retail

retail management

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JRx pharmacy

Retail void—who's minding the store?

'...obsession with traditional rivals has blinded [pharmacies] to the threat from disruptive, low-cost competitors. Most [pharmacies] behave as though low-cost competitors are no different from traditional rivals or as though they don't matter'

—Nirmalya Kumar, Strategies to fight low-cost rivals, *HBR* Dec 2006, p.106

WHILE pharmacy owners are aware of aggressive competitors, they continue to do very little about it in terms of smartening up their own offer.

It's important they respond to competition in a meaningful way by establishing a differentiated 'quality' retail offer that will attract new customers and hold most of the existing ones. But herein lies the problem because, with a very few exceptions, the current pharmacy business 'strategy' (tactics used by pharmacy to attract customers, compete and make a satisfactory return), which has for so long relied on regulation created by a succession of Community Pharmacy Agreements, has hit the use-by-date.

The current underwhelming and poorly executed retail pharmacy offer does not serve the best interests of pharmacy owners or even their customers. Instead, owners have permitted other parties to dominate and, in effect, control their customer retail offer leaving them reliant entirely on the PBS and regulation to attract custom and make a profit.

Because the retail offer hasn't changed much in the past 15 years, pharmacy has been left in a highly vulnerable position resulting in loss of business to supermarkets and the low-cost pharmacy discounters. The majority of pharmacies don't have a sustainable business or retail healthcare offer and don't realise it!

Therefore, 80 per cent or more of community pharmacies have a standard sales split of 66 per cent dispensary and 34 per cent retail (JR Pharmacy 2005 client base series). Approximately 9 per cent of retail sales are in S2 and S3 sales. When added to prescriptions, we see 75 per cent of sales on average being generated from items that can only be found in pharmacies.

After overheads are properly allocated, the dispensary produces all the net profit. Yet only five retail categories make a net profit while the other thirty-five lose money or break even. Hardly impressive, particularly considering the enormous amounts of money spent by owners on rent, fit-out, equipment, staff, product/price advertising, group fees, staff and indirect overheads.

Why do owners allow this to happen? Why is the offer so poor and what has created the 'void'? The answer is simple. The retail offer is largely ignored while the 'easy' profits flow from script dispensing and, in the last 18 months, generous generics 'incentives'. Furthermore, the quality of store data is so appalling most owners aren't even aware of the losses they sustain and believe quite wrongly that, if they make a margin on a sale, then they've made a profit.

> ...pharmacy has been left in a highly vulnerable position...

But the void has an even deeper impact because I find most pharmacy owners have an unshakeable belief that all will be well and that fundamental changes are not required.

This is fallacious because, under the existing regulatory environment:

- traditional Pharmacy is losing retail sales to supermarket (AC Neilson Grocery Report 2004 and 2005);
- traditional pharmacy is losing retail, OTC schedule and prescription business to the low-cost discounters which target the 'me too' pharmacies that are victims of the 'void';
- the Fourth Community Pharmacy Agreement and the recently announced changes to the PBS system represent a totally new PBS structure;
- most owners possess poor retail and business management skills and see little or no need to employ these skills; and
- overheads are rapidly increasing and efficiencies, particularly in the dispensary, must be found through radical improvements to processes and resource productivity.

Put another way, if customers don't choose your pharmacy to have their scripts filled, the PBS remuneration arrangements mean absolutely nothing!

Fortunately there are some encouraging signs:

- some owners have successfully converted to a 'mini major' by putting a Priceline store on the front of the dispensary;
- the Terry White Chemists offer has been successfully rejuvenated; and
- the more proactive pharmacy owners are 'screaming out' for a competitive retail offer.

However, these formats are viable/relevant only under certain circumstances and are not suited to every owner and location.

For the rest, the answer (as many have discovered to their cost) won't be found in a price-only strategy as: '...slashing prices usually lowers profits for all incumbents without driving the low-cost entrant out of business' (Nirmalya Kumar, Strategies to fight low-cost rivals, *HBR* Dec 2006, p.108).

Let's not forget that the discounters have the lowest costs and can outlast traditional convenience style pharmacies.

The need for a differentiated 'quality' retail healthcare offer should be put on the national agenda and involve all participants including the peak bodies and wholesalers.

Doing so will bring us closer to filling the void and enabling owners to have a store worth minding in the longer term. ■

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