Metric conversion

Bruce Annabel, pharmacy business adviser, bannabel@jr.com.au

UNDERSTANDING AND MEASURING WHAT DRIVES FINANCIAL OUTCOMES WILL HELP PHARMACIES TO SHIFT TOWARDS A MORE PROFITABLE 'CUSTOMER-CENTRIC' OFFER.

The financial measures, or key performance indicators (KPIs), that pharmacy owners and their managers rely on to monitor the health of their businesses are good for identifying historical sales and profitability trends. But few take the next step which is to monitor the drivers of these financial KPIs.

Script and customer number growth are the critical drivers of sales and determined by external influences like customer behaviour, competition (including the offers from warehouse pharmacy and non-pharmacy retail health outlets), new PBS drug listings, seasonal trends and regulation.

To illustrate my point, I de-identified data (see Figure One) for a real city suburban traditional community pharmacy—let's call it Fernando's Pharmacy ('can you hear the drums Fernando?')—showing trends between 2005 and 2009.

Fernando's bottom line would be much worse without the increased income from generic dispensing. Fernando's Pharmacy owners, not unlike the great majority, have always assumed that the customers will keep being attracted by location, convenience and friendly staff. Yet, customers are going elsewhere and the drift has been going on for four years.

The owners have always tracked the financial ratios, but failed to recognise the issues that drive them. For example, script waiting time is a major problem because the dispensary processes are inefficient and the staff mix is wrong. The pharmacy is cluttered with slow-moving, non-healthcare lines and the pharmacists essentially work as dispensary technicians, rarely communicating with customers.

While much effort goes into trying to grow margins and keep overheads low, a new approach to customers and profit growth is necessary to arrest Fernando's downturn.

Pharmacies need to adopt two measures: metrics and financial KPIs.

METRICS

These are the drivers that result in the data measured by a pharmacy's financial KPIs and results. Key metrics that help to drive the results of financial KPIs include:

- **waiting time—Rx and retail;**
- **script-processing time;**
- **pharmacist hours on floor;**
- **out-of-stocks;**
- **failure to meet request—product, service;**
- **non-purchasing customer numbers;**
- **clutter/cleanliness/loyalty;**
- **number of doctor referrals—DMAS, HMR, PAMS; and**
- **survey-determined customer satisfaction.**

If we know during peak trading that a customer has to wait, say, 15 minutes on average then the reason for this can be identified and resolved. Improvements that address dispensary processes, stock storage systems (robotic in some cases) and staff mix will speed processing and cut waiting time.

If a customer satisfaction survey indicated customers want access to the pharmacist, then any time released by dispensary efficiencies can be used by pharmacists to work outside the dispensary and on the floor. This will result in improved customer satisfaction, fewer defections and growing script and customer numbers.

Customer service and satisfaction will also improve by reducing clutter, ensuring there are never stock-outs in signature (make the profit) and core categories (expected to have), and stocking what customers want to buy instead of what you want to sell them.

FIGURE ONE: Fernando's Pharmacy results

	2009	2005	Variance	Comment
Sales	$3,538,878	$3,533,251	0.16%	Flat
Script no's	71565	79,764	(10.3%)	Long waiting time
Customer no's	98,745	112,316	(12.1%)	Defecting to competitor
GP %	33.8%	31.2%	8.6%	Generics focus
Overheads/sales	24.6%	21.3%	16.1%	Costs always grow
Wages/sales	14.2%	12.4%	14.9%	Inefficient
Net profit/sales	9.6%	10.1%	(4.6%)	Cost grew faster than income

FINANCIAL KPIs

These are the results of the retail metrics, or drivers of the business, and are well represented in Figure One. There are many other useful KPIs.

But measuring financial KPIs, without understanding the many issues impacting them, does not tell owners and managers where to look for corrective action. It's the metrics that drive results as reflected in the KPIs.

For example, Fernando's can grow sales by lifting the average retail sale per customer which is $9.19 compared with the JR average for similar located pharmacies of $11.63. This can be done by reducing clutter, slashing the number of stock outs, ensuring customers have access to the pharmacist at all times, focusing staff including pharmacists on solution selling and customer health outcomes.

By achieving the JR average, sales will increase by $240,000 and net profit by $81,000 as there are virtually no overheads incurred. These strategies work in other pharmacies.

But, the starting point is:

- **realise that the metrics drive the financial KPIs;**
- **measure these drivers and address them to improve KPI results;**
- **decide on five critical metrics to measure constantly (weekly and monthly);**
- **seek to improve results beyond just generic substitution and overhead reduction.**

Customer behaviour and pharmacists' response to it will determine the future of each and every pharmacy. That requires making a transition to a customer-centric pharmacy business model away from the old-fashioned product supply only model.