



Bruce Annabel, bannabel@jr.com.au

Retailer values drive success

‘Retailers will define themselves by the customers they serve, rather than by the products they sell. Retailers will grow by positioning as more than just purveyors of ‘stuff’ but also as one-stop purveyors of lifestyles or need states.’¹

This series of articles examines several sophisticated retailers (beginning with Woolworths last month) to demonstrate that retail success flows from deliberate customer-focused strategies delivered and managed brilliantly. The take-out is that pharmacy owners should develop strategies that give customers a compelling reason to deal with them instead of a competitor.

Such strategies will help them survive the economic downturn and develop a sustainable business by delivering a total store offer that is:

- 1. highly different compared with all competition, in the mind of the customer; and**
- 2. highly relevant to the customer.**

The Pharmacy Guild of Australia has done very well to maintain a regulated and stable environment, but the Guild can't determine whether a customer chooses your store over another. This is particularly so in these tough economic times because customers are switching to pharmacies that have an offer important to them, be

it the lowest price or the best service healthcare outcome.

Many pharmacies are losing customers at the moment. I recently met Marcos Gouvea de Souza, an international retail consultant, who was quoted recently in *Brazilian Retail News* (29 September 2008) saying:

JB HI-FI'S SUCCESS IS BASED ON A SLAVISH FOCUS ON THE PRODUCT MIX AND THE CUSTOMERS IT SERVES

‘In times of sluggishness and instability consumers become more cautious, rational and less impulsive, driving up concerns on the real value of what's been purchased, comparing much more the real benefits of what has been offered and the price asked, exponentiating competitive pressure.’

JB Hi-Fi is an illustration of a retail group in the home entertainment industry that is gaining business in this tough environment because it has a relevant and different offer.

JB Hi-Fi results for year ended

TABLE ONE: JB Hi-Fi Results

	2008 \$m	2007 \$m	Increase %
Sales	1,829	1,282	42.7
GP	400	283	70.8
GP%	21.9%	22.1%	
CODB (overheads)	298	217	37.3
CODB (overheads) to sales %	15.3%	16.9%	
EBIT	102	66	56.2
EBIT to sales %	5.59%	5.11%	

30 June 2008 are summarised in Table One.

CODB (overheads) in dollar terms rose 37.3% compared with gross profit dollars which grew by 70.8%. The combination resulted in the huge EBIT increase because returns on space, stock and staff improved so much, as reflected in falling overheads/sales %. It has done this by delivering a highly customer-relevant and highly differentiated strategy under superb leadership and management.

Let's look at some of the key points of JB Hi-Fi's success and strategy:

- **biggest product range and expanding;**
- **EDLP (every-day low pricing) strategy;**
- **encourages experimentation—new products, merchandising formats, advertising and store locations;**
- **low-cost operating model (supply chain and store);**
- **higher sales volume brings greater purchasing power;**
- **strong employee relationship and option plan; and**
- **high sales per m² (creates lower overheads/sales %).**

JB Hi-Fi never tries to be everything to everyone. Its success is based on a slavish focus on the product mix and the customers it serves.

The following extract from the 2008 annual report illustrated the key outcome:

‘It is the board's belief that with our cost of doing business reducing to 15.3% ... we have a substantial and sustainable advantage over our competitors with which to manage emerging pricing pressure. Our above market growth rates should ensure that our buying terms continue to improve to support the EDLP strategy.’

Key takeouts for pharmacy owners:

- **you must have a relevant and different offer otherwise customers will desert you for those who do;**
- **you must know which customer group you should serve and not try to be everything to everyone;**
- **focus only on customer healthcare outcomes in service and merchandise terms;**
- **don't be afraid to experiment to improve customer outcomes;**
- **constantly review and improve product range with customer and owner outcomes in mind, not just the latter;**
- **it is important to engage and reward employees; and**
- **financial management must be regarded by owners as important.**

Pharmacy should commit to the deceptively simple concept that retail values (those of the pharmacy retail offer) drive consumer value (where customer experience is paramount). This means that for the majority to remain viable and competitive, and embrace the concept of positioning themselves ‘as more than just being purveyors of ‘stuff’ but also as one-stop purveyors of lifestyles or need states.’ ■

1. Pollack E. TNS Retail Forward. Retailing 2015: New Frontiers. April 2007