



Wisdom of change

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‘Gratuitous change for the simple sake of change is demanding and often debilitating—consuming energy, time and material resources with little benefit. Considered and well-orchestrated change on the other hand, is a rich opportunity for growth and enhancement. Wisdom resides in knowing the difference.’¹

Time will tell whether the Pfizer/DHL direct supply model is beneficial to community pharmacy owners and their patients. Right now many owners would vote for ‘little benefit’, or ‘worse’.

Inevitably, pharmacies will suffer profit losses immediately due to reduced supply trading terms from wholesalers. These losses must be replaced as it comes at a time of flat sales and aggressive competition from warehouse, supermarkets and on-line.

Pharmacy, though, has several areas offering ‘a rich opportunity for growth and enhancement’ that will deliver strong enough profits to fill the hole created by the cut.

The most obvious opportunity that requires little investment, generates almost instant results and requires only a small change in fundamentals is OTC scheduled medicines.

SCHEDULES OF GOLD

The Guild announced on 22 December 2010 that the Department of Health had decided to retain the two OTC schedules. That was great news for

pharmacy given the high contribution to sales and overall pharmacy net profit. They are also the only non-prescription medicine products the supermarkets can’t stock!

Guild president Kos Sclavos was quoted in the media release: ‘It is important for pharmacists and pharmacy staff to remain vigilant with regard to our OTC schedules... If regulators cannot see the benefits for the community in our current scheduling arrangements, they could be threatened again at some point in the future’

Critically, the schedule lines, if combined with skilled expertise, offer a window to value-adding solution services and should not simply be considered another product supplied in response to a customer request.

Most tend to take them for granted, squeezing them into small space, merchandising them poorly, not providing skilled experts (pharmacists) and failing to add any value.

A case in point: I walked into a pharmacy recently to buy two scheduled products and the only

interchange was that will be \$45.90 (double the price of Chemist Warehouse) and would you like a bag. Was that being ‘vigilant’ and what of the missed value-adding opportunity?

OPPORTUNITY REGAINED

So why are the OTC schedules vital to overall pharmacy net profitability? Table One offers 2009/10 data of four different pharmacies and an estimate of 1 February 2011 lost discounts:

The contribution to overall net profit (\$ and %) is clear as is the untapped potential. Look at the contribution to retail sales (29–37%) and overall pharmacy net profit (10–27%) given the small amount of shelf space allocated. Then think about how much space is given to the many open-selling categories that lose money because customers mostly buy them elsewhere.

I have proven many times that shrinking these and giving much more space to the OTC schedules will increase overall sales and net profits.

SHIFTING CULTURAL ATTITUDE

The provincial pharmacy mentioned in Table One is a case in point. The owners addressed their sub-standard merchandise offer and

implemented major changes in 2010 that focused on building the value-adding categories, particularly OTC schedules, where shelf space was more than doubled, facings increased, positioned closer to the pharmacist and clearly presented to the customers. These changes also recognised that sales respond to many customer-facing strategies, not merely price!

The outcomes were:

- 1. OTC schedule sales grew 22% or \$65,000 which generated \$31,200 of extra net profit at no extra cost, including wages.**
- 2. Cost incurred to make the changes <\$500 (stripping and price tickets).**
- 3. Total retail sales increased 20% or \$160,000, putting \$58,000 on the bottom line—\$24,000 greater than the lost trading terms.**
- 4. Script sales increased too, attributed to the improved customer appeal of the pharmacy.**
- 5. Cultural shift was the key. The owners accepted the need for change although initial staff attitude was: ‘Why do we have to do this?’; and ‘We have done it like this for as long as I have been in pharmacy’. Now they are happier, take more interest and have a better understanding of what makes a customer buy.**

What I have described is a ‘considered and well-orchestrated change’ utilising the great untapped OTC schedules, enhancing customer satisfaction, and profitability without reducing price. That’s the wisdom of change. ■

1. Red Hill Outlook. Issue 66 Dec 2010. Fr Chris Welch, Headmaster, Canberra Grammar School.

TABLE ONE: Importance of OTC schedules

| Pharmacy | Total sales | Total retail shelf linear metres (lm) | S2/3 sales | S2/3 shelf lm & % of total | % of retail sales | Net profit | % of overall pharmacy net profit | Est. wholesaler discounts lost 1 Feb 2011 ¹ |
|---------------------|-------------|---------------------------------------|------------|----------------------------|-------------------|------------|----------------------------------|--|
| Shopping centre | \$7.3m | 1,036 lm | \$786k | 69 lm 6.6% | 29% | \$126k | 14% | \$40,000 |
| Suburban strip | \$3.2m | 443 lm | \$309k | 66 lm 15% | 35% | \$52k | 14% | \$14,000 |
| Neighborhood centre | \$2.8m | 431 lm | \$420k | 50 lm 12% | 37% | \$82k | 27% | \$12,000 |
| Provincial | \$5.4 | 330 lm | \$298k | 34 lm 10% | 37% | \$65k | 10% | \$34,000 |

1. Excludes Pfizer deferred rebate due to uncertainty.