

Uniqueness sustains

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UNIQUE SERVICES COMBINED WITH PRODUCT WILL DEFINE COMMUNITY PHARMACY, NOT PRODUCT SUPPLY ALONE, NOR OPERATIONAL EFFICIENCY.

Traditional community pharmacies can only survive the lowest-price onslaught by implementing a valued point of difference for the customer that it can preserve. Many worthwhile strategies are available but relatively few are adopted and embraced.

Owners have been able to rely on the traditional supply model to financially sustain their overall practices. Times of commercial discomfort are managed by simply tightening the existing dispensing supply model using tactics such as:

- buy better;
- substitute generics and private label;
- cut costs and limit expenditure;
- slavishly churn the scripts; and
- adjust a few known value item prices.

Yet these tactics are simply about improving operational effectiveness; an activity every pharmacy should be doing continuously. It is not a strategy that can deliver a long-term advantage and a sustainable business against growing competitive pressures.

FRONT-OF-STORE HEALTH STRATEGY

Most non-price strategies should emphasise healthcare and this points to a fundamental opportunity for most traditional pharmacies—something I now call 'picking up the pieces of gold at your feet', a term first coined to me by CEO of the Australian College of Pharmacy, John Chapman.

Table One reflects a significant group of JR Pharmacy clients with

sales averaging \$3.8m and illustrates the poor front-of-store retail offer. The main takeouts are:

1. The few profitable departments are all health-related.
2. 25 out of the 35 departments lose money.
3. Almost all profit made in S2/3 is lost by poor merchandise, marketing and strategic decisions (or a lack of them).
4. Yet this loss-making space and merchandise continues to be rewarded with a majority share of often huge investments in rent and fit-out. What thought is given to the space cost this unprofitable 'stuff' occupies?
5. The pharmacy's healthcare image is blurred to the customer confronted by all this 'stuff' as they enter and attempt to navigate around the store.

Included in these numbers are losses of between \$3,000 and \$10,000 in: gifts; open-selling hair and skin care; cosmetics; hand and nail; toiletries; photo; and baby. Notably, the baby category can generate profitable traffic for the healthcare departments and dispensary. Few do it well which signals opportunity.

To sustain against the lowest-price competition, generics price transparency and future government PBS reform mechanisms, most pharmacies need to consider strategies that fundamentally alter pharmacy behaviour/culture and the perception of customers, such as:

1. performing different activities the competition can't match; and/or
2. performing the same activities although differently.

Figure One is in contrast to the results achieved for a client who embraced strategic change when confronted by a warehouse pharmacy entering the market.

Key decisions were made by the owners to compete on a health-focused offer rather than responding to the strength of the new major competitor—price. These decisions helped turn 'Other Retail' from a large and unsustainable loss, as similar to Figure One, into healthy profitability. These decisions included:

- to be different;
- to be a healthcare provider and look like it;
- health departments will dominate the store offer;
- ranging, brands, suppliers and location in the store;
- services offered in relation to those departments and skill sets needed
- toss out anything irrelevant to a healthcare image;
- improve dispensary efficiencies and hire another pharmacist;
- take advantage of all government-funded services and add some others;
- market the health solutions and outcomes to customers; and
- measure results and look for improvements.

So exploit opportunities; don't just manage risk. Cost-cutting is not a business model, nor a strategic opportunity. Invest your precious resources now where you can create significant leverage, efficiency or economies of scale. And don't trip over the gold to pick-up pennies. ■

FIGURE ONE: Front of store profitability

