retailing

retail management

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Build a house of brick or straw

DESPITE decreasing margins, too many pharmacies continue to rely on basking in the sunshine of regulation that delivers high profits earned through volume PBS dispensing. Not unlike a house of straw that the big bad wolf blew down, pharmacy will continue to stand provided the sun keeps shining and there's no pressure from the elements.

My October article 'Let's get it back', showed that the pharmaceutical and cosmetic retail category for the year ended 30 June 2004 had grown by 16.6 per cent across the board, while community pharmacy only achieved a 2.9 per cent increase. I speculated that meant non-pharmacy retailers (supermarkets, discount department stores and niche retailers) had therefore stolen the march on pharmacy.

Proof of this was provided in the AC Nielsen *Grocery Report 2004* (published in *Retail World* Oct 25—Nov 5) edition for year ending July 2004. The report showed that of the 20 fastest growing grocery categories, ten were in traditional pharmacy categories. Number one performer overall was cough/cold remedies that grew a massive 29 per cent!

In the top ten categories, 24 per cent growth was achieved in analgesics (third), followed by sun care at 19 per cent (fifth), vitamins at 18 per cent (sixth) and incontinence at 17 per cent (seventh). Of the rest, skin care increased 10 per cent, rheumatic rubs 13 per cent, laxatives 11 per cent, infant formula 10 per cent and hair removal 10 per cent.

These numbers prove that when the sophisticated retailers take a category such as health and beauty seriously, the results are impressive and, at the same time, devastating for competitors.

Supermarkets have achieved their success partially by taking advantage of product de-scheduling and some hitherto pharmacy-only products such as vitamins going open. But they also ramped up their total healthcare offer to compensate for mediocre packaged grocery sales growth. Their key strategies include lower prices, stock intensity (in a supermarket I observed nine facings of Nurofen 24s that were stacked six deep), located in a high-traffic area, placed at eye level and well promoted. However, their prime advantage is convenience—supermarkets are as convenient as pharmacy only more so because customers save time by self-selecting items as part of the weekly shop.

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What will pharmacy owners do in response to these realities? To build a house of brick that will last long-term, pharmacy owners must start to address the retail area by creating a differentiated offer built around core healthcare categories.

In the last two years, we have accumulated a lot of pharmacy retail category space and stock performance data. It reveals that all the S2/S3 categories taken together only take up on average 55 linear metres of shelf space and yet produce 33 per cent of total non-dispensary gross profit dollars, turnover approximately six times and earn a gross margin return on investment (GMROI) of more than $4. And yet gifts, beauty and hair combined are allocated 161 linear metres that produce only 20 per cent of retail income, achieve a stock turn of just fewer than two and GMROI of slightly higher than $1.

Using this data, a number of our clients have completely re-orientated their pharmacy's retail merchandise by radically expanding the space and stock allocated to the high-performing, core healthcare categories while shrinking the under-performing areas. However, careful judgment is needed. For example, babycare can be a strong traffic generator if the major brands are stocked, space is allocated, pricing is competitive and these facts are promoted.

The ranging within the core categories was very deep and, thus, included the lesser selling lines because it's most important to satisfy 98 per cent of customer needs. Taken together and done well, this approach, combined with convenience, can beat low price.

Typically we have seen space increased particularly in vitamins, cough/cold/flu/analgesics, eye, ear, therapeutic skincare, woundcare, general medicines, quit smoking, weight loss and, in some cases, beauty, by those who add the services. These stores have all achieved strong growth since and, in most cases, increased margins due to the improved retail offer, particularly when combined with solutions and knowledge.

These pharmacies drive sales by focusing efforts on core healthcare categories through space, stock and services strategies compared with supermarkets that drive sales by space, stock and price. Pharmacy owners and banner managers must embrace the retail offer as an alternate income source and start by visiting the store space and stock strategy. One only needs to visit New Zealand where dispense margins have fallen to 11–14 per cent to find examples of pharmacies that successfully employ such strategies.

So, in the face of lower prescription income and hard-driving competition, pharmacy must knock down the house of straw before others do. Replace it with brick now before the weather turns nasty or the huff and puff of supermarket CEOs and some politicians blow the pharmacy house down. ■

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