

JRx proficiencies



The On-Line Experience

embrace the on-line environment

2

Pfizer decision

implications for pharmacy businesses are significant

3

Disaster Recovery

mitigation measures - can help reduce or avoid losses

4

+ Focus & Execute Seminar Series

Welcome to the 1st edition of 2011 JR Proficiencies.

Following on from a turbulent 2010 retail environment, Queensland and Victoria experienced turbulent weather events with the recent devastating floods and cyclones. Nobody has been left unaffected and it will take many months before things begin to approach some kind of economic normality.

With our own experience top of mind Teresa provides an up to date look at what should be in a basic Disaster Recovery Plan (DRP) so that businesses can stay in communication with staff and customers from the initial stages of a disaster and get back to trading as soon as possible thereafter.

On the Pharmacy front, the impact of the MoU (Federal Legislation arising from a Memorandum of Understanding with BrandPharma manufacturers), accelerating WADP (Weighted Average Disclosed Price) reductions and Pfizer's recent response, followed in turn by the Wholesalers' trading terms revision are causing Industry reverberations that will continue until their cascading implications are both experienced and understood. Inside Bruce offers his insights as to what Pharmacy owners should expect and how they best combat the expected eventual decline in Gross Profit dollars.



Level 30, Central Plaza One 345 Queen Street Brisbane Qld 4000
GPO Box 1144 Brisbane Qld 4001 Phone (07) 3222 8444
Fax (07) 3221 7779 www.jr.com.au/pharmacy

In general retail it appears our pre GFC boom economy has made our bricks and mortar retailers lazy - et al Gerry Harvey and co. While some of their points are pertinent re: the effect of GST, many retailers are simply being outpointed by niche customer focussed retailers who are improving the customer experience. Inside Norm discusses this in more detail but to support his points I recommend visiting the following websites which are significant online businesses with broad reach and appeal,

- www.zappos.com (shoes - US based - price focussed)
- www.wiggle.co.uk/sale (all things bikes, running and swimming - UK Based - niche and price)
- www.kogan.com.au/?utm_source=Yahoo&utm_medium=cpc&utm_term=koga (televisions - Aus based - niche and price)
- www.funkydirect.com/contact.html (funky swimwear - Aus based - niche and not price)

There are also a myriad of Pharmacy on-line offers which can be found easily and should be monitored regularly. The important lesson for Pharmacy Owners is to recognise that customers want to walk out of a store feeling good about their purchase decision and the way in which they have solved their problem - whether it is a serious one or one of minor personal gratification. Customers need to know and/or feel like they could not have got the same or a better result online or elsewhere. Too many Australian retailers are failing to recognise or meet these basic needs which have been exposed by those who are communicating or operating through multi-channels.

To assess all of these challenges (including their effect on Pharmacy values) and consider what strategies can be adopted to survive and thrive into the future myself and Norman will be conducting a seminar in all mainland states during February/March with the assistance of Symbion and Westpac. Check the back page of this publication for the relevant dates. Also we have just completed podcasts which are now on our website to explain more about the JR systems that are helping many Pharmacy owners manage their business. These include JR.Paylink (payroll and rostering program), JR.Bizlink (accounting and management system) and JR.Spacelink (category management and analysis tool).

As usual if you have any queries regarding anything inside this publication please contact one of us directly on the numbers provided on the back page.

Mark Nicholson

The On-Line Experience

Irrespective of the intentions of large Australian retailers in the recent press, their gripes have highlighted how some of them have failed to embrace the on-line environment and adapt their business to consumer's wants and desires.

The point that seems to have been missed by many is that the GST argument has little to do with the real reasons people shop on line.

What the researchers say

According to Google, in 2010 there was more than a 35% year on year growth in shopping queries on their search engine. Much of this growth has been driven by growth in the 'value' and 'busy' customers.

According to the Australian Centre of Retail Studies (ACRS), the 'value' customer does price comparisons more than others, they have planned consumption and see appeal in the use of coupons. Sites such as GetPrice had 2.7 million shoppers in 2009 which is a 500% increase on 2008. Meanwhile, two thirds of those that used the Lasoo site saved approximately \$20 while 15% of users saved between \$100 and \$500 (ACRS August 2010 Australian Consumer Trends).

'Busy' customers embrace the multichannel purchasing ability of retailers better than value customers. They do a lot of one-stop and top-up shopping and look for convenient payment options in both bricks and clicks environments. According to McKinsey Research, multichannel consumers spend more, generate higher profits and show greater loyalty.

In summary, much of the research shows that the attractions for the customer lies in the immediacy and convenience to get better value, avoid crowds and queuing and have access to a wider range of products.

What about Pharmacy ?

The above findings should not come as a surprise – what is a surprise is how most Pharmacies are ignoring the on-line channel and in turn ignoring their customers needs and wants. These same customers are in turn simply silently going elsewhere.

If considering an internet offer there are three typical strategies to choose from when considering. Each serves a different purpose and how you embrace the options will depend on how you want to engage with your target customer.

The options are:

1. A store locator position
2. A pure on-line shop; or
3. A connection between the on-line environment and the retail shop (clicks and bricks)

Store locator

This is effectively a replication of the "Yellow Pages" style of advertising of years gone by. Some pharmacies have this if they are a member of a banner group while others are able to access this style of web presence through a local web provider (eg truelocal.com.au or startlocal.com.au etc)

While this does not give the customer the ability to buy on-line it should at the very least give them an idea of where the pharmacy is and when it is open (otherwise they may find your opposition).

On-line Shop

There are several operators already in this space in Australia, examples being Chemist Warehouse and Pharmacy Direct.

Generally this style of offer is price driven with little or no connectivity to professional advice/assistance. These sites therefore compete directly on price (lowest price and discounts on delivery for increasing purchase size). If you want to play the game of discount this is the option for you.

However to make this style of on-line offer work, you must have the ability to drive down costs (delivery time and price) in the business (just like a any other every day low price operator) because there will always be someone that can sell the products cheaper - including overseas competitors in certain categories.

This type of site takes an enormous amount of infrastructure to build and maintain. To recover that cost at low margins, the volume throughput must be significant.

Clicks & Bricks

This option introduces a comprehensive level of service and convenience to the customer that the others can't or won't do.

The connection with the customer should be present in two different forms.

1. There should be **information** on the web-site about health conditions and offer potential solutions to the on-line shopper in the form of 'click through' or 'pop up' options.
2. The ability for the customer to select on-line and pick up in store (**convenience**). Customers need and value the personal interaction it is just that they do not have much time for it.

This style of on-line offer has the following benefits:

- information and convenience for the customer;
- Allows pharmacy to streamline the picking and packing process during quiet times of the day (because the customer should be able to nominate when they will be in to pick it up).
- Allows the pharmacy to still have the customer walk into the pharmacy to engage and provide further personal advice. The interaction should therefore be focused and to the point about their condition/purchase.

These customers are the ones that spend more and make you more profit.

Getting the customer to use your site

Go onto the internet and Google your own pharmacy. Take a note of what else appears on the first page of the Google search. What is going to attract the customer to your pharmacy?

Much of the initial promotion of your site must commence in-store one on one. Relying on a search engine like Google is too expensive and inefficient for most pharmacies.

Therefore the details of the website should be labeled on every piece of correspondence and paraphernalia provided to the customer.

Coupons are often used as a hook to get consumers to use your website. According to ACRS, the average redemption rate of paper coupons is about 1%, whereas on-line coupons have a 15% to 25% redemption rate. This is a powerful way to introduce your customers to your on-line offer.

Once on-line the site has to be easy to navigate and use. If you have payment options on the site make sure they are quick and easy. Nothing will frustrate the customer more than a long queue in-store and a web-site that does not work.

Many pharmacists argue that the cost to create and maintain a web-site is too great for a market that is perceived to be too small. The questions you have to ask is, what are you losing by not having a presence and is it an inevitability best confronted now?

Norman Thurecht

Pfizer decision – pharmacy owners and wholesalers carry the can

From 31 January 2011 community pharmacy (hospital pharmacy excepted) will only be able to purchase Pfizer products from Pfizer and the implications for community pharmacy businesses are significant. Let me expand.

National medicines distribution

The government has created a health system that guarantees both the affordability and accessibility of medicines for all Australians, no matter where they live. That promise has been successfully delivered through the Pharmaceutical Benefits Scheme (PBS) and the Community Service Obligation (CSO) ensuring a competitive customer-focused operation that delivers every PBS medicine, every day to every pharmacy.

Logistics vs Wholesale model

Now imagine a future where large drug companies are using logistics suppliers to deliver their products to pharmacies on timeframes that suit them, at prices they determine and with no guarantee of service levels, especially to rural, regional or remote locations. What's more, there are few consequences if they fail to achieve any of the above – at least, not for them.

This scenario could easily become reality and if this is the sort of model the industry creates, then I imagine the wholesalers will simply modify their operations to align themselves with market demands.

What if others follow Pfizer?

There is no doubt that other big drug companies are watching to see how pharmacy owners in particular and the industry in general respond to this situation. They will be considering how a similar move might benefit them.

Therefore, it is important that the pharmacy industry, owners in particular, fully understand the long-term ramifications of moving to a logistics model where the supplier becomes the customer instead of the pharmacy owner.

It is not an exaggeration to say that the current wholesale system may be at risk if another big drug company follows Pfizer Australia's move to an exclusive distribution model. The logistics/direct supply model doesn't suit Australian pharmacy because there is an absence of major dominating groups that are found in countries like UK and USA due to regulation and the highly disparate nature of ownership.

Why wholesale model remains vital to pharmacy and the national PBS network

1. Service Standards

There is no doubt Pfizer/DHL service model and transition arrangements are aimed at smoothing the changeover path and doing everything possible to supply reliably.

However, under the existing model, the three national wholesalers compete aggressively for pharmacy business. As signatories to the CSO, they are required to meet minimum standards that ensure the safe, 24-hour delivery of medicines throughout Australia. If one of the wholesalers is unable to supply a product, the pharmacy can order it from their competitor. If they need a product in a hurry, it will – at a minimum – be in the pharmacy the next day.

These CSO guarantees are absent in a supplier-centric exclusive distribution model. If the direct supplier has any supply issues, there are no alternatives.

For example, if the direct distributor misses the plane to Tasmania or a regional area, there is no alternative. A direct distributor will be unlikely to offer the flexibility of preferred delivery times. If a pharmacy needs a product in a hurry, there will be a surcharge which may exceed the profit margin on the product itself.

Furthermore, it's very unlikely that the types of relationships that currently exist between pharmacy staff and the wholesaler delivery team can exist under the supplier model.

2. Pricing and Trading Terms

Under the current system, pharmacies negotiate with the wholesalers for competitive trading terms. In a direct distribution model, there will only be one supplier of each product – the manufacturer itself. There will be no alternative, no leverage.

Payment terms will also be far more limited under a direct distribution model. While wholesalers don't provide extended credit under normal circumstances, their relationships can accommodate individual pharmacies during tough times or times of high cash need such as a refit or new pharmacy purchase.

3. Increased pharmacy business complexity

Increased cost will flow from running additional supplier accounts, reconciling and making additional payments, placing the extra orders, receiving deliveries at different times and putting them away. Plus having to carry full inventory of all PBS lines or face the prospect of paying surcharges for urgent deliveries. I know some groups who have deliberately placed all their wholesaling and distribution business through one wholesaler in the interests of ordering simplicity, supply reliability, efficiency and cost savings. This has now been seriously watered down.

4. Access to the 'value added' support

The wholesale industry has been fiercely competitive in trying to secure pharmacies' business. In addition to efficient service and keen trading terms, this competitiveness has led to the creation of a vast array of value added services for pharmacies. These include the management of pharmacy brands, consumer advertising, systems support, payroll processing, merchandise services, pharmacy funding guarantees, property negotiation and refit services, staff training, general business strategy and advice.

In an environment where distributors focus on suppliers as their customers, who will support pharmacies (particularly the array of small and far flung ones) maintain and improve customer services? This point must not be underestimated because many pharmacies across the nation have and are being supported by these additional wholesaler services that have kept many in business and provided valuable assistance when needed.

Impact

I have been warning for almost three years that wholesalers were operating a very tight model and pharmacy discounts would be cut as result of industry changes such as PBS reforms and genericisation. Those exposures still remain and unfortunately for owners have now been exacerbated by the Pfizer move.

The immediate implication of Pfizer's decision has been a reduction in pharmacy trading terms by the wholesalers. Wholesalers have been adjusting down pharmacy discounts the level of which varies depending on the pharmacy specifics, pre 1 February terms and the wholesaler.

For example, a pharmacy turning over \$3.4m with 78% dispensary turnover has lost \$24,000 per annum after having his discount level clipped by 1.25% while some have lost less, others more. A typical \$2.5m turnover pharmacy with 75% dispensary proportion may lose between \$10,000 and \$18,000 (again depending on the specifics).

In addition there may be a cash flow impact on some pharmacies resulting from less flexible payment terms.

The question that now needs to be answered by all pharmacy owners is 'what initiatives will I embark on to improve my business and replace the lost income?' There are plenty to choose from in addition to pushing generics harder!

Ultimately however, it is the long term ramifications for the industry which must be considered at this time as it is the decisions the industry makes now which will forever alter the shape of pharmacy in Australia.

Bruce Annabel

> page 4

> from page 3

Disaster Recovery

As you would be aware, we at JR.pharmacy have had a “swimming” month. To focus, however, on a positive – we were given the perfect chance to ‘road-test’ our business continuity plan. While preventing a natural disaster can be extremely difficult, measures such as sound planning -which include mitigation measures - can help reduce or avoid losses.

I have taken the opportunity here to list our twelve top tips for handling a disruption to your business.

1. **Have a Business Continuity Plan** that is documented and easily available – i.e. you may need several copies available – one on your network and one or two copies held externally to the business. Always have a printed copy as well both on-site and off-site and keep these copies updated.
2. **Have a communications hub** - i.e. your home place or other ‘off-site’ place where a small team can meet and set into motion your Business Continuity Plan.
3. Utilise all forms of communication:
 - a. Facebook
 - Set up a facebook page for your business and inform your staff to look on this site for any business updates.
 - b. SMS
 - Utilise an SMS facility with a provider such as “Bigpond” enabling you to SMS your staff with updates.
 - To do this you need to have a bigpond email address (separate to your current business email address) – and staff will need to provide you with their mobile numbers.
 - Ensure the listing is updated for new and exiting employees.
 - c. Webpage
 - Have a designated webpage that your staff can access – again my recommendation is to have this with a supplier such as Webcentral, Telstra, Optus, etc.
 - Instruct your staff to check this website for the latest news.
 - d. Twitter
 - Have a twitter signature whereby your staff can access and receive automatically the latest updates.
 - Both Facebook and Twitter can send messages automatically to your staff’s mobiles by adding comments to these mediums.
4. Keep a list of all your **employees names, addresses, phone numbers** – home and mobile, external email addresses (not your business) – together with their next of kin - in a separate “off-site” location that can be accessed by multiple parties. Again this also needs to be kept up to date with new and exiting staff members.
5. Keep a list of your **employees bank details** – so that you are able to make payments, potentially in lieu of salary and wages, direct to their accounts even if you cannot access your business records.
6. Keep a list of all your **stakeholders, i.e. banks, suppliers, colleagues**, etc. – names, addresses, phone numbers, and email addresses – in a separate “off-site” location that can be easily accessed by multiple parties. This will enable you to convey your current position to stakeholders ie. Banks – advise them that you are unable to access your records and may need their assistance to process payments, etc.
7. Ensure **daily backups** of your internal networks are taken off site daily – ensure you have both daily, weekly and monthly backups – stored offsite. Road test this by a surprise audit on the person responsible for this task, regularly.
8. Ensure your **external IT provider** is fully documented and up to date with your system requirements and is capable of accessing new equipment, software, etc. This will allow them to start the procurement/replacement program immediately upon notification by yourselves. Ensure that your systems’ documentation is up to date and is available within your business and external to your business.

9. If possible have a **redundancy disaster recovery site** – whereby you can switch over your system/services to externally placed servers, etc – so that the business can continue to function.
10. Consider having **2 ISP Providers** – the day-to-day provider of your internet services and a second provider whereby you have the ability to switch over to – should your primary provider services fail.
11. Communication with your **building/shop management** is essential – this way you can know what is happening at your premises when you can’t be there.
12. **Phone Line** – Ensure your Telco can transfer your phone line(s)

These twelve planning tips will contribute significantly to the recovery of business if you should be impacted by either severe natural disasters like the recent floods, cyclones or bushfires or disruptive events that are isolated to your building, street or town.

Teresa Hooper

Focus & Execute Seminar Series

Join Mark Nicholson and Norman Thurecht as they explore the impact of recent PBS price adjustments, wholesaling and ongoing competition changes and consider the requirements for future success in a rapidly changing industry. Also joining Mark and Norman with supporting insight will be Andrew Vidler from Symbion and Westpac Pharmacy lenders from each state at the following venues as follows.

Adelaide

Tuesday 15th February
Rydges South Park
1 South Tce,
Adelaide SA 5000

Perth

Wednesday 16th February
Rydges Perth
Cnr King & Hay Sts,
Perth WA 6841

Sydney

Tuesday 22nd February
Holiday Inn Sydney Airport
Cnr Bourke Rd &
O’Riordan St,
Mascot NSW 2020

Melbourne

Wednesday 23rd February
Rydges North Melbourne
Cnr Harker St & Flemington
Rd, Melbourne VIC 3051

Brisbane

Tuesday 1st March
The Greek Club
29 Edmonstone St, South
Brisbane QLD 4101

Townsville

Wednesday 2nd March
Jupiters Townsville
Sir Leslie Thies Drive
Townsville QLD 4810

Visit www.jr.com.au/assets/file/Focus & Execute Seminar Series.pdf for your seminar registration form.

JR Pharmacy Management



Teresa Hooper – Partner
Direct: 07 3222 8461
Email: thooper@jr.com.au



Mark Nicholson – Partner
Direct: 07 3222 8434
Email: mnicolson@jr.com.au



Bruce Annabel – Consultant
Direct: 07 3222 8401
Email: bannabel@jr.com.au



Norman Thurecht – Partner
Direct: 07 3222 8316
Email: nthurecht@jr.com.au

Proud Supporters of the following:



JR Pharmacy Proficiencies is printed on Cyclus paper, which is 100% recycled, made entirely from 100% post consumer waste. The Cyclus mill has a total commitment to the environment and employs a unique ‘recycled loop’ process. As well as the use of 100% de-inked post-consumer waste fibre, all bi-products created during the manufacturing process are recycled.

Liability limited by a scheme approved under Professional Standards Legislation © Copyright 2008 Johnston Rorke Chartered Accountants.

Privacy Statement If you do not wish to receive this newsletter in future please contact our privacy officer: Jocelyn Horton Johnston Rorke GPO Box 1144 BRISBANE QLD 4001 / Phone: (07) 3222 8444 / Fax: (07) 3221 7779 / Email: JHorton@jr.com.au

Johnston Rorke complies with the requirements of the Privacy Act 1988 and the National Privacy Principles. In summary, we will collect certain personal information from you, or your staff during the course of our engagement and we will comply with the requirements of the Act in relation to the collection, storage, use and protection of such information. Our detailed privacy policy is available on our website, www.jr.com.au

The information provided in this newsletter is a guide only and should not be relied upon as advice from Johnston Rorke.