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JOHNSTON RORKE JR PHARMACY SERVICES

Don’t sleep on it

Rather than presuming they will not come,
We lie in wait for their appearance.
Rather than presuming they will not attack,
We appear in a place they cannot attack.’
—Sun Tzu, *Anticipating the Opponent*.

REMAINING financially viable in an increasingly sophisticated retail healthcare market requires pharmacy owners to do more than rely solely on regulation. This is the third article in a series explaining what these steps are.

In October and November I discussed the need for pharmacy owners to have a deep understanding of customer behavior and the strengths and weaknesses of all competitors. Here is a succinct distillation:

‘...competing successfully is less about seeking and exploiting “secret” information or matching a competitor’s moves blow by blow, and more about identifying real points of difference between perceived alternatives to the consumer wanting to satisfy a need. Success is then about meeting that need faster and in a more effective manner than the competition, operating alongside, SKU (stock keeping unit) by SKU. The competitor is not, and should not, be treated as the enemy. Each is competing for the mind of the consumer, and a focus upon consumer perception of the available alternatives’. (*NAMNEWS Global Edition* August 2005)

Putting these two concepts together in relation to a specific market area is axiomatic to the sustainability of each community pharmacy.

Regulatory reliance: a losing strategy

The existence of regulation doesn’t mean pharmacy owners can ignore these issues and ‘go back to sleep’ now the Fourth Community Pharmacy Agreement and new state legislation are largely in place. Pharmacy owners who choose to rely solely on regulation will, at best, struggle as the next five years unfold. Many will ‘wither on the vine’.

There’s no doubt regulation has a major impact on the structure and performance of the whole industry. The completion of the Agreement and the revisions to state pharmacy legislation are vital to the industry.

John Bronger and the Guild team are to be congratulated on a sensational job. It is core to the overall health of the business of pharmacy, but it must be managed within a business plan by recognising the downsides while taking advantage of the opportunities.

Unfortunately many pharmacists are saying everything is okay now. But that isn’t the case. Instead, the next five years should represent a time of opportunity and action to ensure pharmacy owners reinvent their businesses.

Downsides and opportunities

Those pharmacies relying on remuneration from processing scripts for their profits lost some skin in the Fourth Agreement. PBS remuneration is one of the downsides that must be managed:

1. Capped high cost drug remuneration ($40 mark-up on drugs costing more than $1,000).
2. Wholesaler margin cut to 7 per cent (even with the $150m community service obligation payment pool, the effect will eat into wholesaler margins and be passed on to pharmacy owners).
3. Low inherent PBS volume growth (under 4 per cent per annum) keeping a lid on dispensary sales.
4. Lower inherent PBS dollar growth keeping a lid on dispensary profits.
5. Minor location changes that may have some specific impacts.

On the positive side there are some opportunities presented:

1. Dispensing fee increases from $4.75 to $5.15 in two stages—1 December 2005 and 1 July 2006. Includes CMI and IME (Medicare card) fees.
2. Funds committed to asthma and diabetes disease state management trial programs.
3. Funding of community dose administration aids.
4. Supermarkets excluded for another five years.
5. Simply that there is another Agreement with the Federal Government.

The real financial downside to be confronted is the generics ‘time bomb’. Pharmacy viability has become ever more reliant on generic substitution and associated incentives. My concern is the Government will try to harvest these incentives through either tweaking the 12.5 per cent claw back or via the Costello/McFarlane-inspired plan to save up to $500m annually.

Pharmacy owners earning all their profits from dispensary product supply are presiding over mostly mature businesses and are highly vulnerable. They face other downsides in the form of intense competition from other pharmacies, supermarkets and the growing number of other sophisticated retailers, as well as ever increasing costs (professional staff and rents) that rose in 2003/04 by 6 per cent. (Source: JR Pharmacy Services)

Therefore, regulation is a massive determinant, as are customers and competitors, of the planning that every pharmacy must engage in now! Refer to my September 2005 article ‘Your Move’ for support information and change ideas.

So, use the next five years wisely by taking advantage of the opportunities that exist now. Leveraging off prescription volume into the margin-rich healthcare solution categories and greater efficiencies are the answers.

My advice to pharmacy owners is don’t sleep on it and wake in four years to worry about the next agreement because chances are those pharmacies won’t be around.

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