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# Analysis of the Brazilian pharmaceutical retail market: main characteristics, players and successful practices

# Análise do mercado farmacêutico brasileiro: principais características, atores e práticas de sucesso

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**ABSTRACT**
The Brazilian retail pharmaceutical market is going through an extremely important moment. The accelerated growth presented in recent years tends to remain, leading Brazil to become one of the five largest markets worldwide in the short term. In addition, although still very fragmented, the market is experiencing a gradual consolidation process. Such transformations and outlooks, along with the economic context of the country, create high level of interest from investors and other stakeholders. This chapter answer the following questions: What is the economic relevance of the Brazilian pharmaceutical retail market, its main characteristics and perspectives? Which are the players in this market? Which are the main brands, their characteristics, performances and successful practices? What would be the strategy recommendations for a player's success considering the current market momentum? The method was based on literature review and a semi-structure interview with a senior

executive of a main player. Overall, the main players have been obtaining good operational and financial performance. These companies have different characteristics in regards to financial performance, footprint, positioning, number of stores, and operation of retail outlets, among others. They also feature numerous strategic initiatives, which are analyzed in order to identify good market practices and recommendations for success, touching on topics such as expansion, store format, customer service, management and growth mechanisms. The results of this chapter were partially presented before by Fernandes at al. (2016). Therefore, we believe this chapter is useful to business managers and investors in this market (generating better understanding and enabling more conscious strategic analysis) as well as academics studying it (as it serves as a reference for future studies).

**Keywords:** Brazilian drugstore market, Analysis of the pharmaceutical retail, Profiles and good practices of drugstores

**RESUMO**

O mercado farmacêutico de varejo brasileiro está passando por um momento extremamente importante. O crescimento acelerado apresentado nos últimos anos tende a permanecer, levando o Brasil a se tornar um dos cinco maiores mercados do mundo no curto prazo. Além disso, embora ainda muito fragmentado, o mercado está passando por um processo de consolidação gradual. Tais transformações e perspectivas, juntamente com o contexto econômico do país, criam alto nível de interesse dos investidores e de outras partes interessadas. Este capítulo responde às seguintes perguntas: Qual é a relevância econômica do mercado farmacêutico brasileiro, suas principais características e perspectivas? Quais são os players desse mercado? Quais são as principais marcas, suas características, performances e práticas de sucesso? Quais seriam as recomendações de estratégia para o sucesso de um jogador, considerando o atual momento do mercado? O método foi baseado na revisão de literatura e em uma entrevista semiestruturada com um executivo sênior de um ator principal. No geral, os principais players têm obtido bom desempenho operacional e financeiro. Essas empresas possuem características diferentes em relação ao desempenho financeiro, presença, posicionamento, número de lojas, operação de pontos de venda, entre outras. Eles também apresentam inúmeras iniciativas estratégicas, que são analisadas para identificar boas práticas de mercado e recomendações para o sucesso, abordando tópicos como expansão, formato da loja, atendimento ao cliente, mecanismos de gerenciamento e crescimento. Os resultados deste capítulo foram parcialmente apresentados anteriormente por Fernandes al. (2016). Portanto, acreditamos que este capítulo é útil para gerentes de negócios e investidores nesse mercado (gerando melhor entendimento e possibilitando análises estratégicas mais conscientes), bem como para acadêmicos que o estudam (pois serve como referência para estudos futuros).

**Palavras-chave:** mercado brasileiro de drogarias, análise do varejo farmacêutico, perfis e boas práticas de drogarias.

## 1 INTRODUCTION

### 1.1 THEME PRESENTATION

Retail has a unique character due to its direct contact with the end consumer. Engel, Blackwell and Miniardi (2000) point out that a product, no matter how good, has no value whether retailers do not make it available to create satisfied consumers.

Besides, the retail sector has significant numbers. According to the Institute for Retail Development (*Instituto do Desenvolvimento do Varejo*)- IDV (2015), retail is the private sector that has the largest number of formal employees - around 8 million people - and its average annual sales growth of 7.2% between 2004 and 2014, reaching a 26% share of Gross Domestic Product (for comparison, GDP grew at the same time an average of 3.6% per year). The total market value in 2014 is approximately R$ 1.3 trillion (INSTITUTO BRASILEIRO DE EXECUTIVOS DE VAREJO E MERCADO DE CONSUMO – IBEVAR, 2014).

Among the retail segments, the pharmaceutical sector stands out, which, in 2013, accounted for approximately 9% of sales of the 120 largest retail companies in the country (IBEVAR, 2014). This market has shown impressive growth numbers, acquiring increasing importance in the country. According to IMS Health (2013 apud PAGUE MENOS, 2014), the average annual growth was 17% between 2008 and 2013 and the outlook is very positive for the sector, with an estimated annual growth of 13% for the coming years.

Importantly, the pharmaceutical retail market is changing and presents opportunities for its own and its players' development, through changes in product mix, store layout and market consolidations (CLOSE-UP INTERNATIONAL, 2014).

## 1.2 RESEARCH OBJECTIVES AND PROBLEMS

This chapter proposes to answer the following questions:

- What is the economic relevance of the Brazilian pharmaceutical retail market, its main characteristics and perspectives?
- Which are the players in this market? Which are the main brands, their characteristics, performances and successful practices?
- What would be the strategy recommendations for a player's success considering the current market momentum?

Thus, the objective of this chapter is to provide an overview of the Brazilian pharmaceutical market and to identify development opportunities. Thus, it contributes to the development of the market through the analyzes and conclusions that will be carried out and can be used by people linked to Brazilian drugstores such as researchers, academics, investors and managers. The results of this chapter were partially presented before by Fernandes at al. (2016).

### 1.3 RELEVANCE AND CONTRIBUTION

Despite the increasingly significant importance of the pharmaceutical retail market in Brazil, academic studies in this area are not as frequent as in other markets that have already been strengthened in the country (e.g., commodity or beef export markets). Thus, characterization research on pharmaceutical retailing is extremely important for its better understanding, thus contributing to its continuous development.

It is noteworthy that although there are academic works that have proposed to analyze this sector, many of them were done some years ago and, therefore, are outdated mainly because it is a market in constant and fast transformation.

This chapter involves an overview of the market to describe its main characteristics and most relevant players, as well as identifying strategic opportunities for success in the current moment of expansion. Therefore, we believe it can serve both business managers and investors in this market (generating better understanding and enabling more conscious strategic analysis) as well as academics studying it (as it serves as a reference for future studies).

## 2 CONTEXTUALIZATION

### 2.1 LITERATURE REVIEW

#### 2.1.1 Retail

According to Parente (2000), retail and wholesale are the structures most often found in consumer goods distribution systems, playing distinct roles between manufacturers and end consumers. While the wholesaler is involved in the sales process for organizations - either to resell or as input to their activities - the retailer makes the commercial effort for end consumers.

The retailer is in the final stage of distribution (EVANS AND BERMAN, 1995), engaged in the sale of goods and services for the final consumer's personal, family or home use (SILVA, 2000). McGoldrick (1990) stresses that retail is responsible for all activities of selling goods and services for personal use, i.e. it is non-business use.

Las Casas and Garcia (2007) add that the essence of retailing is the marketing of products and services to end consumers and eventually other consumers, buying in large quantities from manufacturers, wholesalers and distributors for later sell in smaller quantities. Kotler (2000) argues for a broader definition by which any activity involved in the direct sale of goods or services to end consumers should be considered retail, regardless of how it is done (personal, mail, telephone, vending machine) or location (in shops, streets or homes).

Retailers provide different types of services to their customers as a means of market differentiation and customer loyalty. These services are described by Peçanha and Menezes (1997) as the set of activities and programs that seek to improve the shopping experience, thereby increasing the potential value perceived by customers regarding the product or service. Albrecht (1992) adds that, from a competitive point of view, a higher level of service quality towards customers and superior to competitors leads to higher market share, price, and profit margin.

Parente (2000) explains that these services can be categorized into three types:

- Pre-transaction - represent the ease to make the purchase or learn about the products, can be exemplified by the store opening hours, comfort, access to information, among others.
- Transaction - represent the ease of completing the purchase, can be exemplified by the availability of goods, payment method, positive service, among others.
- Post-transaction - represent the enhancement of customer satisfaction at a time after purchase, can be exemplified by delivery service, technical assistance, easy assembly, among others.

Customer satisfaction is a key to success in the retail industry, not just the specific customer that was served. The dissatisfaction of a customer is easily spread to your network through personal comments, coupled with the fact that winning a new customer is a much more expensive process than keeping a customer (PEÇANA; MENEZES, 1997). This process is accentuated in a world extremely connected by social networks and in which changes in competitor strategies and consumer expectations are becoming ever faster.

In this sense, Felisoni and Giagrande (2004) indicate that retailers should correctly analyze satisfaction surveys, addressing satisfaction and dissatisfaction in isolation and paying attention to the fact that the opposite of satisfaction is the absence of positive points that motivate or build customer loyalty, not dissatisfaction.

**2.1.2 Retail Companies**

Las Casas and Garcia (2007) explain that there are several types of retail stores, including independent stores and chain stores:

- Chain stores are defined as a group of at least four stores that operate the same type of business and have a great opportunity for competitive advantage by purchasing economies of scale. Kotler (2000) adds that the great difficulties of this type of retail are related to the operations control, flexibility, and adaptations to the market characteristics of each unit.

- Independent stores have a very small number of stores, do not have a strong image in the market and are characterized by administrative simplicity and often provide direct contact between owner and customer. Kotler (2000) adds that these stores are often managed in a family environment and allow greater flexibility to meet consumer needs and react to market fluctuations, with the major disadvantage of resource constraints and bargaining power with suppliers.

Regardless of the type of store, some issues are essential to the smooth running of retail businesses that must be prepared to make appropriate decisions. Factors such as brand positioning, audience selection, physical store environment, point of sale location, quality and commodity pricing are vital to the organization's performance (KOTLER; ARMSTRONG, 1998).

Also, retailers are influenced by uncontrollable variables that can cause changes in company performance (LAS CASAS; GARCIA, 2007). Among them, the following factors stand out:

- Culture - the habits, behaviors, and interests of the population and especially of the target audience.
- Demography - involves population demographic parameters such as age, population distribution, birth rate, marital status, wage income, education level.
- Economy - the economic context, influenced by parameters such as inflation, exchange rate change, unemployment rate, GDP evolution, interest rate.
- Legislation - the laws and regulations surrounding the business.
- Politics - Political ideologies and government practices can strongly influence trade trends.
- Technology - innovations and technological enhancements that enable retailers to deliver new value products and services.

Retail businesses go through a life cycle that typically influences business performance. Las Casas and Garcia (2007) explains that the time of each stage varies according to the specific context. The steps are:

- Introduction - sales and market share grow slowly and profits may still be small.
- Growth - sales grow at a rapid pace and profit rises rapidly, as does market share.
- Maturity - sales, profit, and market share growth, but at a slower pace. At this point, the store is already established and business understanding allows for specific changes for enhancements and upgrades.
- Decline - sales fall at a rapid pace, although profits may decline at a slower pace.

Thus, it is expected that retail stores will not reach their full potential until a few semesters or years after opening.

**2.1.3 Business growth and consolidation**

Traditionally, companies grow in three ways - internal expansion, mergers and acquisitions, and alliances (LYNCH, 1994). The following are the main features of each:

- Internal expansion (also called organic expansion): In this case, the company grows without associating with other players, thus avoiding cultural shocks with an allied company. Lynch (1994) points out that this path to growth involves capital expenditures in expanding markets and/or superior technologies, generally depending on the ability to manage a growing number of human resources. Hagel III (2002) explains that in an organic expansion the company builds new assets, while in an acquisition it acquires them.
- Mergers and acquisitions: involves a higher degree of control and investment, suddenly increasing market share and causing greater management impact, with a more complex cultural transition and low possibility of reversibility (CANÇADO; TANURE, 2005). Ross, Westerfield and Jaffe (2008) also add that the nature of the transition can be horizontal (between companies in the same sector), vertical (between companies of different sectors, but of the same production chain) or conglomerate diversification (companies of different activities with objectives).
- Alliances: These are collaborative agreements developed by two or more organizations, comprising joint ventures, franchises, outsourcing, partnerships, among others, seeking strategic complementarity and sharing risks, costs, structures and benefits related to business opportunities (INKPEN, 2001).

These growths of companies often transform the characteristics of the market in which they operate, and may make it more consolidated. According to Lendrevie et. al (2000), fragmented markets are characterized by the scattered presence of several companies, without one company having a very significant market share, while consolidated markets (also called concentrates) are dominated by a small number of brands. As an example, the authors cite the contrast between deodorant markets (where no brand has dominance) and razor blades (dominated by Gilette).

Porter (1991) complements the information that in a fragmented market no company can strongly influence the market result, unlike in a consolidated market.

## 2.2 BRAZILIAN PHARMACEUTICAL RETAIL OVERVIEW

**2.2.1 Main product categories**

The Brazilian pharmaceutical market has a series of products with different characteristics and compositions, which are usually categorized as follows (BRASIL PHARMA, 2015):

- Reference: patent-protected medicines
- Generic: Identical substitute of the reference medicine, with the same chemical composition
- Similar: a copy of reference medicine, but may differ in dose, administration, product size, and shape, shelf life, packaging, and labeling
- MIP (Over-the-Counter Medicines).
- NMED (HBC): mainly composed of toiletries, perfumery, and cosmetics

Figure 1 shows how these categories contribute to the total market.

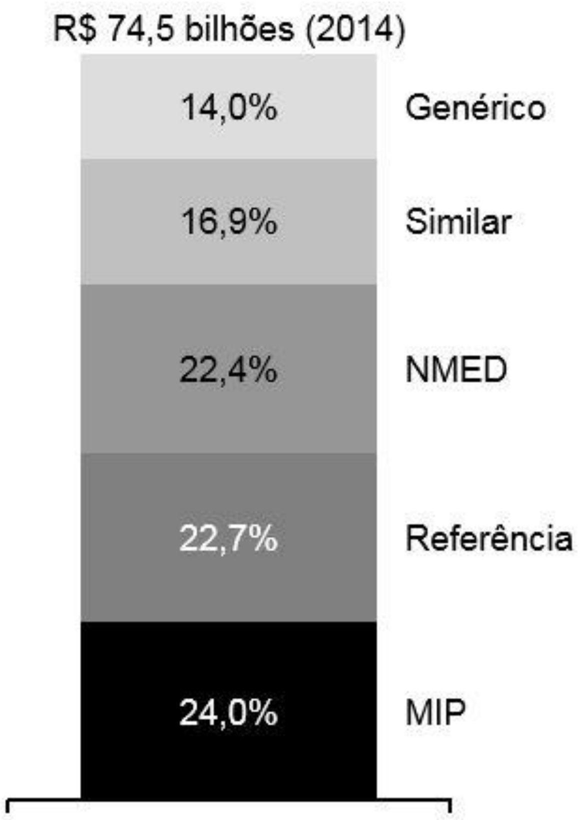


FIGURE 1 – Market contribution of each product type.

### 2.2.2 Market size and prospects

According to Close-Up International (2014), which monitors and audits the pharmaceutical market in Brazil, the total market size in 2014 was approximately R$ 74.5 billion. This represents an increase of 16.4% over the previous year and is expected to reach R$ 122.8 billion in 2017. This outlook corresponds to an average annual growth rate of 17.7%. Figure 2 shows the estimated evolution of market size.

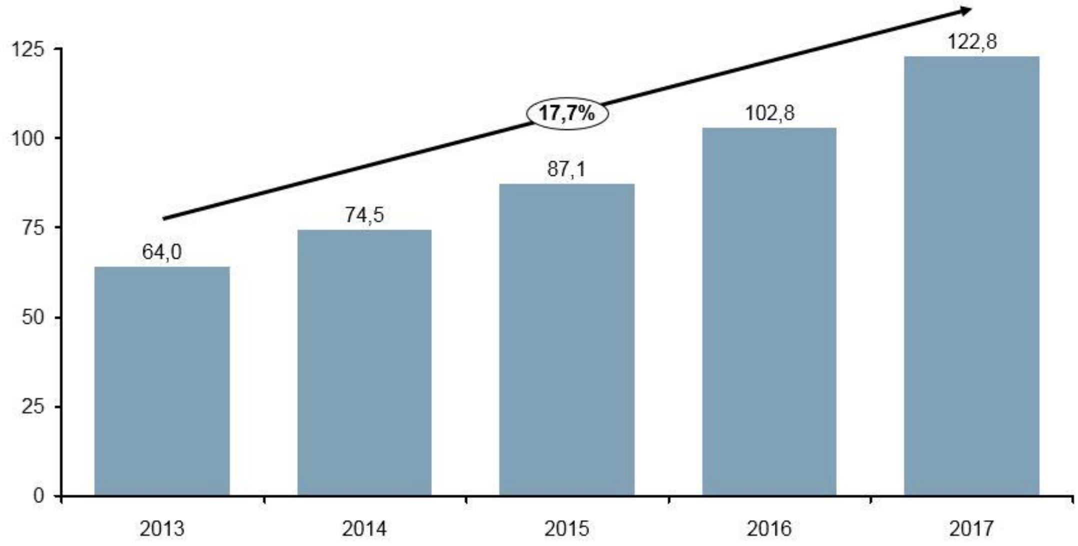


FIGURE 2 – Brazilian pharmaceutical market growth.

Also according to Raia Drogasil (2014), the average annual market growth between 2007 and 2013 was 16.2%. The strong evolution of the pharmaceutical market in recent years is a reflection of the resilience of the pharmaceutical market, which tends to be one of the sectors least impacted by economic fluctuations (PRICEWATERHOUSECOOPERS, 2013). This characteristic is mainly due to its basic necessity products, which hardly cease to be consumed even in times of crisis.

In addition to this resilience, the remarkable market growth is related to changes in population demographics as well as industry structure and consumer behavior:

- The profile of the Brazilian age pyramid is undergoing significant changes as the population ages. According to Raia Drogasil (2014), the population over 65 years old will represent 14% of the total population in 2032, becoming the country that will more quickly double the proportion of this portion. In 2013, for example, there were 32 million men over 40 years old. This number was 22 million in 2000 and is expected to reach 49 million by 2030 (IBGE, 2015), as shown in Figure 3.

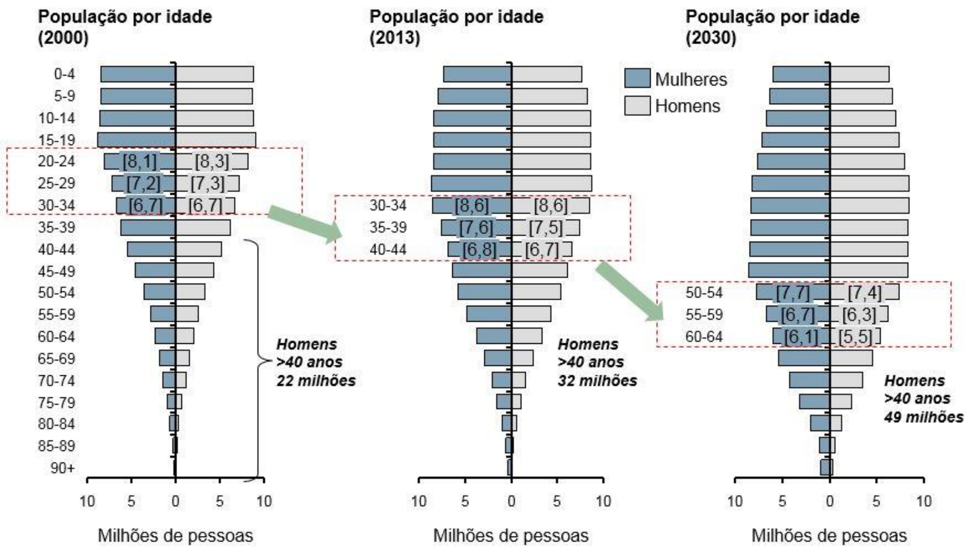


FIGURE 3 – Aging of the Brazilian population.

- The Brazilian population has an increasing number of overweight people, according to the parameters of the Body Mass Index. Until the early 1980s, the proportion of overweight or obese people was 29%, while in 2009 this number is 64% (INTERNATIONAL DIABETES FEDERATION, 2014).
- Generic drugs are increasingly present and have significantly increased their participation since the introduction of the generic law in 1999. The high investment of laboratories in this category and the recent expiration of important patents (such as Viagra, Liptor and Crestor, which are among the top sellers) has made generics the fastest-growing category in sales in Brazil in recent years, stimulating population consumption at its most affordable price compared to reference drugs (CLOSE UP INTERNATIONAL, 2014).
- The HBC product category, consisting of toiletries, perfumery, and cosmetics, has high added value and is increasingly present in drugstores. According to Raia Drogasil (2014), in 2007 drugstores had a 27.5% share in the distribution of HBC, while in 2014 this number rose to 36.1%. This growth has led drugstore chains to adapt their store formats and even launch private labels to attract consumers of these products.

According to IMS Health estimates (2013 apud PAGUE MENOS, 2014), the Brazilian pharmaceutical market is expected to have the highest average annual growth in the world by 2018, surpassing countries such as China (between 11 and 14%), the USA (between 2 and 5 %) and the United Kingdom (between 2 and 5%).

Thus, the Brazilian market, which currently occupies the 6th position in the ranking of the largest markets in the world, should rise to the 4th position. The first three places should still be occupied by the US, China, and Japan, respectively, as shown in Table 1.

| **Rank** | **2013** | **2018** |
|---|---|---|
| *1st* | US | US |
| *2nd* | China | China |
| *3rd* | Japan | Japan |
| *4th* | Germany | Brazil |
| *5th* | France | Germany |
| *6th* | Brazil | France |
| *7th* | Italy | Italy |
| *8th* | United Kingdom | United Kingdom |
| *9th* | Spain | Canada |
| *10th* | Canada | Russia |

TABLE 1 – Largest pharmaceutical markets worldwide.

Moreover, another very positive indicator for the prospects of the Brazilian market is the per capita expenditure on health compared to other countries. According to Raia Drogasil (2014), spending in Brazil is still far below its neighbors on the list of the world's largest pharmaceutical markets, as shown in figure 4, which suggests that there is plenty of room for growth.

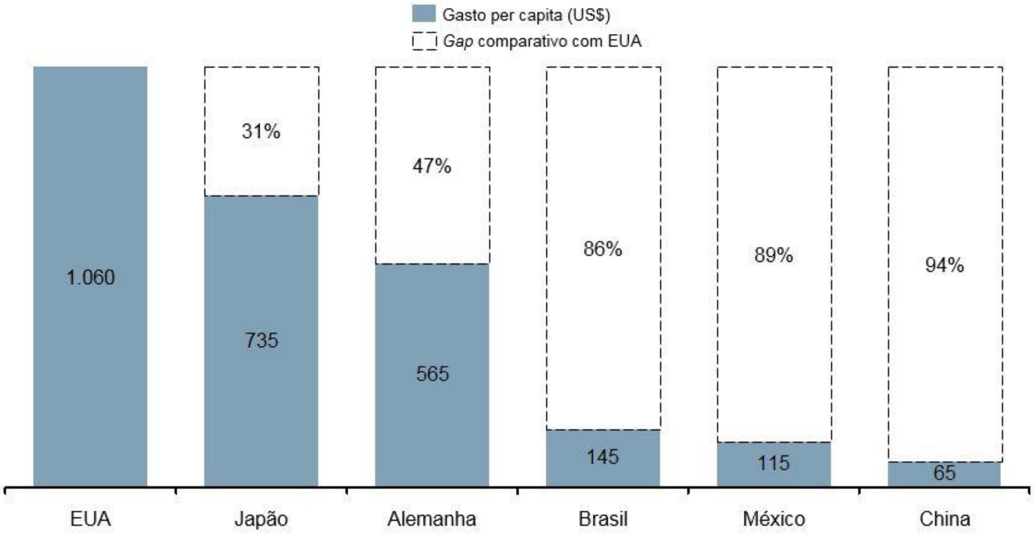


FIGURE 4 – International benchmarking of per capita expenditure on health.

### 2.2.3 Market consolidation and main players

The Brazilian drugstore market cannot be considered consolidated, as no player reaches 11% market share (CLOSE-UP INTERNATIONAL, 2014). This demonstrates a fragmentation of the market that is not largely dominated by any company.

According to the Federal Pharmacy Council (2014), there are over 70,000 drugstores in Brazil. Independent stores account for the vast majority of this number, with 85% of outlets, and contribute 47% of the market size (CLOSE-UP INTERNATIONAL, 2014).

In other words, revenues from independent retail are still very significant and are of similar importance to the sale of chains, as shown in figure 5. It is important to highlight that these independent stores have much lower average sales than chains.

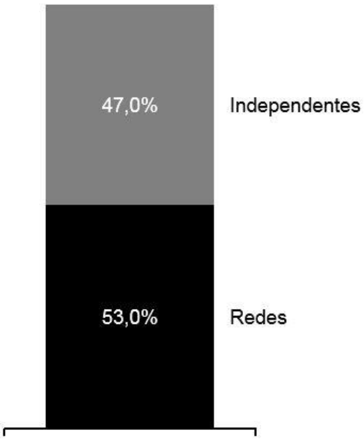


FIGURE 5 – Sales breakdown by store type.

On the other hand, this fragmentation characteristic has been changing in recent years - Figure 6 shows that the market has been consolidating. Despite increasing in absolute value, independent store sales accounted for a larger share of total sales in 2004, at 66%. At the same time, sales in the ten largest chains in the country increased from 21% to 36% (RAIA DROGASIL, 2015).

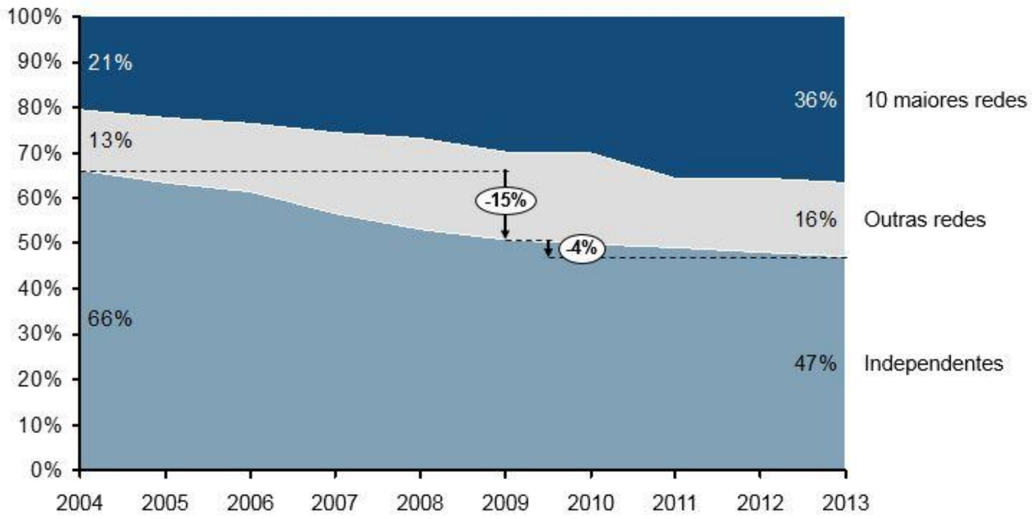


FIGURE 6 – Brazilian pharmaceutical retail consolidation process.

The eight largest retailers in the pharmaceutical market have at least $ 500 million in revenues, totaling $ 26.8 billion, and are the main references in the country. Table 2 shows their respective revenues in 2014, obtained through presentations to corporate investors.

| *Company* | *Revenues (R$ billions)* |
|---|---|
| Raia Drogasil | 7.7 |
| DPSP | 6.4 |
| Pague Menos | 4.4 |
| Brasil Pharma | 3.8 |
| Araujo | 1.5 |
| Panvel | 1.3 |
| Extrafarma | 1.17 |
| Onofre | 0.5 |

TABLE 2 – Largest drugstore chains in Brazil.

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## 3 METHODOLOGY

This chapter was based on secondary research. Through a literature review of sources relevant to the subject, were consulted books, articles, and other academic papers, which provided theoretical support as well as reports from independent organizations (entities, institutions and industry associations) and materials for business investors. Thus, it was possible to collect the necessary information to support the work and to carry out case studies on some of the main retail companies in the pharmaceutical market.

Some organizations related to the pharmaceutical market publish reports and specialized studies on the sector. Thus, they represent an important official source of information. These include IMS Health, Close-Up International, the Brazilian Association of Pharmacy and Drugstore Networks (Abrafarma) and the Brazilian Association of Distribution and Logistics of Pharmaceutical Products (Abradilan), as well as entities such as the Brazilian Institute of Geography and Statistics, Brazilian Institute of Retail and Consumer Market Executives and Institute for Retail Development.

As part of the detailed study of market players, it was very important to consult the performance reports of the main companies in Brazil. These documents provide details about the specifics of each company - including information about its strategies, operations, expansions, and results - as well as presenting data and market analysis. In this sense, the companies that make the largest volume of publications available will have the largest contribution, that is, those that are publicly traded (Raia Drogasil, Brazil Pharma, Panvel, Extrafarma), although the privately held companies (DPSP, Pay Less, Araujo, Onofre) also publish data. Importantly, despite the work covering the market as a whole, the study contains more details about companies with at least $ 500 million in revenues in 2014, thus addressing the eight most relevant.

A semi-structured interview was also conducted with a pharmaceutical specialist who has extensive experience in the subject. For more than 20 years in the market, Carlos Alberto Dutra has held positions on the board of Raia Drogasil and vice president of Brasil Pharma, becoming a reference in the market. This conversation will be held to gather insights that can hardly be generated through secondary research, as well as to answer questions. The interviewer can complement the theoretical information previously obtained, providing relevant opinions about the market and the companies involved from a person who has had practical and daily contact with the pharmaceutical sector for many years.

From the information obtained by the mechanisms cited in this section, it will be possible to perform a comprehensive analysis of the pharmaceutical retail sector. This work, therefore, will serve as a basis for understanding successful practices in the current Brazilian context of this market.

## 4 PLAYERS ANALYSIS

### 4.1 PROFILE OF THE EIGHT LARGEST DRUG NETWORKS IN BRAZIL

Next, the profile of each of these main players will be drawn, considering the following points: revenues, market share, associated chains, number of stores, network positioning, geographic coverage and main area of operation. Data were obtained through publications of the companies themselves.

#### 4.1.1 Raia drogasil

The largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 7.7 billion
- Market Share: 10.3%
- Network: Droga Raia, Drogasil, Farmasil
- Number of stores: 1,091
- Positioning: Typically, in middle and high-income areas, with some points of sale dedicated to areas of lower purchasing power as well.
- Geographic coverage: South, Southeast, Midwest, and Northeast
- The main area of activity: Southeast

#### 4.1.2 DPSP

The second-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 6.4 billion
- Market Share: 8.6%
- Network: Drogarias Pacheco, Drogaria São Paulo.
- Number of stores: 961
- Positioning: Drugstore São Paulo typically focuses on high and middle-income areas. Dracharias Pacheco has more flexibility, focusing less on high-income areas
- Geographic coverage: South, Southeast, Midwest, and Northeast
- The main area of activity: Southeast

#### 4.1.3 Pague menos

The third-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 4.4 billion
- Market Share: 5.9%
- Network: Farmácias Pague Menos

- Number of stores: 738
- Positioning: Flexible depending on location, but with less emphasis on high income
- Geographic coverage: South, Southeast, Midwest, Northeast, and North
- The main area of activity: Northeast

**4.1.4 Brasil Pharma**

The fourth-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 3.8 billion
- Market Share: 5.1%
- Network: Drogarias Big Ben (integrated with Farmácias Guararapes), Farmácia Sant'ana, Drogaria Rosário, Farmácias Mais Econômica, FarMais
- Number of stores: 1,212 (727 own stores)
- Positioning: Flexible depending on location and brand
- Geographic coverage: South, Midwest, Northeast, and North
- The main area of activity: each network has a focus on its region; Big Ben in the North, Sant'ana and Rosario in the Northeast, Mais Econômica in the South.

**4.1.5 Araujo**

The fifth-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 1.5 billion
- Market Share: 2.0%
- Network: Drogaria Araujo
- Number of stores: 136
- Positioning: Typically, in middle and upper-income areas
- Geographic coverage: Minas Gerais
- The main area of activity: Belo Horizonte

**4.1.6 Panvel**

The sixth-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 1.3 billion

- Market Share: 1.7%
- Network: Panvel Farmácias
- Number of stores: 321
- Positioning: Typically, in middle and upper-income areas
- Geographic coverage: South
- The main area of activity: Rio Grande do Sul.

### 4.1.7 Extrafarma

The seventh-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 1.2 billion
- Market Share: 1.6%
- Network: Extrafarma
- Number of stores: 223
- Positioning: Flexible depending on location, but with less emphasis on high income
- Geographic coverage: Northeast and North
- The main area of activity: Pará

### 4.1.8 Onofre

The eighth-largest player in the country closed 2014 with the following parameters:

- Revenues: R$ 0.5 billion
- Market Share: 0.7%
- Network: Drogaria Onofre
- Number of stores: 47
- Positioning: Typically, in middle and upper-income areas
- Geographic coverage: South and Southeast
- The main area of activity: São Paulo.

## 4.2 RECENT HISTORY OF MERGERS AND ACQUISITIONS

In recent years, merger and acquisition operations have been recurring in the Brazilian drugstore market, accelerating the process of market consolidation in large centers. This growth strategy ensures greater dominance for players, who quickly multiply, gain scale and position themselves to take advantage of spaces.

Three out of four major drugstore chains in Brazil are the result of major mergers and acquisitions - Raia Drogasil and DPSP emerged in 2011 (results of mergers between Droga Raia and Drogasil, and between Dracharias Pacheco and Drogaria São Paulo, respectively), while Brazil Pharma underwent a series of acquisitions between 2010 and 2012 from regional medium networks to reach its current size (ESTADÃO, 2014).

Besides, in 2013 the Ultra Group, which had companies in the specialized distribution, bulk storage, and specialty chemical branches, diversified its business line and acquired the Extrafarma network. That same year, CVS, one of the leading drugstore companies in the US, gained control of Drogaria Onofre, the eighth largest drugstore chain in Brazil. In 2015, CVS also showed interest in acquiring DPSP, which declined its offers (ESTADÃO, 2014).

This movement of mergers and acquisitions accelerates the consolidation process and demonstrates that large drugstore chains are moving to secure a relevant presence in a promising market, which is even attracting companies from other sectors and countries.

## 4.3 CASE STUDIES

Based on the list of the eight largest networks in the country, five companies were selected for further analysis. The selection criteria were designed to allow the study of varied strategic profiles, with different characteristics and performances. Thus, the cases to be studied are:

- Raia Drogasil: As the largest network in Brazil, it has presented good financial performance and had a remarkable expansion in recent years, and can serve as a base for market players.
- DPSP: The strategic actions of the second largest company in the sector can also serve as an example to other companies in the sector for their recent good performance, with some differences for Raia Drogasil.
- Brasil Pharma: Despite being the fourth largest network in the country, the network has been experiencing financial and operational difficulties, meaning its decisions may serve as a warning to other companies.
- Araujo: The network is considered a regional phenomenon, as its geographical focus is limited to just one metropolitan region and yet has the fifth largest revenue in the country.
- Panvel: With a strong state predominance, the network has a strong own brand of products and belongs to a vertically integrated group, which also acts as a distributor.

### 4.3.1 Raia Drogasil

Formed mainly by the Raia and Drogasil brands, which came together in 2011, Raia Drogasil can be used as a reference for other players, not only for being the largest network in the country but also for demonstrating that it is on the right track to maintain this position. in the coming years, according to the expert interview.

The Droga Raia appeared in Araraquara (SP), in 1905. At that time, drugstores were still environments of handcrafted drugs, before the presence of large pharmaceutical industries. Over the years, the company has excelled in a market of constant transformation, keeping the founding family in its management body (RAIA DROGASIL, 2015).

Founded in 1935, Drogasil emerged from the union of two small drugstores in São Paulo that, after incorporating other traditional drugstores, already sought to structure themselves as a network. In 1973, it became the first pharmaceutical retail company to go public on the São Paulo Stock Exchange (RAIA DROGASIL, 2015).

The merger occurred a few months after the emergence of DPSP and created the second largest company in the sector at that time. The expert points out that, at that time, everyone thought that the two companies would compete intensely for market leadership, but Raia Drogasil took the first position and began to distance itself from the competitor.

The interviewee explains that after the merger, the management model was quickly defined and the flagships began a gradual process of integration to leverage business synergies. The founding families still participate in the management of the company - mainly those from Droga Raia - although several executives are not part of the families.

The positioning of both brands is similar, with a focus on middle and upper-class consumers. The stores are located in high-traffic locations containing large quantities of HBC items. Farmasil, the group's new flag, proposes to serve a more popular audience with a more affordable product line, focusing more on generic and similar medicines (RAIA DROGASIL, 2015).

In addition to investing in states where it was traditionally strong, in recent years Raia Drogasil has significantly expanded its footprint. Thus, it increased its presence in the Southern and Midwestern states and advanced to the Northeastern states, as shown in Table 3 and Figure 8. Data were obtained from the company's presentations to investors.

| Region | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| *North* | 0 | 0 | 0 | 0 |
| *Northeast* | 0 | 10 | 16 | 39 |
| *Midwest* | 78 | 95 | 122 | 133 |
| *Southeast* | 636 | 675 | 736 | 821 |
| *South* | 62 | 84 | 93 | 98 |

TABLE 3 – Raia Drogasil number of stores evolution by region.

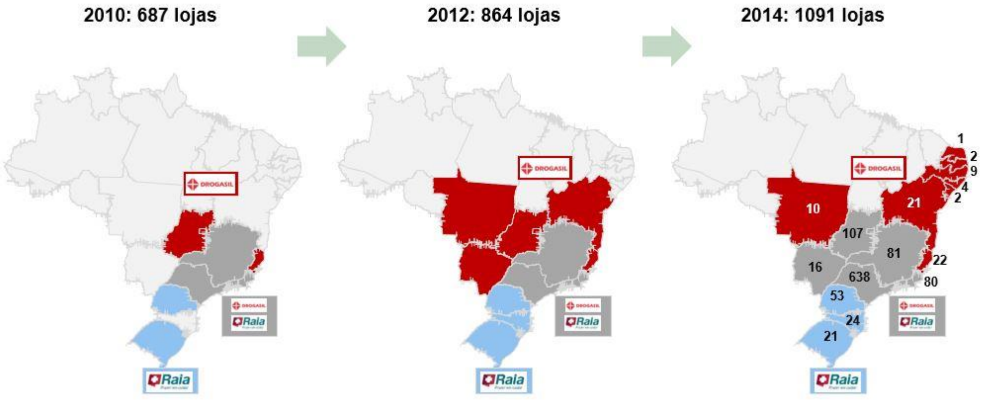


FIGURE 1 – Raia Drogasil footprint evolution.

Regarding the expansion plan, it is interesting to note that the flags do not act together in several geographies. Drogasil was chosen to move to the Northeast, while Droga Raia plays this role in the South. This division may be interesting to create greater customer recognition by strengthening a brand in each location.

This rapid pace of Raia and Drogasil brand sales outlets has increased the total number of stores from 689 in 2010 to 1,091 in 2014, which means an open rate of approximately 100 stores per year - an annual increase of more than 10% in the number of stores. For 2015, the forecast is to open another 130 stores (RAIA DROGASIL, 2015).

According to the expert, the numbers of store expansion and opening become even more impressive when considering the Brazilian reality, which involves many socioeconomic disparities over a very large territory. The company has been presenting a great expansion system, growing a lot and successfully.

Parallel to this expansion, financial performance has been very positive. Revenues increased from R$ 4.0 billion in 2010 to R$ 7.7 billion in 2014 - at an average annual growth rate of approximately 18% - with a simultaneous increase in EBITDA margin from 5.7% to 6.8%. As a result, the company achieved EBITDA of over R $ 500 million, while its national market share increased by 1.5 percentage points and its market share in the state of São Paulo reached 22.2% (RAIA DROGASIL, 2015).

According to the expert, another very remarkable feature of Raia Drogasil is the good service provided in its stores. In this regard, we highlight the level of service and quality of service, which ensures that the desired products are rarely unavailable and that customers will usually be treated remarkably. This is very important for customer loyalty in a very competitive environment, where an unhappy customer can easily change drugstores.

Still, on the selling points, the location and the format of the stores are points of great attention. There is a great effort to position them in easily accessible places, with parking, and that the interior environment is visually and functionally pleasant, as well as allowing the customers to properly dispose of the products, says the expert.

The concern with the stores is evidenced by renovations and maintenance, which adapt the points of sale and ensure that they will be able to provide good service. Spending on this initiative reached R$ 36.8 million in 2013, through the renovation of 175 stores, R$ 39.8 million in 2014, with 218 stores, and the forecast is that 250 stores will be renovated during 2015. That is, approximately 20% of stores undergo renovation (RAIA DROGASIL, 2015).

Raia Drogasil's performance and strategy reflect the appreciation of its action over the last 4 years. Traded on the São Paulo Stock Exchange, its value went from approximately R$ 10.80 on 03/10/2011 to R$ 40.63 on 02/10/2015 (average annual growth of 39.3%), as a result of the market investor approval and confidence that the work will continue to yield good results (INFOMONEY, 2015).

**4.3.2 DPSP**

DPSP, the parent company of the Drugstore Pacheco and Drugstore São Paulo flags, has achieved good results in recent years and, as the second-largest company in the sector in Brazil, has an interesting profile to study.

The expert points out that, from the beginning, both flags were very focused on their original geographies. Founded in 1892, Dracharias Pacheco emerged in Rio de Janeiro and over time has established itself as the most important drugstore chain in the state. Already Drogaria São Paulo, founded in 1943, followed a similar path in the state capital, also highlighting innovations, such as points of sale with 24-hour service.

The merger in 2011 created the largest company in the industry of the moment (ESTADÃO, 2014). The founding families are still in the administration, but the integration between the networks takes place slowly - the expert explains that the flags act autonomously, practically as if they remained separate. Contrary to what happens at Raia Drogasil, brand management has not been unified and they complement each other geographically, and each has its strategy towards customers, with different positioning and store formats.

However, it is interesting to note that this lack of integration was tempered by the good performance of the pre-merger flags and the fact that from the outset it was well known that they would operate autonomously at a slow pace of integration.

According to the expert, Drogaria São Paulo has a similar positioning to Raia Drogasil, focusing on middle and high-income people and offering a wide variety of HBC products. On the other hand, Drogarias Pacheco proposes to serve a wider public, also accessing lower-income people with less refined stores.

In recent years, DPSP has been expanding its footprint, defining new geographies for each of the flags. While Drogaria São Paulo was chosen to represent the company in the Northeast, Drogarias Pacheco launched itself to the Midwest and South, as shown in figure 9. This division reinforces the idea that moving towards new geography with only one of the flags, may be interesting to ensure more brand strength in that location. The data were obtained in presentations to company investors.

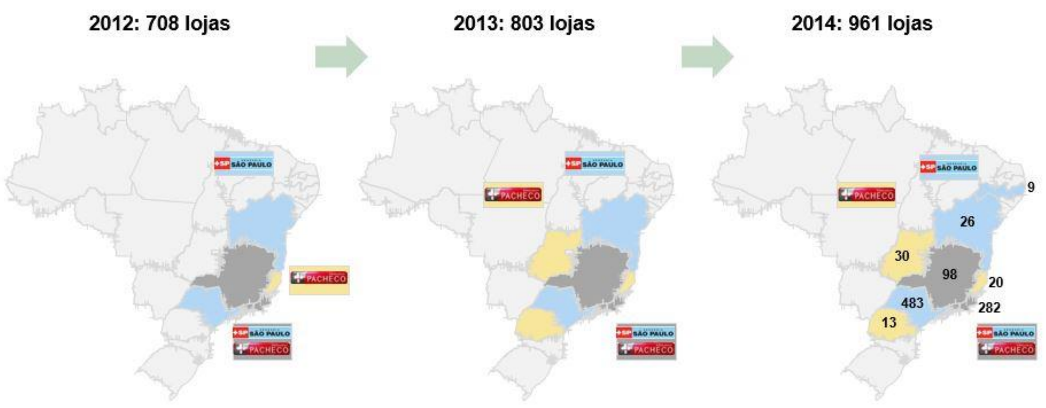


FIGURE 2 – DPSP footprint evolution

This expansion was accompanied by the opening of stores in the regions where the company was already established. These combined movements caused the number of stores to increase from 677 in

2011 to 961 in 2014 - an average growth of 95 stores per year, increasing the store base by an average of 12% per year (DPSP, 2014).

The financial performance of the company has been satisfactory. Revenue increased from R$ 4.6 billion in 2011 to R$ 6.6 billion in 2014 - average annual growth of 12% - at the same time as EBITDA margin increased from 4.4% to 6.3% (DPSP, 2014).

Like Raia Drogasil, DPSP implements a strategy of recurrently refurbishing its stores to keep the environment in compliance with format standards and to serve consumers appropriately. In 2012 and 2013 alone, 41 and 70 stores were renovated, respectively, with prospects for an increase in this number in the following years (DPSP, 2014).

The company's satisfactory results, as well as the good positive outlook of the Brazilian market, generated CVS's supposed interest in an acquisition. CVS is the second-largest US chain in the industry, with approximately 8,000 drugstores that generated revenues of US $ 68,000 in 2014, and already controls Onofre, the eighth largest chain in Brazil (ESTADÃO, 2014).

**4.3.3 Brasil Pharma**

Brasil Pharma, the fourth largest company in Brazil, has been experiencing difficulties in operating its brands and financial results have not been positive.

Created at the end of 2009, the company is controlled by the investment bank BTG Pactual and made the initial public offering of shares in June 2011. Its fastest-growing phase occurred through 2012 through a series of drugstore chain acquisitions. small and medium-sized, from which time it began to focus on organic growth (BRASIL PHARMA, 2015).

The acquisitions took place in all regions of the country and involved flags from different geographies. According to the expert, this is a reflection of an interesting strategic proposal, by which the company wants to become national without losing the regional characteristics of the flags.

Figures 10 and 11 show the acquisition history and footprint of the company's flags. Farmais is not contemplated because the brand has a management model based on franchises, i.e. its points of sale (located in Bahia, Federal District, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Paraná, Pernambuco, Rio de Janeiro, Rio Grande do Sul, Santa Catarina, and São Paulo) are not directly managed by the holding. The data were obtained through publications of the company itself.


FIGURE 3 – Brasil Pharma Acquisitions Timeline.

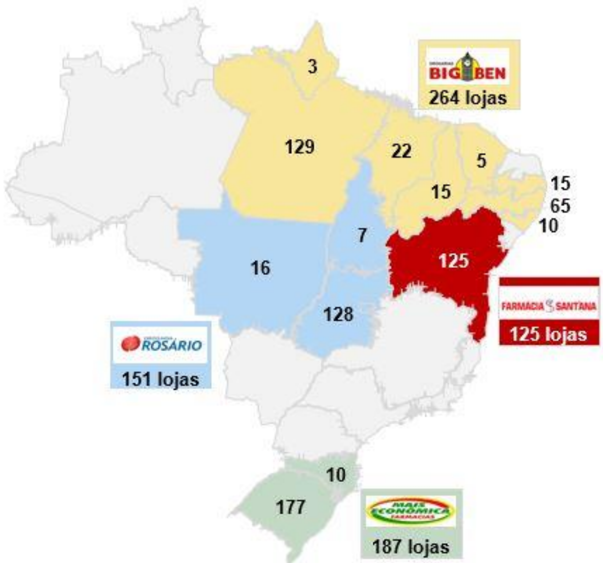


FIGURE 4 – Geographic distribution of Brasil Pharma.

The change in the total number of stores has behaved differently in recent years. During the inorganic growth phase, the company went from 292 own points of sale (excluding franchises) in 2010 to 708 in 2012. However, after the end of the acquisition wave, the number practically stabilized, reaching 727 in 2014. That is, the opening and closing balance were slightly above 1% per year. The number of franchises in 2012 was 388, growing to 485 in 2014, totaling 1,212 stores with company flags this year (BRASIL PHARMA, 2015).

This stabilization in the number of stores reflects the operational difficulties that the brands are experiencing. This makes the company focus on improving the profitability of existing points of sale, as well as preventing many more openings than store closures. Besides, in recent years the flags have virtually kept the footprint without expanding to new states.

The results of recent years have not been satisfactory. According to Brasil Pharma (2015), between 2010 and 2012, revenues increased from $ 0.9 billion to $ 3.1 billion, the annual average growth of 83%, driven by acquisitions. In the following two years, this rate was 11%, reaching R$ 3.8 billion in 2014. However, the EBITDA margin went from 4.8% to -6.6%, associated with short-term debt maturities of more than R$ 800 million (FITCH RATINGS, 2015).

The expert explains that the main causes of the poor performance of the company are:

- Undefined management model to be followed by the company after the merger, even though there was some initial definition that was lost after being challenged.
- Integration fails between brands, which does not allow leveraging synergies between them and hinders operations management.
- Troubled management of the group, which has undergone frequent changes of directors, who do not necessarily have a high level of experience in the market, besides the existence of internal disagreements.
- Some brands already had operational difficulties before the acquisitions, which, associated with the lack of integration, complicates the group's performance.
- Diversity of organizational cultures and management models across flags, making any integration movement even more difficult.

As a result of the unsatisfactory results and the lack of prospects for short-term improvement, the value of the stock traded on the São Paulo Stock Exchange, which was worth R$ 7.10 on 03/10/2011, reached R $ 0.67 in 02/10/2015 - which represents an average annual reduction of 44.6% (INFOMONEY, 2015).

**4.3.4 Araujo**

Araujo Drugstore can be considered a regional phenomenon of Brazilian pharmaceutical retail. Despite being restricted to practically one city, the country's fifth-largest drugstore chain has impressive numbers and brand strength.

Founded in 1906, under the name Pharmacia Mineira, the company was renamed in 1919 after being sold to one of its employees. Since then, Drogaria Araujo has developed near the city of Belo

Horizonte, creating huge identification with the local public and becoming the most important network of the mining capital (ARAUJO, 2015).

This path was followed by the next two generations of the family through a constant process of modernization of services and stores. New developments in the city include telephone service, 24-hour stores, drive-thru services, and the convenience store concept for drugstores (ARAUJO, 2015).

Since the late 1990s, Araujo has been focusing on a one-stop positioning and store format based on major US chains, offering a wide variety of products in one place (VALOR ECONOMICO, 2013). This way, it started to be seen by the Minas Gerais public as a place to buy not only medicines but also several other types of products (such as cosmetics, food and even pet food) and services (such as photo printing).

This product diversity means Araujo has only 60% of its drug sales, significantly below the national average of 70%, according to Abrafarma (2013 apud VALOR ECONOMICO, 2013).

The expert points out that the network is recognized for understanding the wishes of the local public, in addition to providing good service to customers, having a high level of service and high-quality products, serving mainly people of middle and upper social classes. This ensures consumer loyalty, making it difficult for national competitors to expand in their fields. In Belo Horizonte, Araujo is the undisputed market leader, despite attempts to enter larger networks, and the company works to stay in this situation.

The success of the network reflects in its recent financial results. Revenue has grown at an average annual rate of 18%, from R$ 0.92 billion in 2011 to R$ 1.5 billion in 2014 (O TEMPO, 2014). The EBITDA margin is close to 10%, without debt to third parties (VALOR, 2013).

In parallel with this good financial performance, the number of stores also increased: in 2011, there were 105 outlets, which increased to 145 in 2014 (O TEMPO, 2014). This increase represents an average annual increase of 11%, with a total focus on the Belo Horizonte metropolitan region. Expansion to new cities is planned to occur soon through the opening of some stores in the interior of Minas Gerais, where the brand is already known due to its strength in the main city of the state.

Araujo's most impressive indicator is average sales per store, the largest among Brazil's chains, as shown in Table 4. This explains how the chain can be the fifth largest in the country, although it has fewer stores than most of them. Data were obtained through publications of the companies themselves.

| Company | Average sale per store (R$ million) |
|---|---|
| *Araujo* | 11.0 |
| *Onofre* | 10.4 |
| *Raia Drogasil* | 7.1 |
| *DPSP* | 6.7 |
| *Pague Menos* | 6.0 |
| *Extrafarma* | 5.2 |
| *Panvel* | 4.0 |
| *Brasil Pharma* | 3.1 |

TABLE 4 – Average sale per store of the largest companies in Brazil.

It is also important to emphasize the professional and careful management performed by the controlling family. According to the expert, the company's management is conservatively managed to grow while improving its services and maintaining its quality differentials and financial autonomy, without hurry to expand to other cities or to open an excessive number of stores. Also, the company has no interest in partnering with other players or undergoing any acquisition transaction.

**4.3.5 Panvel**

Panvel, the sixth-largest pharmaceutical retail company in Brazil, stands out mainly for its strong regional presence and for being part of the Dimed group. This group is vertically integrated, that is, it also controls a medicine distributor, characterizing a different business model from what occurs in most of the major networks in the country.

Created in 1973, Panvel emerged in Rio Grande do Sul, as a result of the union between two traditional state networks - one of them operating in the capital, while the other served the interior. The conviction that controlling a distributor would improve retail performance, coupled with competitors' need for such a service, led them to found Dimed in 1967 (GRUPO DIMED, 2015).

From the status it inherited from its founding networks, Panvel has established itself as the state's strongest drugstore brand, promoting strategic initiatives that set it apart from the competition. Over the years, a solid relationship of trust and identification has been created with local society. Currently, the management is carried out by the third generation of one of the founding families, together with market executives who contribute to the good management of the business (GRUPO DIMED, 2015).

The expert points out that among the most prominent initiatives is the creation of a private label in 1989, focusing on the HBC category - something that, until then, no major network in the country had successfully done. Today, this private label has over 500 products, which are sold in stores and also over the internet, with deliveries throughout Brazil. The production is carried out by Lifar, a laboratory that is also part of the group, and its revenues correspond to approximately 20% of the HBC category network revenues (O GLOBO, 2015). As such, they are an important source of company profitability, as the profit margin associated with these products tends to be more attractive than that of products produced by third parties.

According to the expert, Panvel is positioned to serve mainly middle and upper social classes, with a great diversity of high-quality products and strongly promote the HBC category. Point of sale locations is carefully selected for easy access, ample space, and parking whenever possible. Besides, the company stresses the importance of recurring store renovations to maintain the standard.

The chain stores are visually prepared to inspire well-being and a sense of health in customers who report good service. The company uses five different store formats (GRUPO DIMED, 2015):

- Megastore: a store that contains an entire floor for dermo-cosmetics only, with specialized consultant service.
- Express: Smaller shop ready for fast service, found at gas stations and supermarkets.
- Promotional: Seeking to make the target audience more flexible, this store is focused on products that are in price promotion.
- Beauty & Wellness: Standard store with high product diversity and ample space.
- Wellness: Store that contains special sections for diabetic, orthopedic and sports products.

The vertical integration of the company, with Dimed, in distribution, and Panvel, in retail, is rare among the country's chains. Other relevant cases are Extrafarma, in the North; Jorge Batista Group, in the Northeast; Super Drogaria in the Southeast; and São Bento Drugstore in the Midwest. The expert also explains that there are several similar cases internationally, including Wallgreen, the largest drugstore chain in the United States.

He argues that this model has, as major advantages, the increase of purchase scale before the laboratories, the easiness for geographic expansion of the business (if the company already has one of the operations in a certain location), the synergies of operational efficiency among the companies. transactions and complementary market knowledge (information from one transaction may contribute to the other). On the other hand, there are difficulties, mainly due to the possible retaliation of competitors (which, in the case of retailers, can avoid a supplier that has a competing network, and vice versa) and the great difference between the nature of the business (commercial relations, buying and selling volumes and margins are very different), which requires operations to be carried out very precisely and with autonomous management to avoid mixing performance.

After many years of dominance and expansion in Rio Grande do Sul, Panvel opened the first stores in Santa Catarina and, more recently, in Paraná. Although operations in these states are more focused on capital cities, an effort has been made in recent years to expand its presence and open stores in other cities (GRUPO DIMED, 2015).

The expert points out that this expansion to other states was very well planned and executed, without compromising the performance in Rio Grande do Sul while growing at a moderate pace.
In 2011, the chain had 284 stores, a number that grew to 321 in 2014 - an average annual growth of 4.2% (GRUPO DIMED, 2015). This rate of the increase reflects the cautious strategy of footprint expansion so that the process can be done through resources generated by the business itself, without loss of quality. Satisfied with its strong regional performance, the first stores in the state of São Paulo are scheduled for 2016, as a test. It is worth remembering that the delivery of orders over the Internet are made throughout Brazil.

Figure 12 illustrates the evolution of the number of stores in recent years in each state. It is worth remembering that, in 2011, Panvel had just arrived in the state of Paraná.

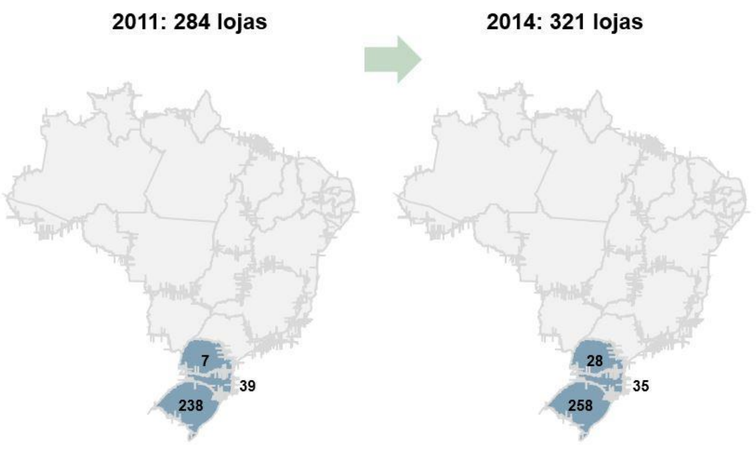


FIGURE 5 – Panvel footprint evolution.

Panvel's financial performance indicators are published on a consolidated basis with other group companies, which is not ideal for analysis. However, they still safely convey the good performance of the network, knowing that drugstores correspond to approximately 65% of group revenues (O GLOBO, 2015). In 2011, total revenues were R$ 1.4 billion; In 2014, this number rose to R$ 2.0 billion - an average annual growth of 12.6%. The EBITDA margin remained at 4.8% over these years (GROUPO DIMED, 2015).

Panvel's good track record is recognized by the market - the company allegedly has received takeover bids from Brasil Pharma and a company from abroad over the past two years. And as a result of the performance and positive outlook, the shares appreciated by an average of 24.5% per year over the last 48 months, from R$ 92.00 on 03/10/2011 to R $ 220.80 on 02/10/2015 (INFOMONEY, 2015).

## 5 SUCCESSFUL PRACTICES

Based on market analysis, case studies, and expert interviews, it is possible to identify good market practices that lead to recommendations for a network to seize opportunities for success.

It should be noted that the points raised in this section take into account the general context of the Brazilian pharmaceutical retail market, which naturally contains specificities according to each situation. Thus, they must be interpreted and adapted according to the reality of each player.

Also, it is worth remembering that the main basis for elaborating this section was drugstore chains, although independent stores may also make careful use.

As already explored in other sections of the paper, the market is undergoing a consolidation process, indicating that the largest networks are becoming stronger and stronger in the country. The expert points out that the devaluation of the local currency, associated with the fragile economic context, makes Brazil even more attractive to foreign investors.

However, there is still a long way to go for the market to consolidate, mainly because no player is close to becoming nationally dominant and independent networks still account for 47% of sales. Besides, the expert points out that, up to ten years ago, no network had begun an aggressive process of expansion into other regions - basically there were one or two networks that dominated the market in each state except São Paulo - and that, even so, this process has not yet hit much of the country, either because several areas have not been explored or because local-domain networks have been able to maintain customer loyalty.

Moreover, the market's growth prospects, as well as its economic resilience, show that there are many spaces to be filled in the coming years. The largest networks in the country are already mobilizing to ensure presence in this movement, and are increasingly investing in the modernization of companies - which gradually begin to resemble international companies.

Therefore, five key success practices are defined that will be explored in the next subsections.

## 5.1 GEOGRAPHICAL EXPANSION

It seems to be an interesting time to open stores in new locations, especially those where growth potential and underexploited demand are identified. These locations can mean new neighborhoods, cities, states or even regions of the country.

However, this initiative should be more successful from a few points:

- The expansion should not cause the company to lose focus on its core location. Case studies show that large networks continue to devote themselves to their places of origin, where they already have strength, despite advancing to new geographical boundaries. Examples include Raia Drogasil (which has not lost focus in the state of São Paulo), DPSP (states of São Paulo and Rio de Janeiro), Araujo (Belo Horizonte) and Panvel (Rio Grande do Sul). continue to open stores in these locations.
- Case studies also show that if the company controls more than one flag and wants to expand to more than one location, it may be interesting to use a brand for each location to increase its entry and consumer awareness.
- New stores need at least two or three years to reach sales maturity, as the expert points out. In the first year, for example, the point of sale can achieve revenues up to 30% lower than fullness. Therefore, the network must plan its operations with a view to gradual sales growth.
- Investors tend to follow expansion and store opening movements of publicly traded companies, using them as indicators of company performance and value. However, the expert warns that this should not cause the company to try to perform more than it can in a healthy way, at the risk of compromising performance. Panvel is a good example of this, as it opens stores and makes geographic expansion in contexts that it considers opportune, without a hurry to increase the number of points of sale or to reach the Southeast of the country.
- Expanding to nearby locations, such as an adjacent state, may be interesting because of the logistical ease of managing and supplying stores, as well as possible cultural proximity. However, the expert argues that this does not prevent the company from opting for more distant locations if business attractiveness is better, though in this case more careful planning and execution are likely to be required. The situation of Extrafarma, which is very strong in Pará, is an example of this. If the company wants to reach markets in the South or Southeast, it would not necessarily have to follow an expansion path that passes through all neighboring states.

## 5.2 STORE FORMAT

Because drugstores are a retail business that involves direct interaction between customers and attendants in a store where products are on display, it is extremely important that outlets are designed to encourage the smooth running of this relationship.

In this sense, it is essential that stores are designed coherently with their target audience, according to the expert. In the case of care for middle- and upper-income people, as is the case with largest chains, stores should be comfortable, both visually and physically, and properly display products. Also, one should think about the time of purchase, that is, under what circumstances people are when they go to the store - at this point, one of the most important factors is the time people are willing to devote there.

Therefore, the expert explains that choosing a good store format involves many factors that must be considered for the value proposition of each point of sale, especially in Brazil, where there are many socioeconomic and geographical disparities. For this reason, the big networks practice some interesting initiatives:

- It is common for networks to have more than one store format, to adequately serve different customers at different times of purchase. For example, Panvel has five different point-of-sale formats - one model is intended to serve premium customers who prioritize product diversity and the overall store experience, while another model is designed to address more basic customer needs. rushed consumers at gas stations and supermarkets. Raia Drogasil, which is typically aimed at middle- and high-income customers, has a specific format for lower-income customers (used by the Farmasil brand), which offers less refined stores with a different product mix.
- Store formats need to be well-executed and constantly updated, both to readjust sales outlets to new ideas and to maintain the standard of conservation. For this, store renovations are essential, especially in premium stores. Large chains are proof of this as they invest resources and efforts to make this initiative systematic and thus meet the required level of customers and prevent stores from becoming obsolete or substandard. According to O GLOBO (2015), after renovations, the revenue of a store can increase by 20%.

## 5.3 SERVICE, SERVICE LEVEL AND MIX OF PRODUCTS

Some basic customer relationship characteristics are paramount to the good performance of a drugstore. The customer experience in a store is key to customer loyalty, with the aggravation that an unhappy customer can easily turn to another drugstore and not return.

According to the expert, one of these characteristics is good customer service, in the sense that the attendants must be proactive, attentive and qualified to make good product recommendations and answer any questions. The consumer should feel that he was treated well and made a good purchase. Another point of attention is the speed of cashier service, as queues are a major reason for people to complain. Services such as loyalty programs and internet and telephone service can also differentiate a drugstore in this regard.

Besides, stores must have a high level of service, at least for medium and high demand products. This is a big point of imbalance in the customer selection process: In a situation where the customer finds only part of the items they need, the chances are high that they will give up buying all the products in this store and try another drugstore. And if it has all the items, it will have taken an important step towards customer loyalty, according to the expert.

He also points out that another important point is choosing the right mix of products for the store. Each point of sale has an ideal diversity of items that suit the interest of the public at that location, and approaching this mix can mean greater sales success. In the current market situation, a typical choice is whether the store focuses more on HBC or generic and similar items, depending on its target audience.

Some flags have historically stood out in some of these. The expert points out that Drogasil, for example, has become a reference in terms of service and level of service. Panvel, on the other hand, is a good example of how to adapt the product mix between different chain stores and is the only one that has managed to strengthen its brand of products. On the other hand, the loss of service level and quality of service can quickly move customers to other networks, facilitating the strengthening of local competitors and the entry of new networks.

## 5.4 CUSTOMER IDENTIFICATION AND MANAGEMENT EXPERTISE

As with any organization, good business management is key to the success of a drugstore. However, the pharmaceutical retail has some peculiarities that require expertise from their managers, as pointed out by the specialist.

The proper functioning of a drugstore, whether in business operation or relationships with suppliers and customers, is usually leveraged by people who know the business and the market deeply - market experience is very important. This helps explain the success of so many companies that over time have been run by several generations of the same family.

However, the professionalization of the governing body is also very desirable, to add more technical concepts of financial management, marketing, human resources, information systems, organization management, among others. Thus, the expert explains that it is advisable for the union between market executives and family members (who may even choose to position themselves as shareholders on the company board), in addition to the constant technical improvement of family managers through courses, training, etc.

One of the typical reflexes of management with expertise is the identification between the company and customers. For this, understanding the target audience is essential. Araujo and Panvel, as well as Big Ben (one of Brasil Pharma's flags), are good examples of this practice. The way it acts towards the customer creates a very strong identification, generating loyalty and making it difficult for larger networks such as Raia Drogasil and DPSP to enter their core markets.

## 5.5 GROWTH MODELS

The moment of market growth and consolidation encourages companies to look for various ways to invest and grow. In recent years, several networks have gone through mergers and acquisitions (inorganic growth), while others have opted for organic growth or even a mixed model. However, the expert points out that any of these movements should be performed with a certain caution.

In the case of a merger or acquisition, the management model should be defined as soon as possible, as each company has a different way of running the business and indecision may lead to difficulties in running the new company. Also, integration between networks must be well planned and initiated quickly, even if the process is only completed in the long run. That way, everyone will know from the beginning which course to follow, and the company will be able to leverage better synergies and better cope with the culture shock, according to the expert.

This care is vital to the smooth running of the newly formed company, especially in situations where large companies are coming together - the distinctive performances of Raia Drogasil and Brasil Pharma are proof of this. However, acquisitions of smaller networks - such as Raia Drogasil itself has already done before Drogaria Panda, in Mato Grosso, and Drogaria Santa Marta, in Goiás - can also benefit greatly from these practices.

In situations of organic growth, primary care must be taken that the store opening and expansion plan is not overly aggressive. This would cause the company to risk opening stores at such a rapid pace that it could not maintain its standard of features and quality, deteriorating its performance in a scenario of heavy capital investment. Besides, this organic expansion movement may be conducive to assessing the closure of outlets that are not performing satisfactorily, as has been done by several industry networks.

## 6 CONCLUSION

The Brazilian pharmaceutical retail market is experiencing high growth and great prospects, driven mainly by its economic resilience, demographic changes - obesity and aging populations - and the commercial growth of generic and HBC products in drugstores and pharmacies. Thus, the market is expected to maintain the growth it has been achieving, of over 15% per annum, becoming the fourth largest in the world in 2018. The market size in 2014 was approximately R$ 75 billion.

In this context, market consolidation is taking place, with the sale of the ten largest chains in the country increasing from 21% in 2004 to 36% in 2013. The share of independent store sales decreased from 66% to 47%. % over that same period. Despite the fall, the latter figure, combined with the fact that no company has more than 10% market share, shows that the market is still fragmented and offers several investment opportunities to occupy spaces, despite the recurrence of mergers and acquisitions that occurred in recent years.

The eight largest players in the market totaled approximately R$ 27 billion in revenues in 2014 and have very distinct profiles, especially in terms of footprint and operating characteristics. Led by Raia Drogasil and DPSP, which together have revenues of R$ 14.1 billion and more than 2,000 outlets, this group has been presenting positive overall performance in recent years.

The five most studied companies, which occupy the number 1, 2, 4, 5 and 6 positions in terms of revenue size, were analyzed in relation to their strategic profiles and main characteristics - involving topics such as financial performance, footprint evolution, store opening, positioning, store format, growth model, customer relationship, store operation, among others - and demonstrate that there are a number of typical good practices in the market and some others that should be avoided.

From these initiatives and the analysis of the current market moment, it becomes possible to make recommendations - involving diverse topics, such as geographic expansion, store format, customer service, management and growth mechanisms - for companies to succeed in this promising market, which tends to receive great interest from investors in the coming years.

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