



Act before the tipping point

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PHARMACY'S OPERATING AND COMPETITIVE ENVIRONMENT IS CHANGING RAPIDLY, BUT THE MAJORITY ARE NOT RESPONDING, PREFERRING TO RELY ON OLD STRATEGIES.

'Any [pharmacy] faces two basic demands: it must execute its own activities to survive today's challenges and adapt those activities to survive tomorrow'.¹

In my December 2007 and January/February 2008 articles I discussed the Ireland and New Zealand community pharmacy systems. Both have been left with no alternative but to adapt their operating models and retail offer to overcome flagging dispensary profits and enhance competitiveness.

In the past, they understood that the risk of fundamental regulatory change and lower dispensing remuneration was increasing. But they continued to rely on the old comfortable ways of execution—dispensing scripts efficiently and minimising payments—while their peak industry bodies continued to politically help maintain their existing commercial environment. Such an environment afforded pharmacy owners' time to innovate their businesses, yet this opportunity was generally wasted.

THE TIPPING POINT

They waited until a tipping point came before formulating and implementing business development strategies in order to adapt. Yet waiting for the tipping point did not work in either jurisdiction, nor has it worked in other industries such as independent

liquor stores and newsagents.

Individual Australian pharmacy owners and the industry in general are in great danger of making the same mistakes. The majority of pharmacy business models rely on the government's introduced regulation and execution (prescription dispensing and minimising payments) for profit sustainability.

REGULATION STILL IN PLACE

We have had almost 20 years of Guild/Government Agreements providing owners with a stable platform from which to innovate and adapt. This position has not been harnessed: regulation has become part of the industry's fabric and has, in part, stifled a greater level of innovation and adaptation. The main exception is the rash of price discounters and EDLP (every day low price) warehouse pharmacy chains springing up throughout the market, satisfying a legitimate customer need.

COMMODITISATION

However, is price going too far? Could lowest price and less service begin to become the accepted customer norm?

We must avoid commoditisation but that's exactly where the industry

is being allowed to go. If not quickly addressed, price discounting will become rampant and widespread.

Paradoxically, community pharmacy is allowing commoditisation to flourish because of its failure to differentiate products and add meaningful support services. Regulation, for all its good points, makes it easier not to change and simply rely on what has worked in the past.

I worry about the impact of hyper competition between generics manufacturers combined with price disclosure that will cut dollars earned from dispensing scripts.

Despite pharmacy owners being aware of these realities, too many don't act. If this position continues, Australian pharmacy will pass the tipping point and share some of the experiences of New Zealand and Ireland pharmacies, but in our case caused by flat dispensary income dollars, faster rising overheads and stiff competition.

WHAT'S PLAN B?

It's vital for owners and peak bodies to accept that 'all sources of competitive advantage are temporary'¹ and to initiate an effective business strategy.

An alternative to relying on the same old strategies, let's call it Plan B, involves putting fundamental and far-reaching change on the national agenda with key elements including:

- **integrating the supply chain and driving down cost;**
- **data sharing;**
- **supporting the development of retail and dispensary strategies which offer health solutions instead of just selling product;**
- **fostering a culture of knowledge/training/people;**

- **targeted customer group marketing; and**
- **professional/skilled business and retail management.**

Knowledge and training must be developed beyond the narrow parameters of the pharmacy profession and be targeted at the retail healthcare solution categories, systems management and retail management, thus enhancing the income-generating capacity of the pharmacy.

But for Plan B to succeed, industry bodies and owners must understand that their business sustainability relies on responding to these challenges, and devote sufficient resourcing in areas such as finances, talent, knowledge, relationships...whatever is needed.

Unfortunately many pharmacies don't have the finance because they are choked with debt from buying pharmacies and, in the absence of a coherent Plan B, can't grow their net profits sufficiently. Instead they are captive of market trends.

In contrast, pharmacies in the UK and Ireland are sold as a multiple of sales rather than earnings because of demand and the fact that the purchasers are able to grow net profits considerably thanks to a decent retail offer and management.

Talent, specific knowledge and relationship resources all need attention too. These are significant challenges facing Australian community pharmacy and will not be solved quickly or easily, but there is a path. Just don't wait for the tipping point. ■

1. Beinhocker, ED. The adaptable corporation. McKinsey Quarterly 2006;2(May):76-87.