



Understand your core values, then choose

ACCORDING to the *AC Neilson Grocery Report 2005*, 10 of the top 20 fastest growing grocery categories were healthcare lines, similar to 2004.

The top six were: dental accessories 31 per cent, vitamins 27 per cent, laxatives 20 per cent, incontinence products 17 per cent, acne preparations 17 per cent and analgesics 16 per cent.

Meanwhile back at the pharmacy, dispensary has achieved little or no sales/script growth and retail is down. Many readers would have seen the Australia-wide 'Pharmaceutical, Cosmetic and Toiletry' sales trend chart Mark Nicholson included in his recent *AJP* article ('Generics: the mystery revealed', January 2006, pp42-46) which demonstrated decreases in almost every month from January to October 2005. Unfortunately, November 2005 sales continued the downward trend falling 6.4 per cent compared with November 2004. (Source: *Australian Centre for Retail Studies Retail Trends November 2005*)

The obvious conclusion is supermarkets know their business, understand their customers and drive strong healthcare sales utilising superb retailing expertise, supported by an extremely cost-efficient operation. Pharmacy, conversely, is getting the scripts done while waving goodbye to slabs of retail business. Many don't know it's going.

That supermarkets and some warehouse pharmacy groups know they are in the high volume/low margin business allows them to continually improve their offer by focusing only on the key elements that make that style of business successful.

Choose a business model

There are only two types of pharmacy business models that will be successful:

- (1) specialty retail healthcare and
- (2) high volume/low margin.

The specialty retail healthcare model is characterised by:

- high margin/prices;

- lower transaction volume;
- convenience;
- service/expertise;
- customer targeting;
- category solutions (product combined with expertise such as weight loss);
- high labour, marketing, rent and format cost; and
- utilise systems and buying to manage services and costs.

The successful high volume model depends on:

- low margin and lowest prices;
- huge transaction volume;
- mass customer appeal;
- wide range and big floor space;
- lowest cost—labour, format, infrastructure;
- lowest price attracts customers, not advertising or convenience; and
- superb systems and sourcing—cost efficiency.

Most pharmacies operate under neither model.

There has been in recent years a surge in the number of high-volume warehouse pharmacies whose strategy is to take business originally created by the traditional community pharmacies. The transfer of business has become easier as many products sold by traditional community pharmacies have become commoditised.

So the answer for those who believe they are in the specialty retail healthcare group is to join the volume retailers or step up their existing prescription-based offer to a higher level and truly embrace the first model—specialty retail healthcare.

Regulation and a series of government agreements have only encouraged traditional community pharmacies to remain rooted to operational competence (that is, getting the scripts done and minimising expenditure).

Pharmacy owners must choose between the specialty retail healthcare or high volume/low margin models in order to remain viable. This entails owners truly understanding the key attributes of either

model, deciding which way to go and then building these into a strategic plan that delivers the goal.

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However, the question of which business model can only come after each owner (existing and prospective) considers seriously what their drivers, or core values/reasons, are for doing what they do.

This decision is crucial because:

- it is only possible to be superb at one of the models;
- success strategies of each are very different;
- one can't combine both;
- high service levels and rent don't mix with low margins/prices;
- a focus on one direction enables continual improvement;
- volume retailers' success is driven by cost efficiency and mass appeal; and
- specialty retailers' success is driven by solutions offered to targeted customers.

Understanding core values—not mission statements—is the fifth, final and most important of the strategy determinants discussed in the last five editions.

'There are two ways of doing business, and any given company is as adroit at one as it is awkward at the other. Understanding your own organisation's handedness will guide you to the right strategic moves.' (*Harvard Business Review* December 2005—Strategy and Your Stronger Hand).

Truly understanding core values, and then deciding which of the two business models suits you, will determine your pharmacy's direction. The strategies that must be developed and continuously improved to ensure viability will then become more obvious.

So, if you want to join the path towards improved business returns, expose your core values, choose a model and then implement superbly. ■