



## The gift of healthcare

**M**ANY pharmacy owners really don't understand that their approach to business today is radically different to the one that will carry them into the future. These owners have:

- very little or no idea about the impact of competition (current and future);
- poor retail and business management skills;
- insufficient understanding of customer behaviour; and
- little idea of the enormous changes they must undertake now to ensure any hope of long-term viability or indeed survival.

However, the overarching problem is that the 'retail' business model of most community pharmacies is presently flawed because it is largely based on two key concepts: maximise script throughput and minimise purchases and overhead expenditure.

That is, the existing PBS model encourages volume dispensing rather than providing healthcare and 'solution selling' retail healthcare products. No wonder there's little thought given to the retail space and it's vital role in differentiation and profit contribution.

Typically these pharmacies are characterised by:

- not being alert to the importance of generating a retail net profit;
- not employing effective retail and business practices;
- merchandise decisions usually not integrated with owners and customers needs;
- stock selection more to do with the deal percentage rather than expected return; and
- simply a lack of knowledge because little regard is given to systems and data integrity.

Therefore, it's not surprising to see in most pharmacies an incredible volume of customer-irrelevant retail merchandise carried and displayed in prime positions

that produce little, if any, net profit contribution. In other words, why carry so much product that customers buy from other retailers and so little of what they do want to buy from a pharmacy?

In support of my assertions, according to our client base 2002/03 statistics, the average pharmacy retail space took up 169m<sup>2</sup> or 85 per cent of the total pharmacy floor area. However, this space only produced \$5,406/m<sup>2</sup> (including OTC Schedule 2 and 3 drugs) while the dispensary produced \$63,268. (Last year Woolworths supermarkets achieved sales/m<sup>2</sup> of \$13,549 excluding petrol).

Drilling down to category level, it's easy to see why the retail space performs so badly. For example, our client base category database for 2004 reveals that the gift category was the eighth worst space (GMROS) performer and tenth worst stock (GMROI) performer of the 50 categories we monitor. Yet it took up the fourth greatest amount of shelf space linear metres!

Where is the sense in that when you realise the best performers (cough and cold and analgesics) are allocated half the space but produce seven times the returns in terms of cold hard cash? Those pharmacies in our client base that have reduced the poor performers and increased the hero high margin/high stock turn healthcare categories have boosted sales, profits and return on space and stock.

But, the biggest concern I have with gifts is the message being conveyed to customers. I hate walking into pharmacies as I did pre- and post-Christmas to be confronted by hoards of gifts on the walls, in baskets, near the dispensary and occupying prime promotion spots. This year, as usual, much of the stock didn't sell and was left in these prime positions, getting in the way of the merchandise customers do want to buy and from which pharmacy can make good returns. Undoubtedly

most of it will still be there well into the year, longer in many cases.

Do you think this is the way that your store will differentiate itself from other pharmacies, discount warehouses, supermarkets, discount department stores, and so on? Will these items provide superior profit returns from the large amounts of money invested in space and stock?

The answer to both questions is obviously 'no', as we have proven many times with our clients who want to promote a differentiated image of 'specialty retail—healthcare', a term I invented many years ago, and make a return from the retail space. Pharmacy says it's in the business of healthcare but actions often demonstrate the reverse. So should you sell it just because you can?

Pharmacy owners must now accept these facts and change to being in the business of looking after customers' health rather than just talking about it. That must be backed up by a well thought out merchandise selection rather than stocking 'stuff' to fill the space, thinking it makes money just because it's there when, in fact, the opposite is true.

I was pleased to learn that gifts have been deleted from the Chemmart catalogues, apart from health- or beauty-related gifts for Christmas and Mothers Day). John Koot, executive director of Chemmart, is to be congratulated for his lead. Well done Mr Koot!

Australian pharmacy is in a unique position in the world due to its regulatory environment negotiated by the Guild. So please use the gift of healthcare and make the essential changes necessary to offer a differentiated 'specialist retail—healthcare' customer offer rather than 'gifting' the future opportunities available in this wonderful industry to the purveyors of product at a price. ■