



# Customers more vital than product

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**'When I ask people why they are in business, they always give me the wrong answer which is—to make a profit. When I then ask them how they are going to do that, they can't answer. No matter whether you are running Boeing, Telstra or a little business, there is only one answer—to get and keep more satisfied customers returning to you. If you can do that, and assuming that the way in which you are doing that reflects sound business principles, profit will flow automatically. You see, profit is a by-product, not the main game—which is more satisfied customers.'**<sup>1</sup>

**W**hen starting a strategic planning session for a pharmacy owner or group I first ask what drove them to choose the business of pharmacy instead of, say, dentistry, law, engineering or whatever. I always get the same answer: I own a pharmacy to make money. Drilling deeper and discussing core values, the motivation is usually a genuine interest in the wellbeing of people. Those struck by this realisation often successfully shift away from a primary focus on product supply, profitability and sales towards a culture of 'customer' outcomes and value.

Importantly, the customer decides what outcomes they value and which pharmacy they choose to obtain such outcomes. To demonstrate my point and discuss some seismic shifts occurring in pharmacy, the following summarises three key trends I have noticed.

## NON-HEALTH RELATED SALES FALLING

During the last 12 months most pharmacies have managed to hold reasonably constant sales of anything healthcare related including script dispensing, OTC scheduled medicines and other health-related departments such as digestion, vitamins, eye care and so on.

However, sales have fallen significantly for open-selling lines

(such as skincare, fragrance, haircare, gifts) as customers seek to satisfy their 'value' equation at other outlets including supermarkets, discount department stores and the low-price-driven pharmacies. This trend is not limited to pharmacy as highlighted by IBISWorld which said that during the December trading period 'a greater shift towards discount outlets is expected as consumers remain nervous about overspending this season.'<sup>2</sup> IBISWorld also expects 'many international online retailers to capitalise on the exchange rate, with a focus on small luxury items such as perfume and cosmetics.'<sup>2</sup>

## REDEFINING THE PHARMACY MARKET

The lowest price warehouse pharmacy phenomenon is changing the customer perception of 'value'. Not purely in a price sense because customers also measure up the warehouse-wide product range and service offerings, then compare them with those of the traditional convenience-based pharmacy. Many find the latter offer wanting and defect to the alternate. The problem is only exacerbated by many traditional pharmacy owners choosing to respond by becoming price takers or 'pretend discounters' without lifting the quality of the services and service offer.

I noticed during December 2009 the enormous growth of

warehouse pharmacies trading for more than a year. Customers are seeking to maintain previous buying patterns though chastened by fewer available dollars. IBIS refers to this as consumers' 'determination to get the best spread for spend.'<sup>3</sup>

To compete in this environment, non-warehouse pharmacies need to find a point of differentiation other than price. For most, this will be a retail health solution-driven strategy.

While the December trends resulted from lower consumer sentiment driven by rising interest rates and the absence of government handouts, the pharmacy market redefinition will continue uninterrupted into 2010 and beyond.

## RISE OF THE INTERNET AND CROSS-CHANNEL SHOPPING

'Cross channel refers to offering customers a seamless experience between the different channels from which they can shop, and recognises that the consumer buying process increasingly spans multiple channels.'<sup>4</sup>

Channels will be limited in this discussion to online and the pharmacy premises.

The internet is causing customer behavioural changes primarily because of the convenience and time saved.<sup>5</sup>

We know that 80% of households use the internet as a research resource.<sup>6</sup> In Australia 'half of Australian shoppers research their purchase online before going to the store to buy'. Further, 25% of the shoppers surveyed described the

internet as 'the most crucial source of information—more than TV, radio, brochures and catalogues combined'.<sup>6</sup>

A pharmacist who owns three pharmacies has met great success with the online channel, particularly prescriptions and fragrance. Interestingly, 96% come into the pharmacy to collect the script or product thus creating more opportunity for additional sales. The customers said their key reasons for using the internet was to:

- surf through the range and information online;
- nominate the time to come in and collect the script;
- save time by avoiding the dispensary queue;
- access a potentially endless aisle;
- save on delivery costs;
- change the 'basket' when they arrive at the pharmacy;
- ease of product return or exchange as the pharmacy offering the internet option is local; and
- easily pre-order high-cost drugs.

These trends are the result of changing customer behaviour and their needs being met by proactive pharmacy retailers. You see, 'profit is a by-product, not the main game—which is more satisfied customers.'<sup>1</sup> ■

1. Peter Drucker

2. IBISWorld. Special Report, December 2009, p1.

3. IBISWorld. Special Report, December 2009, p2.

4. Rob Kincade. McMillan Doolittle.

5. Australian Centre for Retail Studies. Retail Insights, Edition 127, 30 November 2009: p1.

6. Australian Centre for Retail Studies. Retail Insights, Edition 109, 30 June 2008: pp1–2.