Market consequences of chain formation:
A study of how the chain development is changing the pharmaceutical distribution

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Abstract

This paper purports to explore the process of retail chain development and its market consequences. The paper reports on an empirical study of chain development in pharmaceutical distribution in Finland. The case offers an example of how markets can be shaped by actors within the market, and how new actors can be created as a result of changes in marketing practice. The study aims therefore also to discuss how small changes in actors' behaviour and marketing practice within a market can have great consequences on the market form. The chain development and the marketing practices are presented through a case study. The analysis of the data is based on the model of marketing practice (Helgesson et.al. 2004) that is formed by three dimensions: normative practice, exchange practice and representational practice. All dimensions are interrelated and thus, they are affecting each other. By studying the market forms via marketing practice we can analyse the consequences of chain formation and study the details that have shaped the pharmaceutical distribution.

KEYWORDS: chain development, change, marketing practice

Introduction

Markets create the playground for all economic action and therefore, markets have for decades gained researchers' interest both within economics and social sciences. The classical market studies have painted and presented several theories and models of markets. Traditionally markets have been analysed as a natural phenomenon through which researchers have explained the market structures and actions. The strong association between markets and natural phenomena (Kjellberg and Helgesson, 2004) can be seen in that markets and market theories have often been separated from human action and characteristics. Consequently, it can be observed that economics and social sciences have developed a very different view of markets and how they can be studied.

Especially social sciences have emphasised the importance of studying practice, not only theories. Also IMP scholars have argued for the need to study the practical workings of markets (Kjellberg and Helgesson, 2004; Axelsson and Easton, 1992). According to Helgesson et.al. (2004) it is though only recently that theoretical efforts have been made that take seriously the performativity of market theories. Helgesson et.al. (2004) present, thus, a new and alternative way of studying markets via market practice within marketing. They provide examples of market practices within different empirical context. Putting the separate cases together, they argue how specific characteristics describing market practices can be illustrated, where the studied characteristics can provide distinguished examples of the practice. Therefore, it can be stated that using the variety of examples from the different cases it is possible to paint a vivid and colourful picture of market practices. The approach that Helgesson et.al.(2004) present is somewhat different compared to the main stream of earlier market research, where the market is attributed given and as a natural phenomenon. According to the performative view markets are constructed and shaped by concrete activities, like beautiful gardens are a result of good work of a gardener. The efforts are concealed by the natural appearance of their outcome and hence, difficult to pin point. This highlights the importance of representation and the production of representation as an important part of markets and what makes markets market-like (Ibid.).

In this paper we aim to study how new market forms and structures have developed within pharmaceutical distribution in Finland. Market practices are studied through pharmacies' chain development processes and hence, we aim also to increase our understanding of the phenomenon of chain development through market practices. Pharmacies' chain building is a relatively new phenomenon in Finland and the development is still in progress. The development of pharmacy chains has not either been studied from the market practice perspective. As the pharmaceutical distribution is a strictly regulated market, the market structure has been unchanged for many decades. Thus, pharmacy chains represent new actors in the market and they have been able to change the otherwise conventional industry. A threat of deregulating the market, as has been seen to occur in many European countries e.g. in Norway, has launched a process, where actors within the market have taken action. New activities have changed the market form and structure and also created new actors. The purpose of this article is therefore, to describe a case where markets are changing and taking a new form.

Studying the market practices

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

The general perspective of markets, as taken usually by economics and management, takes a somewhat different perspective. According to this approach, market is seen as something exogenous to an agent engaging in exchange, something an agent is facing but is not part of (Snehota, 1990). This approach becomes, however, problematic when we want to study the functioning, structuring and processes of markets. Referring to the notion of interaction and actors' central role in constructing markets (Mattsson, 2004) there is a clear difference between the two market perspectives. The separate view of markets is what makes studying market practices so interesting.

Presenting market practices

Any market consists of a set of actors, or parties, who expect to find opportunities to engage in exchange. (Snehota, 1990) Thus, a market is "made up of the activities of the market participants" (Kirzner 1973; Snehota, 1990) and market practice can be defined as all activities that contribute to shape markets. Actors' importance in market practice is emphasised by the statement that actors are involved in the production of market representations - the representation is what makes markets market-like. Actors who are involved in shaping of markets are also able to identify the activities that are relevant (Latour, 1996). According to Helgesson et.al. (2004) the interaction between market theory and practice has often been neglected. Consequently, it can be argued that it needs to be studied. By giving more attention to market practice we can move away from polarised discussions about how this or that theory provides an unrealistic characterisation of markets and also increase understanding of the processes that shape markets (Kjellberg and Helgesson, 2004; Helgesson et.al., 2004).

Helgesson et.al. (2004) have presented three conceptual sub-categories for market practices. These are exchange practices, representational practices and normative practices. (See figure 1.) Exchange practices refer to the continuous concrete activities related to individual economic exchanges that aim to stabilise conditions and hence, make the economic exchange possible. It includes also more general activities, e.g. advertising, product classification, seller authorization, etc. Representational practices refer to activities that contribute to depict markets and / or how they work. Activities that produce representations of markets also provide access to performativity of markets. Normative practice refers to activities that contribute to establish guidelines for how a market should be (re)shaped or work according to some group of actors. It refers to the so called normative objectives. This threefold conceptualization of market practice may be instructive when attempting to address issues concerning the practical realisation of markets (Helgesson et.al. 2004; Kjellberg and Helgesson, 2004).

Normative practice
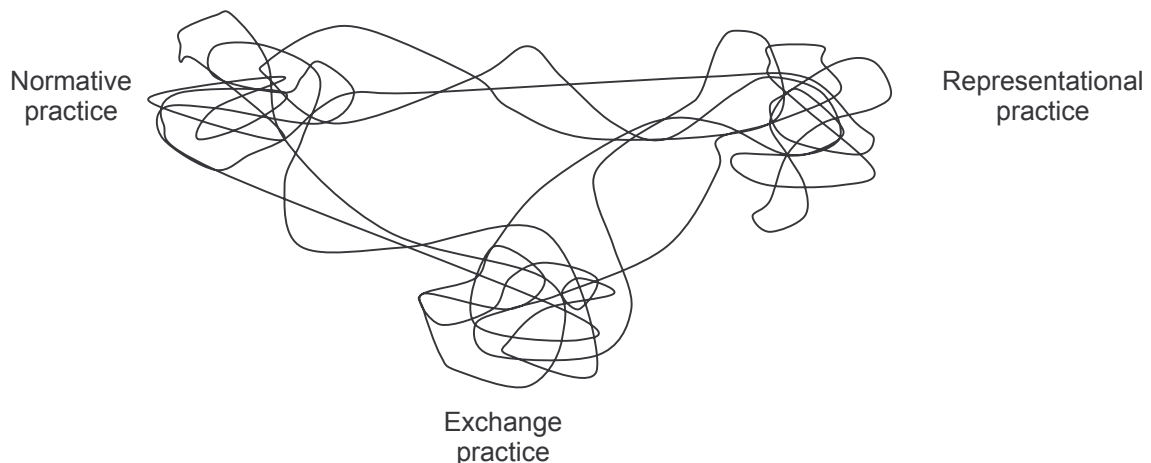
Representational practice

Exchange practice

Figure 1: Market practice as exchange, representational, and normative practice linked through chains of translations. (Adapted from Helgesson et.al.2004)

As the figure shows, the various market practices are interlinked meaning that there is a clear interdependency and interaction between the practices. In order to understand how the market practices are interlinked and how something is transformed into something else, Helgesson et.al. (2004) use the concept of translation. By translation they denote the basic social process through which something – an idea, a rule, a text, a product, a technology, a truth, etc. – spreads across time and space (Kjellberg and Helgesson, 2004; Latour, 1986). The essential in the translation process is though that there must be someone who receives the message and translates it, i.e. if no one is there to pick it up, nothing happens. This notion strengthens the argument that actors conduct and produce market practices and markets.

To summarise the content of the figure 1, the presented sub-categories of market practices are interlinked to one another through various chains of translation. The degree to which these practices overlap in terms of the involved actors and the specific activities can further be discussed as different market configurations. Based on the conceptualization, markets can be defined as networks of translations – various market practices are interlinked through processes of translation. This is explained by Helgesson et. al. (2004) in a following way: *"a changed rule is translated into tools that may alter the agency or seller. The implicated change in behaviour of the seller affects its exchanges with potential buyers. Through measurements and norms on what and how to measure, changed exchanges are translated into new images of an altered market, which might alter the norms or feed back and act directly upon the exchange practice… Taken together, these processes sum up to an image of markets as composites of ongoing practices where each activity is held in place by how it is linked to other activities".* Thus, according to this conceptualization markets are shaped through cyclical chains of translations that link exchange, representational and normative practices. Translation is the glue that links the different market practices together. In this paper we aim to present and analyse a market from this specific performative perspective and see what kind of activities have shaped the market and also what actors have been participating in the process.

Digging into the empirical material

In this paper we aim to study the horizontal integration of Finnish pharmacies, i.e. pharmacies chain building processes. For this purpose we have collected qualitative data from the field, especially focusing on the two largest pharmacy chains within the market. The collected material reveals several activities that provide details to describe the development of the market. As a base for the analysis of the data we will use the conceptualization of market practice presented by Helgesson et.al. (2004). The empirical material is presented in the next section where after it is discussed and analysed in the following two sections.

Pharmaceutical distribution: history and structure

Distribution of pharmaceuticals is organised in Finland through pharmacies that are authorised to distribute and sell drugs to consumers. Pharmacies are privately owned and the business is strictly controlled by governmental authorities. The pharmaceutical retail is a licence based activity and the whole pharmaceutical distribution industry in Finland is affected by several regulations, as e.g. regulations of pharmacies' margins, roles and responsibilities in the society, distribution principles, pricing of drugs and product assortment and placement. The now a days applied practice of pharmaceutical distribution can be traced back to 1960's when the owning structure of pharmacies was discussed in many European countries. Pharmacies in Finland have always been privately owned entities but in 1960's there were discussions whether the welfare society should take over the function of drug distribution or not. In Sweden the ownership structure was changed to state-owned pharmacy system in 1971. Finland decided however, to remain in the old system and all pharmacies remained licence based and privately owned entities. This meant that governmental authorities were giving their protection to the business as the distribution of pharmaceuticals remained in the pharmacists' hands. These decisions created the market structure that has remained nearly the same during the last 40 years.

However stable the market structure seems to be, authorities have been discussing the future form of pharmaceutical distribution since 1980's when demand for increased competition between pharmacies was announced. The pharmaceutical distribution system is at the moment pressed by governmental

authorities, who have flashed future pictures of a deregulated market. Reason for possible deregulation is in that the system has been criticized for an oligopoly situation. Additionally, the fast moving consumer goods companies and wholesalers would like take over the distribution of pharmaceuticals, as has been seen to occur in Norway. Consequently, pharmacies in Finland have had to adapt to new demands and pressure. This pressure has made them surprisingly modern and developed compared to many other retail operations in Finland. Pharmacies have been ahead of many other businesses for example in service mindedness towards end consumers. The future scenario of deregulated markets has resulted in that the restructuring of the pharmacy business has been started by the pharmacists them selves. Within pharmaceutical distribution the development of pharmacy chains has meant a tremendous change both in the norms the governing pharmaceutical distribution and the practices connected with the exchange of goods. Competition over customers is a relatively new phenomenon within the business as well as the idea of horizontal integration. Chain development is not a novelty. It has been seen to take place within various industries since the 1920's, when grocery stores started with their first chain building processes in the U.S. (see Kjellberg 2001). The first pharmacy chain in Finland was established as late as in the beginning of the 1990's.

Pharmacies have maintained a strong label of professionalism in the pharmaceutical distribution although the society around pharmacies has changed. The daily work and routines in pharmacies follow the Good Distribution and Manufacturing Practice. The various tasks in pharmacies are divided according to the professional competence of the personnel. Only pharmacists are allowed to provide customers with medical advice and distribute drugs. Sustaining in the traditions the pharmaceutical market has however been facing many changes in practice during the recent years. One of the largest changes in the exchange practice was the introduction of pharmacy shops in the late 1980's. In these shops located inside of the pharmacies, customers could for the first time go and buy medical supplies and drugs without prescription like in an ordinary grocery store. The only difference would have been that the personnel in the shop were professionals, as always in the pharmacies.

When exchange, representational and normative practices change

The phenomenon of pharmacies' chain building in Finland is still quite young and chain building has therefore only started to shape the market. It is difficult to say when exact the development of chain building started within the market. That notion alone tells us of the importance of studying chain development through market practices as we can find out what actors and action has taken place and how these actions together have resulted in the development of pharmacy chains. For this purpose we have collected empirical material by conducting semi-constructed interviews with pharmacists and by observing the pharmacy practice in general. The interviews with pharmacists have revealed that actors within the field can have very different perceptions of their profession and the purpose of pharmacies in the society. There have been divided meanings of the pharmacies role in the society. The basic dilemma has been the question of whether pharmacies are part of a health care system in a society or a business unit. Some pharmacists have been more business minded than others but most of the respondents have indicated that it has always been more important for them to provide customers with correct medication than to think about own revenue. This could explain why pharmacists have not hurried in improving or developing the business structure - their profession has been based on distributing drugs within the geographical area they operate within. That has also been their representation of the pharmaceutical markets. Today, pharmacies are however becoming more and more dependent on each other, and consequently the market practices have started to change.

Actors within the markets have identified the first activities related to chain building to occur in 1992. It is the same year when the first pharmacy chain has been documented to be established. The privately owned pharmacies have embarked on chain formation only after 1992 in reaction to the efforts by the first chain. The second pharmacy chain was established in 1996 and at the moment there can be identified in total four pharmacy chains or networks that fulfil some criteria of horizontal integration. Only two of the pharmacy networks have a clear chain structure, as the actors themselves have defined, meaning that they have a joint chain strategy and joint operations on different levels that are related to chain building. Hence, the two largest and also first established pharmacy chains can be characterized as the leaders of the chain building development of the Finnish pharmacies.

The largest pharmacy chain within the market is the one that was established in 1992. The chain is an exception among other pharmacies in many aspects, not only in that it has been a precursor for many changes within the market. First, it is not privately owned pharmacy as the other pharmacies in Finland. It is owned by the University of Helsinki as it has been since it gained the pharmacy licence in the 18th century. Second, it has had the priviledge to expand its business all over the country. All together it consists of 17 entities of which the main pharmacy is located in Helsinki. Basically, this pharmacy chain has had from the beginning the organisation structure that has supported the recent chain development. Chain development has in this case meant clarifying the strategy and operations so that these have steered towards a unified organisation both from inside and outside. It has also resulted in creation of an own production unit as well as wholesaler functions, in internal education program and intranet system that have improved the communication between the different entities. Based on the collected material, pharmacists seem to share a common opinion of that the university owned pharmacy chain (YA) has also influenced the market not only by starting the chain development but also by introducing many new exchange practices, which again have had an impact on normative and representational practices. Thus, it is the chain that has developed the chain building process within the whole pharmaceutical distribution system.

The most developed chain after YA is called Hyvän Mielen Apteekit (HYMA), which is the first pharmacy chain composed of privately owned pharmacies. According to the members it was established in 1996 as a reaction to the development that YA had commenced and it is now a days the main competitor for YA. HYMA consists of 22 pharmacies that are combined together through different activities, e.g. they have several joint processes as for example purchasing functions and internal education programmes. Members are committed to the chain but they are free to leave if they want to. As we can conclude, the chains have very different organisational structures from the beginning and hence, the level of integration in the chains is different. The chains are on different stages in the chain building process.

Small incidents that got bigger

Before the era of pharmacies chain formation, the pharmacy market consisted of several hundred privately owned pharmacies who acted independently, each within the geographical area their operations were restricted to. Thus, their representation of markets was limited to the own pharmacy. The university owned pharmacy had been separated from the normal pharmacy practice already in the 18th century as it was established for teaching and education purposes. It acted according to the specific rules and privileges it had gained as a university based pharmacy. Besides of many administrative differences, the normative practice was also somewhat different from the beginning compared to other pharmacies. Its purpose was to be an example for other pharmacies as a teaching pharmacy, where pharmacists could get the best education in the country. Hence, it had subsidiaries in most of the university and hospital cities in Finland. When the times changed the educational purpose of the university owned pharmacy diminished. However, their interest of being ahead of the other actors in the market remained. Consequently, it is not surprising that YA has been the actor who has via its behaviour and example had an affect on market practices within the whole pharmaceutical distribution. To mention one of the many novelties that YA has launched, it was YA who introduced the concept of pharmacy shops in the late 1980's, as discussed earlier in the paper. YA has in other words been an actor who has through small changes managed to change also other actors' behaviour and marketing practice within the pharmaceutical distribution. It is though very difficult to pin point what part of market practice it would have affected most. The example of the new concept of pharmacy shops provides an interesting example of exchange practice that changed the whole business. After the introduction phase all other pharmacies in Finland implemented the same idea and the concept became generally accepted and thus, both representational and normative practices were affected.

When the pharmacy chains started to develop the earlier accepted norms were gradually changed. Prior to 1992, it can be argued that pharmacies had a relatively comfortable position from a business point of view. To some extent, this changed when YA launched their new strategy. It started the first chain building

process of pharmacies in Finland in order to gain advantages that only large scale business could provide. This was against the gentlemen's agreement upon that the business of one pharmacy would not be threatened by others. Pharmacy retailing had been organized as geographically separated local monopolies. The new actor within the market, the recently established pharmacy chain, acted however against the earlier agreement as it started with various marketing activities and campaigns. A new practice was e.g. advertisements in local news papers and television in order to gain peoples' attention and new customers. The advertisements were quite straight forward. One of the messages was: "Take an Aspirin per day and you will remain in shape". No pharmacist within the market had ever seen anything like that before. This was a new form of practice. For the other pharmacies, it represented several new exchange practices. The privately owned pharmacies were also shocked by the sudden change in business manners and they tried to do everything they could to stop this development. The Finnish Pharmacy Association represented the private owned pharmacies and tried to end the advertisements by bringing the problem into court. They complained about YA's actions and superior position in the market to the EU court. It was though evident that a new era of pharmacy business had started in Finland. Competition was not explicitly forbidden and YA was not therefore breaking any regulations or laws. An interesting result of the process against YA and its advertisements was, that during the time it was legally processed, also other pharmacies started with advertisements and the competitor for YA, HYMA, was established. Consequently, during the 1990's the development of pharmacy business started to gain more and more of a large scale business character. Hence, a number of other pharmacy chains started to develop and pharmacies started to act according to the new norms and practices that had been evolving. New marketing practices had shaped the market.

Discussion

This article has explored the process of pharmaceutical retailing, its chain development and its market consequences by providing examples of marketing practices that have evolved. Pharmacies and their chain development processes offer interesting examples of how markets can be shaped by actors within the market and how new actors can be created as a result of changes in the marketing practices. Chains have become new actors within the market who create new representation of markets. Referring to Kjellberg and Helgesson (2004) actors participating in exchange practices have influenced on the representations on what the market and its actors are. New marketing practices have gradually replaced the old ones although it may look from the outside as the market would have remained the same for decades. An interesting notion in the case of pharmacies' chain development is also how different goals actors can have although they share similar normative view of practice. Neither has the professional label among these actors diminished during the chain development process although many new norms have been implemented. Also actors' representations of markets have changed without actors loosing their identity. Pharmacists have been able to move from the local view to the national level of representation and becoming members of national pharmacy chains. It would however be interesting to study in depth the translations that have taken place between the actors during the chain development and take the analysis as close as possible of the interaction, actors and action. As translation takes place between all activities and actors and market practices, all the three sub-categories of market practices, exchange, normative and representational, seem to be equally important and inseparable. All three influence each other sooner or later.

Conclusion

It is difficult to say whether it has been the exchange practice, normative practice or representational practice that has changed first within the pharmacy business. It is though evident that there are many small events, actions, elements or sometimes even coincidences that have had an affect on the pharmacies development. Thus, all three practices are interrelated. When new norms replace the old ones, the reasons for it are usually numerous. It is quite interesting to observe that within the analysed three dimensional market practices also actors are strongly present. Events and actions can be linked to different actors, meaning institutions, authorities, organizations and individuals, who have had strong

opinions of how the industry should be developed. Referring to Helgesson's et.al. (2004) it could be stated that there have been several actors who have had their own vision of how the pharmaceutical distribution should look like. Actors' action has had an affect on the markets.

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