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JOHNSTON RORKE JR PHARMACY SERVICES

Toss it out!

I was pleased to be invited for the fourth time by the Pharmaceutical Society of Australia to present the retail business management stream at the June 2004 overseas refresher course held in Jasper and Banff in Canada. The key theme that ran through all my presentations was how pharmacy owners can create customer relevance in a value-added healthcare retail environment.

So, it was coincidental in recent weeks to hear from several pharmacy clients I was visiting in three southern States that they wanted to toss out Nature's Own and quit smoking gum and patches because they had 'gone open'. Of course, despite the legal ability to do so, gum and patches aren't available in supermarkets as yet because the manufacturers are supporting pharmacy. It seems that few pharmacy owners are aware of that.

However, the Nature's Own issue is very different and is a graphic illustration of many pharmacy owners' lack of customer understanding. There are fewer than 20 product lines (SKUs) selling in chain grocery and because they are in the product supply business they only want to stock products that provide superior space and stock productivity. If the product doesn't measure up it gets tossed out.

Those clients who wanted to toss out Nature's Own, when questioned, admitted that their sales of the range were very good and mostly achieving growth as were the other vitamins brands. In other words theses products are what customers want to buy. So, if anything, owners should be increasing the stock weight and shelf space allocation that will enhance the customer relevance of the pharmacy's offer. The recently released IMS data for the year ended 31 March 2004 shows that the vitamins and minerals category sales grew by 9.76 per cent (MAT%). I think that finally removes the negative sentiment, in pharmacy owners' minds, created by the Pan Pharmaceuticals recall and proves yet again that the high customer demand for these products has continued unabated.

The IMS data also shows that smoking cessation product sales grew by 5 per cent, which again supports my point that customers are buying these products. And if you want to reduce the price sensitivity that exists with some of the products, try treating the category as a healthcare solution. The objective being to help get customers quit through utilising information, terrific merchandising/display, promotion, advice and a deep product range. That's an example of being customer relevant and providing a differentiated offer that's more than product at a price, which is all the supermarkets will do with the category anyway!

...carry more of what customers want and toss out the poor returners

Don't waste space

Having started talking about tossing out products let's have a look at which categories generate a pharmacy's income and the ones that don't. Unfortunately the latter are usually allocated too much space, stock weight is excessive and often given a prominence that isn't deserved.

JR Pharmacy Services has done a lot of work in the past two years gathering category data that we can then use for benchmarking individual pharmacies that leads to improved profitability. Looking at the macro aspects of this data:

- Did you know that four categories (dispense, pharmacy and pahrmacist-only medicines, vitamins and first aid) produce on average over 80 per cent of a pharmacy's gross profit dollars?
- Did you know that these dollars are generated from 40 per cent of total store shelf space and 25 per cent of the floor space?
- Did you know that 17 per cent of total gross profit dollars are generated from 36 categories that take up 60 per cent of total store shelf space and 80 per cent of the floor space.
- Did you know that pharmacy and pharmacist-only medicines produce 29 per cent of total non-prescription gross profit dollars from only 11 per cent of the non-dispensary (retail) shelf space?

With these facts in mind have you considered what message your customers are sending you about what they want to buy from you and what they prefer to buy elsewhere, such as chain grocery?

Ask yourself: 'Why do I carry so much of these under-performing lines and why don't I carry more of what my customers want to buy from me?' The cost of rent, fit-out, stock and staff invested in these categories and space that produce so little.

Therefore, it makes sense for you to consider tossing out, or at least reducing, some of those under-performing products and give the space to stock that does sell and provide a decent margin return in GP$ and GP%. Also concentrate on those categories where you can offer customers a point of difference, compared with chain grocery. However, the test is in the mind of the customer and not yours as to whether they care enough to buy from you in preference to chain grocery.

So in conclusion don't toss out lines for emotive and ill-founded reasons. Instead carry more of what customers want and toss out the poor returners.

The views contained in this column are those of the author and not necessarily held by the AIPM

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