

JR.bizlink's exciting new eHR offering

Accurate employee data and intelligent HR processes are crucial to the efficiency of day-to-day business operation. We are excited to introduce a significant enhancement to our payroll and roster solution JR.paylink. A web-portal now saves your payroll manager time by providing staff direct on-line access to their own payroll details including payslips, leave balances, etc.

If you are not sure what the JR.paylink/payroll solution can do then check out our podcast on <http://www.jr.com.au/pharmacy/> – Paylink Video.

Keep your organisation informed and in touch

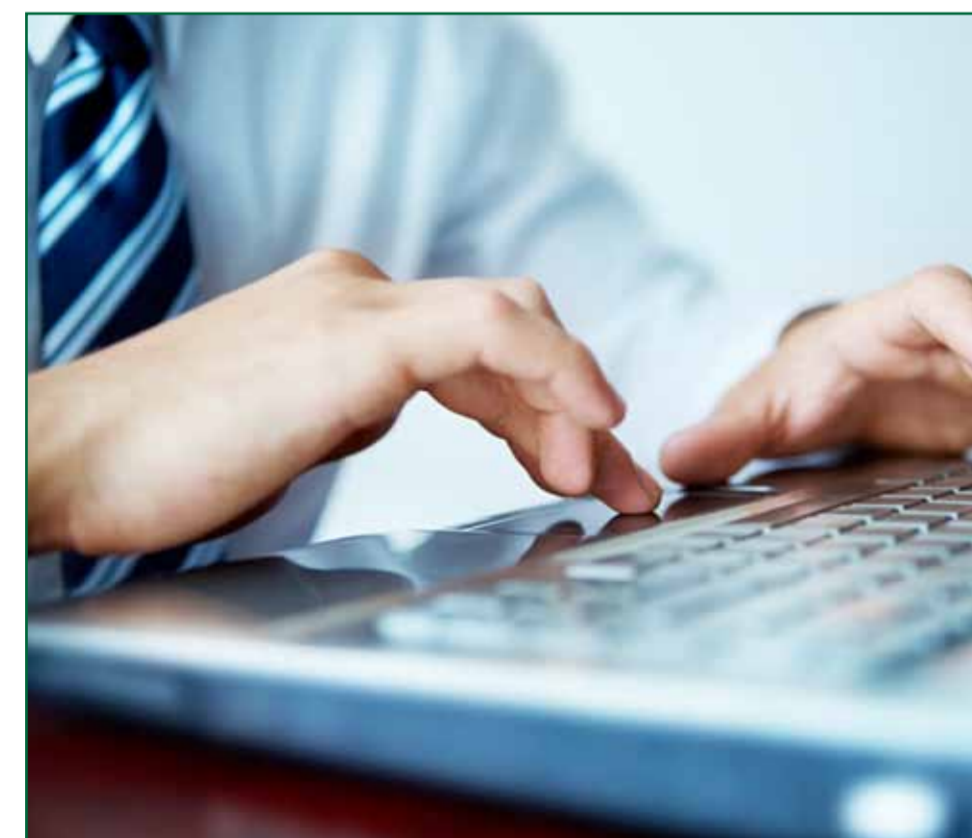
eHR is a module of Greentree which is the accounting engine of JR.Bizlink and JR.Paylink. eHR is an employee self-service kiosk that allows staff to access and maintain their personal records via the internet. It frees up your company's HR resources, reducing the number of requests by employees and empowering staff by putting their personal information at their fingertips.

eHR integrates seamlessly with payroll giving authorised staff access to real-time staff records and updates.

Staff have access to accurate and up to date employee information

Now your employees can proactively manage their own records, and management can be confident that their HR analysis will be based on accurate data.

A simple, safe and streamlined function, eHR allows authorised employees to securely access and change their personal address, contact and emergency contact details via the web, including their Direct Deposit banking details. When alterations are made to employee data an audit record is automatically generated with details of the amendments, date and time.



Easy access for payroll review

Payment administration just got easier with the ability to review salary and pay issues over the Internet. This clever solution can handle pay queries and give employees the ability to view pay history and deductions for their own reference. Authorised management may also access employee pay information remotely in minutes, saving time and staff resources.

Leave requests and balances at your fingertips

As a business you appreciate the importance of controlling and managing staff leave. The impact to operations of poorly managed leave planning can be significant. eHR provides a one-stop portal for employees' leave balance, and leave history for all annual, sick, personal and other leave. Authorised HR personnel can quickly review and analyse employee leave history remotely for requests and timely leave approvals.

Easy management approval process

eHR is the smart way to ensure your HR Team spends less time on HR administration like leave approvals and more time making a contribution to your business goals. The Leave Approval functionality in eHR improves the efficiency of your business's leave approval practice streamlining the request and approval procedure.

Secure access environment

Given the sensitive nature of employee information, eHR respects the security settings within Greentree HR Management and gives the option to employ security rules that can be applied to individuals and teams to control their ability to perform functions or access particular records.

Talk to the Bizlink Team today about our payroll solutions.

Don't forget to check out our podcast on <http://www.jr.com.au/pharmacy/> – Paylink Video.

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Beyond the Yellow Brick Road ?

In 1973 Elton John first sang that his "future lies beyond the yellow brick road". April 2012 saw Pharmacy's own version of the yellow brick road begin to narrow with another instalment of PBS reform forcing Pharmacy owners to indeed look beyond the path that has historically provided for Industry participants so well.



In the April 2012 edition of Australian Journal of Pharmacy I considered the cornerstones required to underpin a successful Pharmacy model for the future. In May's edition Norman extends the discussion to explore the importance of a Brand to a Pharmacy's offer. Both articles are lengthy and unable to be reprinted in this newsletter but were written to promote the need for change, help prioritise the order of change and flag the many opportunities that can be used to repair Pharmacy's yellow brick road for future generations.

Without pursuing and investing in these opportunities, owners will be simply hoping for an economic upturn that translates into broad retail growth. While an economic upturn may well arrive by the time Atorvastatin receives its first price cut (assuming the Government leaves it untouched) there is actually no guarantee "bricks and mortar" retailers will be the benefactors.

This is highlighted no better than in the US where Amazon are expected to move into the top 10 for US retailers by the end of the year and in one study they were 9% cheaper than Walmart when sales taxes are excluded for Amazon but shipping included for both.

Pharmacy has Prescription Regulation and an ageing population as some defence but it is insufficient for businesses wanting to exert control over their own destiny. This is why services represent such a significant opportunity – they are a reason for customers to visit and provide an ability to differentiate as not all Pharmacies can provide all services.

Moreover Bricks and Mortar retailers are beginning to understand not only the power of customer data but how internet retailers are using it to continually communicate with customers. Inside this edition I continue this discussion on the impact of "e-retailing" while Norman provides insight and commentary on using the 'generic dividend', Bruce comments on the importance of advocacy and Teresa showcases the eHR module of JR.Paylink which will save your Payroll manager valuable hours while providing staff with direct access to their payroll summaries and other important information.

Enjoy and as always we welcome any feedback.

Mark Nicholson

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Pharmacy isn't broken, pharmacies are

I adapted this heading from an excellent article entitled 'Retail isn't broken, stores are' that explained, despite all the negative news, retail isn't in trouble at all. Retail sales are actually rising, albeit modestly, but customers are buying in different ways providing huge growth to some and leaving others to wonder what's going on looking for what they can blame. Eg: strength of the dollar, GST, online, landlords, competition etc. These struggling retailers have failed to recognise the change in customer behaviour and not adapted to the new realities.

Much the same can be said about community pharmacy hence the title of this piece. Traditional community pharmacies are being beaten up by internal competitors such as warehouse (deep discount) and externally by supermarkets, discount dept stores, category killers, online (Strawberry net et al) and even big box retailers such as Costco. The competition is taking customers and sales plus changing their perceptions of price, range and service experience they encounter in community pharmacy.

Yet it doesn't have to be like this as a small growing number of pharmacy owners are proving through adopting an all encompassing customer care pharmacy model where price is not the defining element. These pharmacies are not broken, achieving double digit sales growth, enjoying high margins and growing net profit.

In fact the customer care model is the ultimate defence against two issues:

1. The competition
2. Government changing regulation to allow in others such as the supermarkets

So my view, expressed over the years is:

1. The Guild is a very effective lobby organisation that will continue to fight wholeheartedly for the current model of community pharmacy. As will the emerging PSA.
2. Grocery ownership of pharmacies not being attractive to Governments (federal, state and territory) for a variety of reasons.
3. Enormous potential exists for community pharmacies and pharmacists particularly to do far more in justifying their position as the custodian of medicines and make themselves indispensable.

It's about value! It can be enhanced by slashing cost or lifting the benefits and it's the latter pharmacy can offer Governments and the health consumer.

Compared with almost every other country Australian pharmacists have it on a platter in terms of not only regulation but also the very high margin dollars received per script dispensed (circa \$14), the opportunities afforded them by Government plus all the programmes developed and provided by the Guild and PSA.

So instead of complaining that the peak bodies must do more it is now time for owners and pharmacists specifically, to implement in their respective pharmacies the myriad of opportunities available to add value in a variety of ways.

This approach would help Governments reduce costs and manage patient health conditions.

In other words, support the efforts of the Guild and PSA, and in so doing help your pharmacy to forge a sustainable and profitable long-term future.

When a pharmacy owner is asked 'what is your most valuable asset' the answer is always 'my staff'. My view is the number one asset is your customer followed by the skilled pharmacist engaging customers in making a difference to their lives, not pumping scripts.

Pharmacy isn't broken at all and if all pharmacists responded as some already have by embracing the 'customer care' model, why would governments hand community pharmacy to grocery?

But if pharmacy doesn't step up to these challenges and existing ownership regulations are retained, pharmacy will be regarded as a cost reduction target in order for governments to extract value.

Bruce Annabel

Don't be caught offline

Change for all "Bricks and Mortar" retailers is becoming increasingly urgent as consumers continue to rapidly shift their expectations and habits based on online and multi-channel retail experiences. The bar is continually being raised by internet retailers and consumers are enjoying the benefits. And unfortunately for offline Pharmacy retailers the "clicks" consumer group is now mainstream – ie Pharmacy's core customer group of over 60's are now shopping the internet for both information and product.

Many of Australia's biggest retailers have been caught out and are playing catch-up for the years they spent ignoring customers and allowing online competitors to silently woo them. David Jones are the highest profile example while Gerry Harvey still appears to have his hands over his eyes and fingers in his ears with his latest denial of online competition in furniture and bedding. As a rebuttal Milan Direct confirmed they complete 5000 transactions per month between their British and Australian webstores with a 40 percent customer revisit rate and bulky homeware retailer Super A-Mart stating their need to be online to drive offline sales. Positively for Amcal and Guardian members Sigma's annual report has indicated they also now understand the need to develop retail formats which incorporate a multi-channel strategy incorporating e-commerce and social media.

From a personal perspective, a quick analysis of my own family's online retailing habits reveals that in the last six months we have managed to pay all our bills via internet banking, purchase Christmas gifts, a bicycle, sports shoes and clothing, ebooks, movie and concert tickets, groceries, airfares, accommodation as well as ordering and paying for school tuckshop. The bottom line is that consumers are being coerced into using the web by all levels of business and the barriers will be reduced even further once the NBN rollout is complete.

However internet retail is still less than 10% of total retail spend (with Pharmacy being even less than general retail). The concern for retailers though is that US research has shown that the internet actually influences over 50% of purchase decisions and is growing.

So while some may argue that Community Pharmacy is protected against significant loss of script trade to internet competitors due to regulation, aged customers and strong personal relationships stemming from the Pharmacist's knowledge, experience and advice it ignores both the competitive risk from other Pharmacies embracing the new channels and the ongoing change in customer behaviour caused by those new channels.

Using all the various channels to deliver an integrated "customer care" model (as discussed by Bruce in his article) will ensure a win/win for customers and owners alike.

Mark Nicholson



What are you doing with your generic dividend?

The ability to create a short term benefit from the Atorvastatin (Lipitor) off patent opportunity is down to each pharmacy's ability to maximise substitution. Depending on the discount taken, the break even after other 1 April price cuts is about 65% for Lipitor.

One month in and we understand there is a wide gap opening up in the market. Anecdotally some Pharmacies are achieving 90%+ substitution while others are at 50% or less. Our understanding is that the pre-buys of greater than 3 months stock were limited.

Of course the first month's data does not count towards the calculation of the weighted average price but with a huge incentive to get the dividend, substitution must rise quickly. Future deals by new entrants will no doubt offer significant incentives to switch although one generic manufacturer has publicly indicated concern around reducing margins.

The table below highlights the difference in GP% and GP\$ on one strength pre and post 1 April. The main contributor to the increase on the generic post 1 April is the discount and the premium free fee which is currently \$1.59. We have assumed a blended generic discount rate of 81.5% and wholesaler discount of 3.75%.

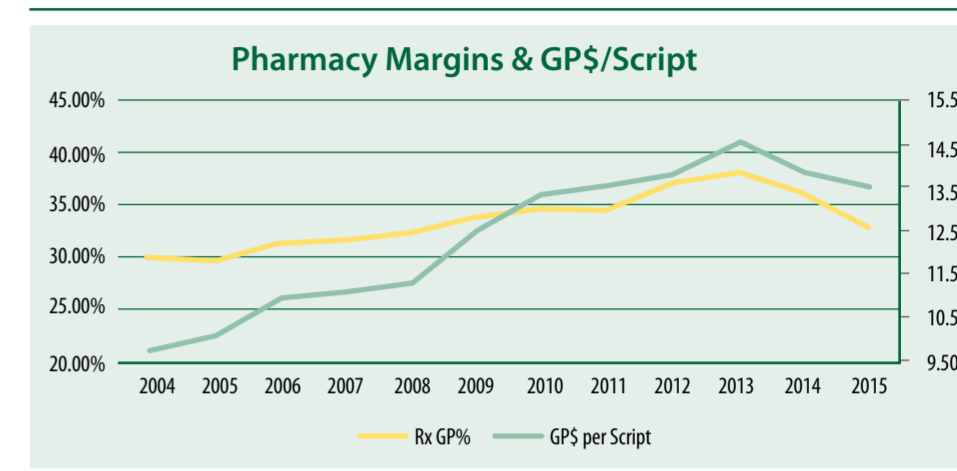
Atorvastatin 40mg	Previous Branded	Current Branded	Current Generic
GP\$	\$13.02	\$14.05	\$58.77
GP%	16.47%	20.83%	87.14%

Due to the volumes of Lipitor being dispensed, the net effect is significant on most dispensaries – remember, watch the dollars not the percent.

Despite this short-term gain, what will the future look like?

Compared to growth in substitution rates on previous off patent opportunities, Lipitor is high and therefore there is an expectation of a price reduction on 1 December 2013 (the earliest possible date for a price reduction under the current legislated Memorandum of Understanding).

Our modelling suggests that the total (i.e. not just Lipitor) GP\$ per script across the whole dispensary will peak between 2013 and 2014 as price cuts on existing molecules continue to have price adjustments plus new off patent molecules (such as Lipitor, Zyprexa, Effexor, Karvea etc) take effect. Below is a graphical representation of what we project will happen over the next few years to dispensary margins.



The graph highlights that since the introduction of PBS reforms 5 years ago, the average GP\$ per script has increased by approximately \$2.50. For the average pharmacy dispensing 60,000 scripts, this represents over \$150,000 of gross profit growth. The majority of this growth has come from the generic discounts and premium free fees.

Further growth in GP\$ per script will occur over the next 18 months before WADP price adjustments begin to reverse the trend. We currently estimate that in 2015 the GP\$ per script will be similar to that achieved for the year ended 30 June 2011.

So is there a floor in income from dispensing scripts in the future?

The potential floor is the combination of the dispense fee, the mark-up, premium free fee and any discounts. But when prices decline discount dollars and the mark-up will decline and in the long term will end up significantly less for a large component of off patent molecules.

Irrespective of this, we expect the GP\$ per script to remain above levels prior to the introduction of PBS Reforms in the medium term. The concern however is that a loss of \$1 gross profit per script on average equates to \$60,000 net profit loss for an average pharmacy. This is an issue for all pharmacies in Australia – irrespective of model.

The generic dividend everyone is currently striving to achieve must be used to enhance the business operations and/or reduce debt where applicable. It is for this reason we continue to focus on helping our clients evolve their pharmacy business model in order to achieve real growth – i.e. script, customer, average retail sale, service income and net profit.

Norman Thurecht

