retail management

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JOHNSTON RORKE JR PHARMACY SERVICES

Into the void

'In God we trust...all others bring data.'
—John Chapman

OVER the past two months I explained the importance of systems and data, particularly in relation to significantly reducing product buying costs and managing a profitable retail healthcare pharmacy, and the essential role pharmacy owners play.

Sadly, in-store systems and data management have been mostly ignored by owners because:

- the highly regulated industry has permitted PBS dispensing profits to flow comparatively easily;
- regulation and location convenience are relied on to attract customers;
- dispensing scripts, minimising expenditure and operational competence had been sufficient for financial viability;
- decisions relating to systems, point-of-sale data management, data integrity, financial management and reporting are made on cost rather than the utility of the data produced in evaluating customer behaviour, efficiencies and driving returns; and
- an absence of business, financial and retail skills in most pharmacies.

Hence there is a massive void in the management of community pharmacies. PBS income growth is under pressure, overheads keep rising and the competition—supermarkets and every-day-low-price 'big box' pharmacies—continue to take away significant slabs of business.

This void is the result of an absence of a coherent retail healthcare strategy delivered by each pharmacy which is relevant to their particular marketplace.

Before PBS reform initiatives start to bite, pharmacy owners must create a differentiated and sustainable retail healthcare pharmacy offer. They need to install the right systems, place value on data, invest in data integrity and reporting and, above all, learn how to use it or employ those who can.

The three main areas for improvement are: merchandising and space management—planning and control; transaction methods—replacing labour with technology; and financial reporting.

Merchandising and space management—planning and control

'The [pharmacy] that fails to build a SKU [stock keeping unit] level decision-making process into its management information system will never discover which 80 per cent of its total SKUs represent break-even or loss sales levels.'
—Doug Tigert, *Tigert's 22 Retailing Tidbits*

Monitor sales, purchases, margins, stock turns, staff performance, stock outs, planograms, and reduce buying costs.

Assess financial returns on the investment in floor space, stock and staff by measuring GMROS (Gross Margin Return on Space), GMROII (return on inventory investment) and GMROL (return on labour/staff).

Identify the good sellers, reduce products that aren't and learn to use the data to grow profitability and enhance the store offer.

Transaction methods—replacing labour with technology

Includes rostering systems, scanning, wireless connectivity, security, PBS claiming, online ordering, stocktaking, EFTPOS, online selling, radio frequency identification and patient information.

Multi-channel retailing is on the rise and the influence of an online presence on in-store sales is growing. For example, 20 per cent of all in-store purchases in the US are influenced by the Internet and this is expected to increase to 50 per cent by 2010. This enables a presence in both spaces which can be used to enhance the offer.

Financial reporting

Financial management is an essential aspect of any business but, for too many pharmacy owners, this means simply managing by bank statement. Baseline reporting includes monthly profit and loss statements, balance sheets, budget variance analysis, key performance indices and benchmarking with similar stores.

By drilling down to the base data, owners and retail managers must constantly know:

- customer, script and item numbers and their weekly, monthly and annnual growth rates;
- average retail sale per transaction (retail sales divided by all customers—not cash through the till divided by all customers). In 2005 our clients averaged $11.11, which is very low compared to other retailers;
- retail lines per transaction. The JR 2005 average was 1.03 and again reflects a poor retail offer. Hilary Kahn says the aim should be 1.7;
- gross profit dollars and percentages for retail and dispense departments and then drilled down to category level; and
- overheads—total overheads, wages/GP$, wages/sales, marketing, rent and other. These vary greatly depending on factors such as sales/m^2, style of pharmacy, length of trading hours, competition, retail strategy and so on.

Despite these issues being critical to the future viability and sustainability of community pharmacy, they have not been seriously addressed at an industry or individual store level.

It is time for owners and industry participants to venture into their data void to improve efficiencies, reduce costs and, above all, establish and maintain a retail healthcare offer. ■

Retail Trends: (Source: Australian Centre For Retail Studies—Retail Trends September 2006)

Retail Sales: September 2006 versus September 2005:	
Total retail sales growth—all retailers)	5.9%
Pharmaceutical, cosmetic and toiletry	12.9%
	(recovery continues)

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