Johnston Rorke partner in charge of pharmacy services, Bruce Annabel, bannabel@jr.com.au

JRx pharmacy

How to outcompete the discounters

'...[pharmacies] are better off trying to transform themselves into solution providers or, difficult though it is, into low-cost players'[1]

MAINSTREAM pharmacy owners simply don't get it! If they want to compete they have to change their thinking and actually do something about it.

Last month I explained that, with few exceptions, mainstream pharmacy's current retail 'offer' is largely irrelevant, uncompetitive and unprofitable. So what are the key considerations required in choosing a business model and a plan of action?

Low-cost competitor

Low-cost competitors continue growing because they offer a legitimate service to a community segment. But it's a tough model requiring the following tactics.

Attracting customers:

1) Target limited customer segments.
2) Sell everything 20 per cent cheaper.
3) Wide product range.
4) Can never be out of stock.
5) Branded retail products—stark price difference and brand equity.

Making a profit:

1) Sales volume lowers product cost.
2) Lowest overheads—rent, wages, fit-out.
3) Very efficient operations in-store, logistics, data management.
4) High unit sales volume creates high gross profit dollars.

Both elements, well executed, must be present to deliver a powerful and sustainable customer offer:

'...low-cost [pharmacies] stay ahead of market leaders because consumer behaviour works in their favour...if a [pharmacy] gets a customer to buy its products or services on the basis of price, it will lose the customer only if a rival offers a lower price. Since the discounters win all their customers because of the prices they offer, they don't have to worry about traditional rivals that always charge premiums. Only new entrants with even lower cost structures can compete with the price warriors.'[1]

The message is crystal clear: mainstream pharmacy owners can't compete on price and must adopt a different model to justify premium prices.

Quality offer—customer intimacy

We know reliance on location and dispensing, combined with excellent clinical skills and regulation, no longer guarantees success. The answer is to adopt the 'customer intimacy' approach, which is the opposing model to price. This is done via a retail healthcare solutions approach that engages the customer. Low-cost rivals can't do that as they have commoditised the products they sell.

Solutions are about engaging the customer by combining expertise with products, resulting in a service that delivers a healthcare outcome which has little to do with the lowest price. To win on 'customer intimacy', employ the following strategies.

Attracting customers:

1) Location convenience.
2) Segment the market and target.
3) Glorious in-store environment.
4) Create solutions precincts.
5) Specific product ranges. No stock outs.
6) Experts present and available.
7) Consistency begets reliability/trust.
8) Communicate—tell customers.

Making a profit:

1) Maintain margins—premium price.
2) High sales/m^2.
3) High returns on space and staff.
4) Invest on training, wages, rent, fit-out and marketing.
5) Build average retail sale, lines per transaction, customer return visits.
6) Systems—produce accurate and reliable data.
7) Focus on efficiencies and reducing product costs.

A good example is the integrated weight loss system/solution aimed at helping customers lose weight (the solution). Customers pay a premium because it delivers an outcome they value highly but which the low-cost competitors can't emulate.

The same concept can be applied to dispensing prescriptions, allergy, quit smoking, wound care, aged, women's health, wellness, optical, baby and so on.

The client data we have at Johnston Rorke proves that the solution approach works. For example, pharmacies suffered huge falls in nicotine replacement therapy sales in December 2006 because heavy advertising drove supermarket Nicabate sales. However, pharmacies following the solution approach either lost very little or experienced growth.

Remember, 'specialty retail healthcare' does not include selling gifts, grocery items, jewelry, electronics, slow-turning open sellers and the other irrelevant paraphernalia one sees in most mainstream community pharmacies. Selling these products does nothing to support the ability to deliver retail healthcare solutions. In fact they can only confuse the message you send to your customers.

The longer a 'quality' offer is avoided, the more customers will be lost because low-cost warehouse pharmacies are changing customer behaviour permanently, getting people to accept fewer benefits at lower prices.

But you can compete if you adopt the 'quality' offer. As retail expert Nirmalya Kumar writes, there will always be room for both low-cost and value-added players in a retail market.[1] How much room depends on customer preferences and the strategies deployed by the players.

By adopting the 'quality' offer, mainstream community pharmacies will then be able to pose the question: Can the low-cost rivals compete with us?

1. Kumar N, Strategies to fight low-cost rivals, HBR December 2006.

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