



retail

retail management

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When Irish eyes are smiling

IRISH pharmacy owners' eyes were not smiling in early November when I arrived to consult to a large independent pharmacy group. In fact those Irish eyes were full of fire, brimstone and fear.

That was because the Irish Government issued a directive that from 1 January 2008, the list prices of government-funded prescriptions would fall by an amount equivalent to the wholesaler discounts these pharmacies receive—effectively about half the wholesaler margin.

Australian pharmacy went through the same discussion about two years ago, but here the Pharmacy Guild of Australia and wholesalers were able to negotiate the creation of the Community Service Obligation.

The decision was the result of pressure being placed on the Irish health budget by the rising cost of pharmaceuticals—an issue that all governments are confronting in a range of ways.

But there are three other root causes:

- 1. The cost of brand pharmaceuticals is very high because of deals the Irish Government made with pharmaceutical companies to establish huge manufacturing plants in return for generous incentives. That has helped to drive up employment and attract many European migrants. Consequently the Irish economy, referred to by the locals as the 'Celtic Tiger', has been booming.**
- 2. The rapid population growth created great demand for prescriptions and, hence, pharmacy owners have been able to generate 'easy' dispensing profits.**

- 3. Because of government deals with Big Pharma, generic substitution isn't permitted which is why generics only represent 20 per cent of all prescriptions dispensed. That means there isn't a stream of alternate income/profits from generic discounts to offset reduced dispensing net profits, as occurred in Australia. Therefore, the Irish health budget doesn't benefit significantly from cheaper generic prices.**

Pharmacy's poor image in Ireland

The Irish media and population have sided with government because they perceive pharmacy owners to be wealthy, earn big profits and make it difficult for young pharmacists to buy into pharmacy because of the expense. (Pharmacies sell for about twice the annual turnover because of the huge growth driven by the 'Celtic Tiger').

Many Irish citizens holiday in Europe, particularly Spain, and buy the same pharmaceuticals for a fraction of the price paid at home. They blame pharmacists for this, which is most unfair as the price of pharmaceuticals is set by agreement between government and Big Pharma. The Irish equivalent of our Guild, the Irish Pharmaceutical Union, is struggling to get political traction.

However, both systems share similar risk profiles, such as an over-reliance on prescription dispensing and having only one payer of pharmaceutical benefits. The numbers look like those in Table One below.

The impact of the price would, on average, slice 54 per cent from net profit. Those

highly dependant on prescription business and/or with high debt levels will close or be sold, resulting in debt default and great hardship. A flow-on effect is that customers/patients will lose a valuable community healthcare service. If independent pharmacy fails to adapt, it will have no choice but to deal with the supermarkets and chains.

Fortunately, those independent pharmacies with greater than 50 per cent of sales sourced from non-prescription business will only suffer a net profit reduction of 20 per cent.

Australian pharmacy owners with an 'eye' to the future can learn from the Irish experience and its failed main game plan.

Adopting Plan B

My job was to demonstrate to the Irish independent pharmacy group that there is a 'Plan B' that involves completely re-orienting the total customer offer toward retail healthcare and away from pure product supply.

They were interested in many of the recent pharmacy retail developments in Australia including:

- Hilary Kahn's Feel Good Guide and its nine health solutions;
- Government-funded health services such as DMAS, PACP and DAA's;
- Chemmart dispensary automation and patient-focus model;
- in-store weight loss systems;
- Terry White Chemists retail health offer;
- the practice by leading pharmacy owners to ensure a pharmacist is always forward of the dispensary and accessible to patients; and
- innovation in store design that delivers retail healthcare.

When they realised that there was a legitimate Plan B option involving a healthcare offer instead of being forced to sell 'stuff' abhorrent to them, it was great to see those Irish eyes smiling once again.

1. Based on JR Pharmacy Services client base data.

2. Data from independent pharmacies sourced during my Nov 07 visit.

TABLE 1: AUSTRALIA VS IRELAND	Australia ¹	Ireland Model ²
Sales	A\$3,116,000	A\$3,030,000
Rx Sales/Total sales	36%	25%
Dispensary GP	32.8%	32.6%
Retail GP%	35%	35%
Total GP%	33.2%	33.4%
Wages/Sales	13.5%	14.1%
Rent/Sales	3.9%	2.9%
Total Overheads	23.9%	22.8%
Net Profit (EBIT)	9.0%	10.4%