



Can you win the price race?

HAVING recently attended my 15th consecutive APP Conference it has become even more apparent to me that the typical community pharmacy business model has got to change fast! The current model is based on the wobbly strategy of regulation, location (convenience), maximising script volume throughput and cost minimisation.

It's wobbly because even with the existing regulations most of these pharmacies are losing market share to smart retailers internal and external to the industry. Community pharmacy is retail, like it or not, and it's no longer good enough just being there and applying clinical competence.

The smart competitors are lifting large chunks of healthcare category business by offering a strong customer value proposition—one that is customer relevant for the market segment they are targeting. In the meantime most traditional community pharmacies are sitting ducks and simply watch the business float out the door to these other retailers.

And don't forget Messrs Costello and Abbott. Both aim to increase competition within the pharmacy sector, with Health Minister Abbott most recently affirming his plan at APP to have pharmacies compete on patient copayments. Such a policy will surely lead to the commoditisation of PBS drugs.

As I said last month, many pharmacy owners, in an attempt to retain market share, are responding by reducing prices, thinking that's the only thing that enhances customer relevance. But it's risky stuff because few can do so profitably, let alone sustain it!

There are too many pharmacies—and the number is growing—which mistakenly use price as a strategy (discounting core category profit-making lines to 'compete') but don't offer the widest range nor employ a low cost business model (product purchases, supply chain, fit-out, staffing and rent).

Let's face it, the cost structure of the great majority of community pharmacies is high in all these areas. These stores have got to find an alternative to price as their strategy to drive customer value and, above all, customer relevance.

The price reaction we're seeing is largely in response to a radical reallocation of the pharmacy prescription and retail market. Add to that the fact that retail sales and pharmacy total sales growth (seasonally adjusted compared with same month previous year) have fallen significantly in recent months (see Table One).

Table One: Retail sales and pharmacy sales growth, June 2004-January 2005

Month	Aust. Retail Sales Growth	Ph'cy and Cosmetic Sales Growth
	%	%
June	8.9	15.5
July	6.2	8.2
August	5.5	9.7
September	5.6	11.8
October	3.0	0.6
November	1.9	3.4
December	2.4	3.8
January	1.4	(6.0)

Source: ACRS Retail Trends

Choose your strategy wisely

Traditional pharmacy is competing in a tougher retail environment against very sophisticated retailers taking market share via aggressive strategies including price. Some of these have emerged within pharmacy in the form of the low-cost/low-price warehouses, Internet online sales, mail order and the growing number of conveniently located, lower (note not lowest!) price pharmacy franchises based on a well-marketed, customer-relevant retail offer.

Most traditional community pharmacies are losing market share and doing little or nothing about it except, in many cases, pushing the price button. That's fine when used as a tactic but definitely not if applied across the board to core category lines that generate most of the store's profits.

Also, discounting (low price today and high tomorrow), while generating short-term gains, will simply encourage consumers to buy when the price is low and stay away when they are high.

In the short term such strategies can be successful. However, the survival probability falls dramatically if this strategy is not combined with the delivery of a coherent, long-term retail strategy that focuses on sustainability.

McKinsey's found that between 1984 and 2004 only 57 per cent of companies that adopted purely a short-term approach survived (5 January 2005, Premium Edition, 'Balancing short and long term performance'). However, 73 per cent of those that concentrated on both short-term and long-term performance survived and, importantly, earned double the profit return.

The message is clear! You either join the low-cost/low-price retailers and implement best practice management to deliver it) or do something different that customers are interested in and will generate a profit-profitable healthcare where the emphasis is not on price.

In my view the price end of the retail pharmacy spectrum will become cluttered and ultimately lead to a downward spiral in margin and profits to the detriment of many owners. Those with high overheads simply can't go there—they must concentrate on aspects of the value equation not involving price because the lowest cost retailer will always win. They will sell it cheaper in the long term.

Either way, be sure of the race you choose to enter. Execute with excellence while keeping one eye firmly fixed on delivering customer outcomes and the other eye on your competitors. ■