Battening down the hatches? Don't!

Bruce Annabel, bannabel@jr.com.au

'Once you lose momentum and you slow down, getting it started again is a very expensive business, so it's cheaper to keep it going rather than letting it slide and start again' [1]

Woolworths CEO Michael Luscombe knows the opportunity that the looming economic recession presents his company and is getting on with continuing to build the business. He also knows the problems that arise from not doing so: 'When it slides and you lose customers, you really have to spend a lot of money to get them back through the door.'[1]

'While other retailers are closing stores, cutting staff and trimming marketing and IT budgets as sales volumes fall, Woolworths has reaffirmed plans to invest about $1.9bn this year, opening 162 new stores and refurbishing 368.'[1]

Last month I explained that Woolworths is performing above the rest because it operates to a very robust strategic plan and set of performance criteria. And it continues to invest in it regardless of the economic times.

The key elements of the Woolworths strategy can be seen in the supermarket division results—pharmacy's main external competitor—for the year ended 29 June 2008 in Table One.

CODB (overheads) in dollar terms rose only 9.07% compared with gross profit dollars which grew by 11.1%. It was this that resulted in such a large jump in EBIT (net profit before interest and tax) growth. Put another way, overhead growth rate was 18.3% less than gross profit dollars growth. The result is remarkable because Woolworths has continued to reduce prices while holding gross profit margin percentage and yet building EBIT rapidly because of improved productivity, as reflected in falling overheads. It has done this through superb management and reinvesting some of its profits back into the business. Examples are:

- **store refurbishments providing shoppers with a more pleasant shopping environment;**
- **higher sales volume brings greater purchasing power;**
- **investing in supply chain efficiencies;**
- **removing numerous smaller distribution centres and replacing with fewer large regional and national centres employing the latest logistical and distribution systems;**
- **enhancing IT systems and data utilisation;**
- **sharing data with suppliers;**
- **initiatives such as factory-gate pricing, continuous replenishment programs, in-store technology and systems; and**
- **range expansion.**

TABLE ONE
Woolworths' results for its supermarket division

Supermarket division result	2008 $m	2007 $m	Increase %
Sales	36,143	32,582	10.9%
GP	8,476	7,627	11.1%
GP%	23.45%	23.41%	
CODB (overheads)	6,480	5,947	9.07%
CODB (overheads) to sales %	17.93%	18.25%	
EBIT	1,996	1,680	18.8%
EBIT to sales %	5.52%	5.16%	

The pharmacy establishment is very critical of the supermarket model for obvious reasons and no doubt the supermarket lobby will again launch an aggressive campaign as the upcoming Fifth Community Pharmacy Agreement negotiations commence. But by studying Woolworths pharmacies can:

- **understand its strengths and weaknesses to develop a strategy to compete against it by building strengths in areas where they are weak;**
- **learn from what it does well including the importance placed on investing on quality store formats/shopping environment and ranging;**
- **learn more about initiatives that improve space, stock and staff productivity by improving processes, efficiencies and use of data to achieve these;**
- **improve replenishment and ordering efficiency plus remove the store room to free up cash and reduce staff cost of double-handling;**
- **reduced overheads/sales % comes from improving processes and lifting sales performance; and**
- **importantly, comprehend the relevance of its offer to the customer and the points of difference compared with Coles and their lowest cost/lowest price supermarket competitors.**

Pharmacies need to focus on their own strategic and management goals and radically improve their customer offer to one that is relevant and/or important to customers, while different to the likes of Woolworths. Maintaining pharmacy profitability requires much more than rhetoric and maintaining the business model status quo.

During the current economic slowdown I'm observing a hastening of the polarisation of customers away from the typical 'me-too' type convenience dispensing pharmacy towards those with relevant and different customer offers. These are pharmacies that have either the lowest cost structure enabling them to sell at the lowest price, or those that add value by combining product with expertise and special skills that lead to a customer solution and healthcare outcome.

While representing only a small minority, these smart pharmacy retailers continue to invest in marketing, training, shopping environment, fixing the product mix, dispensary automation, having a pharmacist at the front at all times, IT and management skills improvements.

Now is the time to get on with new initiatives, instead of cutting back, as that will ensure your pharmacy is polarised and not neutralised!

1. Michael Luscombe CEO Woolworths Ltd. The big mistake is to lose momentum. Aust Fin Review 22 October 2008, p54.