



## Myths and realities of the average sale

'JB Hi-Fi chief Richard Uechtritz reckons the look and feel of the electrical retailer is so distinctive that you could rip all the signs off the store and the average customer would still know exactly where they were.'<sup>1</sup>

I AGREE with the above comment having visited several JB Hi-Fi stores. Yet few pharmacies can lay similar claims because their offer is largely homogenous, whether bannered or independent. This is no exaggeration; I visit many pharmacies in every state and territory almost every month and can be considered an expert.

However, the data also supports my view. As mentioned in my April 2007 *AJP* column, 'Learning to mine salt', the average retail sale per customer achieved wby our client base pharmacies during 2005/06 was only \$11.37. That was up 26 cents compared with 2005, or only 2.29 per cent compared with inflation of more than 3 per cent!

Of particular interest is that almost all pharmacies—whether located in city suburban, country/provincial and medical centres—achieve the same figure. That's because they all operate under the same regulated, script-focused model and the retail offer is rarely attractive or competitive.

But many pharmacy owners will believe my average sale figure is low compared with the \$16 to \$18 average sale that they might think their stores achieve. Unfortunately that number is misleading because it only identifies the 'average cash collected' per customer. This is because it is calculated by dividing the total of cash (including patient contributions), EFTPOS and account sales collected by the total number of customers. This approach is virtually useless as a measure of average sale and store retail performance for the following reasons:

1. When the patient co-payment is increased by the Government on 1 January each year the 'average cash received' per customer also increases. But that is purely the result of adjustments in Government policy and not an improvement in the retail offer.
2. It fails to reflect the 'pure' value of retail (non-prescription) sales because the number is 'muddied' by the inclusion of patient contributions received.

Pharmacies should apply the formula on a daily and even hourly basis.

That's vital because owners really need to know how much customers spend on retail lines in their pharmacies because it tells them how attractive/competitive the retail offer is or, indeed, how poor!

3. The PBS proportion of the figure, which and about half of most pharmacies total sales, is left out. Just because customers don't pay the PBS component at the time the script is dispensed doesn't mean it should be left out of the calculation.
4. With the PBS proportion included the total average sale per customer is \$37.11 according to our 2006 client base averages. But is this useful? The answer is clearly no because the industry needs a measure that tells owners and retail managers what they are selling in the retail space. After all, retail delivers a higher gross profit margin than the dispensary and future profitability is less determined by the new array of Government dispensary profit-depressing measures being implemented.

Twelve years ago I came up with a useful measure 'average retail sale per customer' that's beginning to get some traction.

The formula is easy: all non-prescription sales (excludes PBS and patient co-payment), including S2 and S3 divided by 'all customers' who transacted with the pharmacy.

'All customers' include those who:

1. only had a script filled (including concessional safety net customers);
2. had a script filled and bought a retail item(s); and
3. bought a retail item(s) only.

As mentioned above the 'average retail sale per customer' was \$11.37 in 2006. It is a reliable reflection of the quality of a pharmacy's customer offer, can be benchmarked with other pharmacies for improvement and identifies the momentum of that offer in the opinion of customers compared with competition.

Pharmacies should apply the formula on a daily and even hourly basis because it enables retail managers to be much better prepared when working with staff and customers to improve sales.

One way to increase the average retail sale is for the pharmacist, stationed out the front of the dispensary, to suggest products that may benefit customers. An example would be to recommend coenzyme Q10 and/or fish oil with every statin dispensed. (I suggested this to one of my clients recently and he increased sales of coenzyme Q10 from eleven per month to sixty-five!)

Those pharmacies with a powerful, customer-relevant offer demonstrate superior performance in the average retail sale per customer, customer numbers and net profit.

The number of customers your community pharmacy can attract, and the value of retail sales per customer transaction, will determine the success and viability of your business.

1. Gray J. Bargain Basement, Boss (Australian Financial Review suppl) April 2007; p 42