RETAIL MANAGEMENT

Looking across the valley

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

PHARMACY NEEDS TO LEARN FROM WOOLWORTHS WHICH, AT A CRITICAL TIME IN HISTORY, LOOKED ACROSS 'THE VALLEY' TO WHERE IT WANTED TO BE.

Retail giant Woolworths recently released quarterly results proving yet again that it is a brilliant business operation by achieving 10.2% sales growth. Remember, this result was achieved against a backdrop of higher interest rates and the lowest consumer sentiment in 15 years.

Several factors contributed although market share gains, increased customer numbers, higher average sale (basket size increased) and store refurbishments had a lot to do with it. Add to that Woolworths 'strategy of reinvesting supply chain savings into grocery prices [which] drove market share gains.'[1]

Many years ago Woolworths was struggling before it was sold into a public listing by its then owner, Adsteam. To deliver profit growth to new investors, the executive team 'looked across the valley' to the place of superior returns and market position. To reach their goals at the other side, the journey across the valley represented everything that had to be done to achieve those goals. The company's continuing good results prove that it now firmly occupies the ground on the other side of the valley it coveted many years ago.

Last month I travelled the country with the Guild's PBS reform road show. I estimate less than 2,000 pharmacies, or a bit more than 40% of the pharmacy population, were represented by those attending the 12 presentations. Given the complexity of the reforms—they represent the greatest and most fundamental change to the business of pharmacy and dispensing metrics in the 22 years I have advised the pharmacy sector—I had hoped to see more pharmacy owners.

Perhaps it's because of their faith in the Guild to effectively represent their interests—once again it had negotiated an outcome that ameliorated the PBS reform pain over time. Nevertheless, there will be pain without preparation and planning. Other key players in the medicines supply chain are already furiously restructuring their businesses to adapt to the sudden jolts of the reform measures.

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During the road show I discussed issues of interest to me and my clients:

- **total business net profit is generated from one source including generics;**
- **Government policy and an absence of blockbuster drugs have flattened script volumes;**
- **retail sales growth is flat due to an uncompetitive retail offer;**
- **retail margins are falling due to pharmacy owners cutting prices as their main competitive strategy; and**
- **overheads, particularly wages and rent, are growing at 5–6% per annum.**

Inertia is the greatest threat and solutions are in the hands of owners—not the Guild which has done a superb job for members. Without effective planning, reform pain may not be felt in the short term (2008/09) due to the ameliorating mechanisms and the raft of patent expiries over the next five years will deliver increased generics dollars. But, let's be clear: the income pharmacy owners generate from PBS prescription dispensing is internationally high (refer to my recent *AJP* columns about the New Zealand and Ireland as examples). This is a strength but it's also a potential threat.

Community pharmacy's side of the valley is being held up by the two pillars of dispensing profitability and generics income which, in turn, supports the former. Both pillars are being eroded and are occurring right now, and will continue to do so in the future, plus the price disclosure mechanism that commenced on 1 August 2008.

Over the next five years the Weighted Average Disclosure Price (WADP) system will pull back some generics discounts and, while these may not be felt in the hip pocket nerve for several years due to the raft of patent expiries, we must look over our shoulders to the Ireland and NZ examples and be reminded that we are only a government decision away from having dispensing turned into a factory process.

My work with clients and the industry aims to illuminate the other side of the valley. That side is the land of retail healthcare, retail health solutions (the gift category doesn't exist), skilled services that give customers what they need and a growing bottom line less reliant on dispensing and not as susceptible to WADP decreases.

Journeying across the valley will require owners to embrace changes including:

- **an automated dispensary process for time efficiency;**
- **using dispense technicians to process scripts and do the administration;**
- **using pharmacists' freed time to focus on delivering patient health solutions;**
- **improving patient medicines concordance and use systems like MedsIndex;**
- **radically re-orientating non-dispensary departments to target particular customer groups and add skills that matter; and**
- **committing to effective retail and business management.**

I hope the PBS reforms will challenge pharmacy owners to look across the valley and develop a strategy that delivers them to the other side. But there will be pain: many businesses will fail to adapt as the pillars supporting them crumble. ■

1. The Australian Financial Review; 17 April 2008: 19.