A helicopter view

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will recreate the charts

SIMPLY FINE-TUNING YOUR BUSINESS WON'T FLY WHEN UP AGAINST SIGNIFICANT MARKET CHANGES THAT CAN MAKE REDUNDANT THOSE HOLDING ONTO THE STATUS QUO.

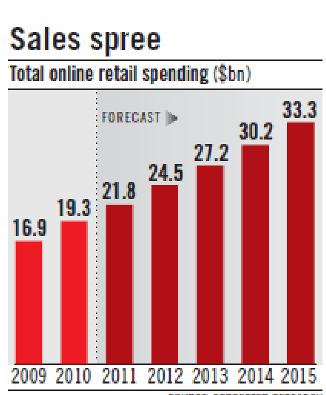
Any time's a good time to take a helicopter view of your pharmacy business to review its purpose and how best to implement it. But such a trip now is more critical than ever; there are significant market changes underway and it's time to prepare for these changes.

Simply tweaking the status quo pharmacy model won't address these fundamental changes assaulting the community pharmacy 'economic engine'. This was confirmed by one of my best and most innovative pharmacy clients who said: 'community pharmacy is entering a new phase driven by huge changes in customer behaviour, PBS, competition, supply chain and bank lending policy that, combined, are altering the industry landscape.'

Government downward pressure on PBS expenditure was ramped up last month when it announced that the addition of any new drug to the PBS, regardless of spend estimate, must be approved by Federal Cabinet. Further, any drugs approved by the Pharmaceutical Benefits Advisory Committee (PBAC) to which Cabinet defers will not be reviewed until fiscal conditions permit, whenever that is.

The knock-on effect to pharmacy is another lid being placed on PBS prescription volume growth.

FIGURE ONE:
Total online retail spending[1]



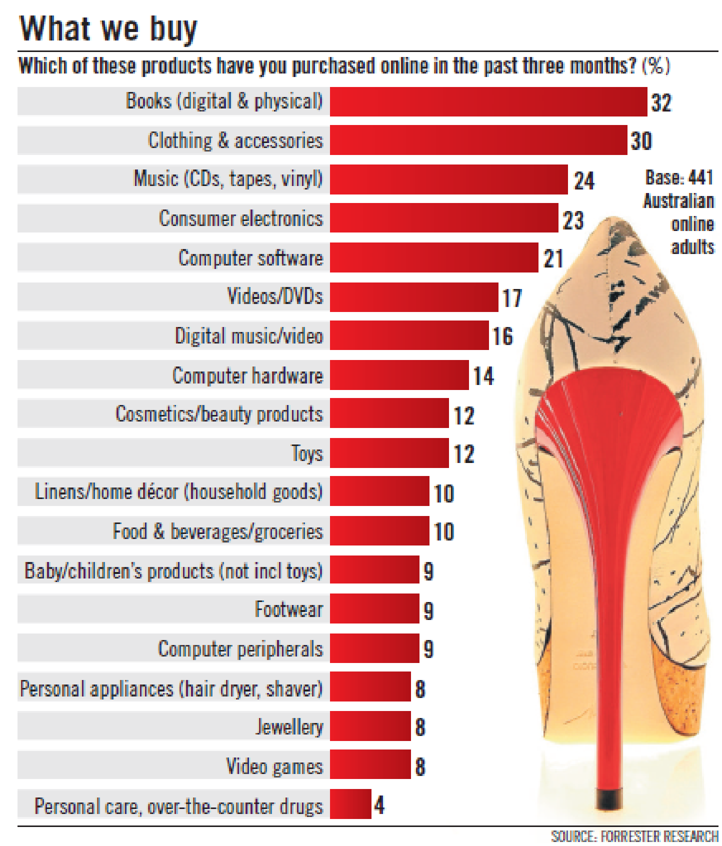
SUPERMARKETS

Last week I visited with one of my clients a new Coles supermarket which was very impressive including the health and beauty section. I was impressed with the huge shelf space, merchandising including facings of brand leaders, category signage, beauty 'wall', baby, pain, cold/flu and the wide aisles allowing easy access. For customers they are convenient, cheap and leverage easily off the food shop. Little wonder this is where some open-seller product sales have gone.

ONLINE SALES GROWTH

There are seismic changes afoot in cyberspace, with 27 billion text messages and 400 billion emails sent in Australia alone in 2010.[2] In 2010 Australian online sales reached $19.3bn representing 8% of total retail sales—a growth of 14.2% compared with the previous year (see Figure One).

FIGURE TWO: **Spending patterns of online shoppers[1]**



By comparison, total retail sales including online grew by only 2.4%. This tells us much about the trends in customer shopping behavior driven by low price, convenience and the high Australian dollar. According to Forrester Research[1] online sales are expected to increase 72.5% over the five years to 2015.

Critically this is affecting community pharmacy too as confirmed by the quarter ended 31 December 2010 survey of online shoppers showing the percentage of products they bought online included cosmetics/beauty 12%; personal care/OTC drugs 4%; and baby/children's (not including toys) 9% (see Figure Two).

Web sites such as eBay, GraysOnline, StrawberryNET, Lasoo and DealsDirect have all moved aggressively into the traditional pharmacy space, taking market share in non-pharmacy-only lines and with extremely low overheads allowing them to sustain very low prices.

BUILD DEPARTMENTS TO COMPETE

Community pharmacy is being badly out-competed in the 'sundries' departments, reducing returns on space and stock investment.

The path forward is to range these areas down while building departments that matter to customers in a healthcare solution sense. This is exactly what has happened for the pharmacy I discussed in my March 2011 column; the financial results have been excellent and have been maintained.

While there will always be bricks and mortar pharmacy shoppers, it's important to recognise that pharmacy customers might also buy analgesics from the supermarket, get a repeat filled at the warehouse pharmacy and buy cosmetics via the internet—pharmacy market share in these areas continues to fall. Therefore, pharmacies must look to other strategies for building competitive advantage and lift the quality of the bricks and mortar offer.

WHAT ARE YOU DOING AND WHY?

With all these changes and price cuts to F2 medicines now starting as a result of weighted average disclosed pricing policy, it's time for pharmacy owners to get a helicopter view of what their business is about by addressing the following ten questions:[3]

1. **Will you beat the market with what you do today?**
2. **Does your pharmacy tap a true source of advantage?**
3. **What market segment are you targeting, if any?**
4. **Is your pharmacy ahead of the trends or are you simply status quo?**
5. **Are you using valuable market and customer insights provided or do you ignore them?**
6. **Can your business sustain the competition 'hits' and upcoming price cuts?**
7. **Are you concentrating on a few market-beating strategies or nothing?**
8. **Do customers care about your market-beating strategies, if any, or are you deluding yourself?**
9. **Do you have the guts to implement great ideas and strategies?**
10. **Do you have a one-page action plan with initiatives, people, dates, processes and mechanisms listed?**

A few pharmacy owners—the innovators—don't slavishly hold onto what has worked in the past when reviewing performance and deciding their plans for the future. They seek answers to each of the above questions and make changes that pay off financially and competitively.

An owner of one of these wrote to me and said:

'We decided to be a pharmacy that is an active part of the healthcare system… If you actively work as a healthcare provider as a primary function rather than a salesman or a businessman, then it is quite easy to become the first port of call for your customer's health issues. Our accessibility makes it easy for clients to use us. What probably makes it easier for us under this model is that many in our industry claim to be discounters (and we smash these guys on healthcare) or "a service pharmacy" (which involves telling staff to give "good service" while they control things remotely doing other things—we also smash these guys on healthcare). Being in the pharmacy with fingers on buttons makes you very hard to beat. It is pretty simple to decide what you are and then get passionate about it.' ■

1. Carruthers F. How to stay a click ahead of the game. The Weekend Australian Financial Review 12–13 Feb 2011; p28.
2. Ahmed Fahour, CEO and MD Australia Post. QUT Business Leaders function. Brisbane 2 March 2011.
3. Adapted from: Bradley, Hurt and Smit. Have you tested your strategy lately? McKinsey Quarterly 6 November 2011.