Buying and Selling Prescription Drugs on the Internet: Canada-United States Trade*

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EXECUTIVE SUMMARY

In recent years, Internet pharmacies have emerged in Canada, primarily to supply US customers with lower-cost drugs. The pharmacies use e-commerce and other technologies to reach large numbers of potential customers and to exploit the sizeable price difference that exists for prescription drugs in the two countries. The resulting cross-border trade in drugs grew rapidly from 2001. Despite rapid, short-term success, the survival of Internet pharmacies was not assured. Critics of Internet pharmacies claimed that their practices were illegal, unethical, and unsafe. Further, the traditional pharmaceutical supply chain had reacted strongly to the challenge laid down by Internet pharmacies. The future position of Internet pharmacies was therefore uncertain. The case study examines the Internet pharmacy industry, with one company (Mediplan Health Consulting Inc.) providing illustrations. It shows that e-commerce technology was critical for Internet pharmacies at start-up, but that non-technical matters quickly became more important management issues.

Keywords: drug imports; Internet pharmacies; pharmaceutical industry; professional ethics

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ORGANIZATIONAL BACKGROUND

Introduction

Like others, the pharmaceutical industry viewed the Internet to be a powerful enabling technology. Information sharing and communication was seen to be much easier via the Internet, and completing sales online was considered an efficient way to handle transactions. Consequently, at the beginning of the 21st century, the pharmaceutical manufacturer — wholesaler — retailer supply chain in the United States (US) and
Canada was increasingly implementing Internet-based solutions. For example, at the manufacturer level in the supply chain, via new Web sites, many drug companies made it possible for customers to be more informed about drug treatments (Nearing, 1998). Pharmacies also responded by providing customers with the opportunity to buy online, as well as in-store. This meant that individuals could not only shop from the convenience of their own homes but also search online for the best price for prescription drugs. This naturally led many customers to buy drugs from non-local sources, causing a change in pharmacy patronage patterns.

Nowhere was this more evident than in the Canada-US trade that developed for prescription drugs. Many Internet pharmacies were established in Canada from 2001 onwards, to exploit the opportunity created by a potent combination: easy online shopping, and drugs at much lower prices. The case describes the development of Internet pharmacies in Canada. Illustrations are provided through references to one of the pioneering and more important companies — Mediplan Health Consulting Inc. The pharmacies’ successful implementation of a business system including Internet technology is outlined. The emergence and success of Canadian Internet pharmacies has provoked differing responses from various interested parties, including pharmaceutical companies, regulatory agencies, medical bodies, and governments. Given the range of responses, as well as the politically charged nature of health care, Internet pharmacies operate in a difficult environment. Indeed, the future of Internet pharmacies is not assured. These matters are explored in the sections below. First, however, the founding and growth of one important Canadian Internet pharmacy is traced.

**Mediplan Health Consulting Inc.**

One year after graduating from the pharmacy program at the University of Manitoba, Andrew Strempler, together with his wife Catherine, established a new pharmacy. Living and working in a small town was a dream the couple shared and Minnedosa seemed to fit the bill. Minnedosa was a community of 2,600 people, located about 210 kilometers north west of Winnipeg, the provincial capital and largest city in Manitoba, Canada. The province of Manitoba lay north of the states of Minnesota and North Dakota. Although Minnedosa had a long-established pharmacy, research suggested there should be enough business for a second. However, the Streemplers had not accounted for the loyalty of customers to the existing pharmacy or the willingness of some to drive 30 minutes to Brandon to shop at Wal-Mart. The new pharmacy struggled from its beginning in 2000 and was teetering on the verge of bankruptcy when Andrew, who had noticed significant cross-border price differences for Nicorette gum, conducted an Internet experiment. He listed a box of Nicorette — a non-prescription remedy for quitting smoking — on eBay and was overwhelmed by the response. Andrew quickly set up a Web site to sell Nicorette in the US, followed by diabetes test strips and other supplies. Customers then asked whether the same low prices could be extended to prescription drugs. “Andrew found that he could fill prescriptions as long as they were written by a Canadian doctor, and he figured out how it could be done” (Wolfe, 2003). At this point he formed Mediplan Health Consulting Inc. (Mediplan) to sell a wide range of prescription drugs3 into the US market at low prices, using the Internet (Redekop, 2002). With bold plans for
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