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Systems—it's not a four letter word

'The [pharmacy] that fails to build a SKU 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*.

Only the dispensary department and a handful of retail categories actually make a profit. Unless pharmacy owners utilise reliable data from properly managed retail point-of-sale (POS) systems, they will never know where the profit is really made, nor which retail products lose them money. What's more, nor will they be able to improve their retail profitability.

As outlined in my March 2006 article, 'Every pharmacy dispenses—so what?', there are five elements that can deliver opportunities to differentiate your offer from all competition. These were:

- Location—store environment is a determinant of store choice.
- Merchandise—health solutions.
- Value proposition—what you stand for that's highly important to customers and highly different to other retailers.
- People—the moment of truth when the offer lives or dies.
- Communication—get the message out.

The objective is to be competent (compared with all competitors) in all five elements but have very clear wins over all competition, including supermarkets, in two of them.

And don't say 'we win on service' because, in isolation, it doesn't wash in reality. One of our client pharmacy groups employed a mystery shopper and found that their service was sub-standard compared to the nearby lowest-price warehouse pharmacy.

The retail healthcare offer

Those who make these critical choices can then move on to focusing on the three key principles that will support and deliver the selected retail healthcare offer.

The three cornerstone principles of effective management begin with:

- Systems—can't manage without accurate data.
- Supply alliances—who will you support to obtain the best deals?
- Logistics—lowest cost supply.

These are glued together by retail and business management skills that are sadly lacking in community pharmacy. So, in many ways, management skills found in most community pharmacies is more akin those applied in a cottage industry.

Efforts must be made by the universities, industry leaders and in particular the owners themselves, to begin a revolutionary change—something that most pharmacy owners don't appear ready to commit to at the moment but must!

Systems—pharmacy v competition

The very best retailers excel at building effective business systems, particularly competitors such as Chemist Warehouse, Priceline Pharmacy and supermarkets.

For example, did you know that Woolworths supermarket staff don't order stock? This is because their systems are connected via an electronic data interface (EDI) with their nine distribution centres where manufacturers' orders are generated automatically and replenishment is carried out based on minimum/maximum formulas. They call this Continuous Replenishment Planning (CRP).

Woolworths' systems represent world best practice but it's not necessary nor expected of community pharmacy to emulate low-cost perfection because their objective is delivering healthcare outcomes and not lowest price. However, a reasonable competency must be gained for pharmacies to efficiently deliver these services. It's also critical if they have any hope of sustaining their healthcare offer now and in the future.

It's vital that owners don't just realise this, but take ownership of it. Time is not on the side of pharmacy. We have a Health Minister who appears to take advice driven by ideology from departmental advisers who may well be still embedded for the next Health Minister and, perhaps, the next Government.

In its Retail and Consumer Outlook publication, *2006: the path continues*, Price Waterhouse Coopers wrote:

'Pharmacy should actively review their business models and use the next [four] years to position themselves for a more competitive future post July 2010.'

Owners must be mindful that these realities are looming large and do something about it now. It's important to create a culture in your business that addresses issues requiring change. The right attitude is: 'I should/must do this because of...'. Unfortunately I hear far too often: 'I can't/ won't do this because of...'.

Not a four-letter word

When I raise the subject of systems and data with my clients, most roll their eyes to the heavens and utter a four-letter word. That typical reaction, which reflects owner attitudes rather than the systems themselves, has resulted in atrocious utilisation of systems and data.

For instance, many owners still: insist on doing the books; don't value POS systems nor the data they produce; and involve valuable staff in too much process instead of delivering customer value.

Added to that, all pharmacies operate in an environment where the lack of connectivity between store shelf and manufacturer leads to huge logistics/distribution costs and other inefficiencies.

But the critical issue is not so much about the systems but about the four-letter word, 'data', that the systems produce. Reliable data, properly gathered and understood, will improve profitability, support the retail offer and help lower costs.

That means systems are fundamentally about delivering data for use in three broad management categories:

1. Merchandising and space management—planning and control:

- Increasing income.
- Reducing buying costs.
- Improving returns space, stock and staff costs.
- Enhancing the customer offer.

The data is available from any reasonable pharmacy POS retail management system. That's why owners must begin treating POS as important and delegate the management role to a trained retail manager. Invest in this process because it will be returned many times over.

Several years ago I attended a retail conference in London. One of the speakers who was from Boots told us that a third of the company's net profit resulted directly from the effective utilisation of data. How much would that mean to both your pharmacy's profits and its market selling value? With the Federal Government planning to impose changes to PBS remuneration, for the majority of pharmacies, data use could mean the difference between viability and going broke.

2. Transaction methods—replacing labour with technology

Includes rostering systems, scanning, wireless connectivity and so on.

3. Information retrieval and sharing.

EDI connectivity permits data to be shared with warehouse and manufacturers to replenish automatically. Supermarkets have got this down to a fine art, but community pharmacy is light years away.

Financial reporting

Financial reporting is another area of pharmacy management that is woefully conducted.

There's a lot in what I have discussed and I plan to expand in more detail next month. It's critical to the viability of pharmacies that owners embrace meaningful change to improve efficiencies, reduce costs and improve the retail offer. But, it won't happen unless owners deem it important.

So when next thinking about systems, makr the first four-letter word that comes to mind be 'data'. ■

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

Retail Sales: July 2006 versus July 2005:

Total retail sales—Australia (all retailers)	6.2% (early winter sales
Pharmaceutical, cosmetic and toiletry	9.8% (retail sales recover)

Reflect consumers spending tax cuts

Growth expected to soften due to interest rates and petrol.

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