chain introduced online and mobile sales platforms to bring its products closer to consumers. As a result of these investments, Clicks has become the largest retail pharmacy chain in South Africa, with one of the biggest loyalty programs in the country with over 7 million members.

As chains continue to expand, governments and donors must take steps to build on the lessons learned from Latin America to ensure pharmacy chains like Clicks and Kenya-based Goodlife are effectively integrated into health systems across Asia and sub-Saharan Africa. Though pharmacy chains can contribute and have contributed to increasing access to priority products and services, they remain profit-driven enterprises that require oversight and incentives to maximize their public health impact. Based on experiences in Latin America, there are several considerations that governments and donors should take into account when looking to replicate similar platforms for increasing the organization and scale of the pharmacy retail sector. There are certain socio-economic factors that played an important role in supporting the rise of pharmacy chains in Latin America, the most important being the economic growth that led to the population's increased purchasing power.

Photo: Presidencia República Dominicana

Supporting emergence and growth

- **Review and harmonize regulations regarding pharmacy staffing, ownership, and task sharing**. The goal of this exercise should be to identify the appropriate types and amount of regulations that can help pharmacy chains form and achieve the required scale to strengthen supply chains, improve quality, and increase access to products while still promoting competition in the market to prevent price fixing. Resources such as the SHOPS Plus scan of drug shop and pharmacy regulations relevant to family planning in 32 developing countries can inform this exercise (Riley, Callahan, and Dalious 2017). Regulations that can affect if and how chains emerge include those that impose certain requirements on the credentials that one must have to own a pharmacy (therefore limiting the ability of commercial business actors to invest in the sector), limitations on the number of pharmacies that a single owner can operate, and antimonopoly rules that govern the broader economy. Governments should ensure that any regulatory revisions are in line with enforcement capacity and should consider how partnerships with chains or associations can strengthen sector self-regulation and dissemination of new policies and guidelines.
- **Assess the efficiency of current generic drug policies and facilitate increased investment in the production of quality branded generics**. Facilitating investment can take many forms, depending on the local market conditions and stakeholders' technical and financial capacity. Potential activities include pursuing partnerships with international manufacturers to bridge gaps in the supply chain when local manufacturing is not feasible. Governments can also facilitate the growth of generics by adopting policies and regulations that require doctors to prescribe generics rather than branded options or that can allow pharmacists to substitute generic options for branded prescriptions. If governments decide to pursue these types of regulations, it opens the door for pharmacy chains to pursue expansion strategies that are fueled by the sale of generic medicines that would make them more affordable options for a larger customer base. These reforms should be adopted in the context of sufficient government oversight to ensure that generic products meet acceptable quality thresholds.
- **Partner with financial institutions to develop new capital solutions to support pharmacy chains' growth, incentivizing expansion in underserved areas where possible**. Targeted financing solutions (e.g., merger and acquisition financing) can facilitate initial growth and scale-up. India and the Philippines are two family planning priority countries with pharmacy chains that could potentially benefit from this.

- **Provide technical assistance to pharmacy chains to develop a portfolio of products and services that maximizes both profitability and health impact**. A strategically designed portfolio can help boost a chain's revenues (key to expansion), while increasing the accessibility of priority products with lower margins through cross-subsidization. This assistance could include working with emerging franchisors or cooperative models to design the guidelines that new members must adopt in order to join. Donors and implementing partners can advise chains on how to test and design the mix of benefits and requirements that new franchisees or cooperative models adopt to incentivize their participation and align them to public health goals.
- **Support high-performing pharmacy chains to contract with public health financing programs**. This type of public-private partnership could effectively increase lower-income populations' access to a wider range of priority products and provide chains with a new source of revenue that they can use to invest in further improving and expanding their operations.
- **Leverage technological innovation to increase transparency, efficiency, and pharmaceutical care**. Governments and donors could support pharmacy chains to pilot innovations such as e-commerce or mobile payment platforms and internet-connected devices. These investments could increase pharmacies' ability to serve more clients more effectively by bringing down operating costs, facilitating their ability to operate at greater scale, or attracting more clients by making product sales more convenient and accessible. Together, these outcomes can help chains grow larger.

Maximizing health impact

- **Capitalize on pharmacy chains' oversight mechanisms to support global task sharing guidelines that can allow pharmacies and pharmacy chains to contribute to priority health areas**. Most of USAID's family planning priority countries do not permit trained pharmacists to administer DMPA injections, which restricts population's access to a wider range of contraceptives (Riley, Callahan, and Dalious 2017). Pharmacy chains could address some of the quality and oversight concerns that have limited adoption of task sharing guidelines in sub-Saharan Africa. While global research has found that chains' oversight mechanisms have focused on promoting employee adherence to customer service and business operations, there are opportunities for governments to align them with public health concerns as well, through public-private partnerships and regulations.

- **Partner with pharmacy chains and the private sector in awareness-raising campaigns within the communities they operate in**, making sure they offer the relevant range of products promoted as part of the campaign. Doing so can also help chains grow by establishing them as trusted partners for quality health products in the community.
- **Collaborate with chains and other relevant stakeholders to develop and roll out high-quality training programs for pharmacists** that incorporate a finance and management component as well as quality components to ensure (1) pharmacists have the necessary skills to lead a successful business and (2) upgrade the quality of dispensing, counseling to patients, and other value-added services. This collaboration could take the form of direct technical assistance to the chains or a more formal public-private or private-private partnership that links chain-funded continuing professional development opportunities to accreditation and licensure regimes. A comprehensive plan is needed to ensure all stakeholders involved in training and deployment are engaged from planning to implementation so that the trainings effectively address the needs of the market and produce high quality human resources for health.

Pharmacy chains' business models will vary significantly depending on the maturity of the market and the purchasing power of potential clients (Harsono 2018). When assessing the role of pharmacy chains, governments and donors must look at the full market context, taking into account factors related to demand, supply, and enabling environment. Governments and donors should work with actors across markets to fully understand how they can incorporate the lessons identified in this brief into their programming and support for pharmacy chains. Key to these efforts will be maintaining a healthy, competitive marketplace that capitalizes on the strengths of a more organized pharmacy retail sector, while minimizing its potential drawbacks. By building upon the lessons learned from Latin America's experience, stakeholders across sub-Saharan Africa and Asia will be able to further strengthen pharmacy chains' contributions to public health and family planning outcomes.

Annex. Interviewed stakeholders

#	Name	Organization
Argentina		
1	Roberto Bisang	Research Economist
2	Alicia Merlo	Confederación Farmacéutica Argentina (COFA)
3	Carlos Vasallo	Santa Fe Association of Pharmacies
4	Nicolas Pavlovsky	Cabinet of Ministers
5	Natalia Ruggieri	Ministry of Health
Brazil		
6	Karen Carredoni	FEBRAFARMA
7	Vanessa Shayanne Margues de Carvalho	Ministry of Health
8	Daniel Marun	DKT Brazil
9	Patriciana Rodrigues	Farmácias Pague Menos
10	Dimitri Moufarrege	Semina
11	Pedro Zidoi	ABCFarma Association
Chile		
12	Mauricio Huberman	Pharmaceutical Chemists Council of Chile
13	Javier Mendel	Ministry of Health
14	Juan Herrera	Ministry of Health
Colombia		
15	Patricia Arce	Ministry of Health
16	Ruth Lorena Correa	Ministry of Health
17	Andrés Camilo Sierra	ASOCOLDRO
18	Claudia Sterling	Farmacias Cruz Verde
Guatemala		
19	Niels Erichsen	Cruz Verde
20	Jorge Mario Ortega	Independent consultant
Mexico		
21	Anna Karina De La Vega	DKT
22	José Luis Delgado	Farmacias ISSEG
23	Santiago González	Farmacias Yza and National Association of Drug Distributors (ANADIM)
24	Roberto Gutierrez Elizondo	Farmacias Purex/Almacen de Drogas
25	Oscar Lorence Rubio	Farmacias H.E.B. de Supermercados H.E.B.
26	Yolanda Varela	Ministry of Health
27	Rufino Luna	Ministry of Health
Peru		
28	Lucy Del Carpio	Ministry of Health
29	Susana Vasquez	Ministry of Health
Other		
30	Federico Tobar	UNFPA

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Abt Associates Inc.
6130 Executive Boulevard
Rockville, MD 20852 USA
Tel: +1.301.347.5000