# Gold coins at your feet

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**'We tend to chase the pot of gold over the hill and, in doing so, we ignore the gold coins scattered around our feet.'[1]**

Many pharmacy owners tend to take for granted, and therefore miss, the opportunities ever-present within their businesses, such as solution selling from the script flow, pharmacists engaging the customer 100% of the time, schedule medicines and so on. Instead they chase a new wizzy product, gift line or cosmetic house that will perform miracles, yet hardly ever do.

But, now the shape of the Fifth Community Pharmacy Agreement is known, as expected, it looks like PBS dispensing profitability will fall from 1 July 2010. And there will likely be further reductions after the trickle down impact of any brandpharma and generic manufacturers' cuts are felt. Obviously there will be a significant impact on overall pharmacy net profits, particularly those pharmacies highly reliant on dispensary sales and generic discounts, plus those with very high overheads and debt.

Therefore, pharmacists should look at the gold coins at their feet to replace the inevitable lost income. They should now address the first of the three acid questions I wrote about last month (Government is removing prescription dispensing income and profit… How will your pharmacy replace it?).

Some will look to reduce costs via dispensary systemisation, others may join a banner group as the saviour, good retail merchandisers will change the stock mix and the smart ones will transition to a customer service-oriented health solution offer.

In general though, I expect most will consider options such as:

- **selectively increase margin dollars via price adjustments;**
- **sell more products/items;**
- **push wholesalers, manufacturers and generic companies for better trading terms while pushing substitution harder; and**
- **cut overheads, particularly wages, defer refits, and so on.**

JR Pharmacy some years ago developed a business and retail management program to teach students undertaking the Griffith University postgraduate pharmacy course. It was subsequently adopted for QUT and University of Sydney undergraduates. A section dealing with how to grow profits includes a module we call 'Changing the big four' that evaluates which of the aforementioned four profit-driving strategies deliver the best results.

Using data from 'Fernando's Pharmacy', the deidentified pharmacy case study referred to in my December 2009 article 'Metric conversion', I have summarised (see Table One) the results of 'changing the big four' in the retail (non-prescription) section by assuming a 5% improvement in pricing, number of products sold, trading terms and overheads cut.

Taken separately, managing retail pricing provides the greatest result (by 52%!) which is far superior to cutting stock purchase cost, the most common strategy adopted by pharmacy owners and managers.

FIGURE ONE: **Profit driving strategies**

| 2008/09 | Retail data | Lift pricing | Sell more | Buy terms | Cut cost |
|---|---|---|---|---|---|
| Av. sale price | $8.84 | $9.28 | $8.84 | $8.84 | $8.84 |
| Items sold | 102,694 | 102,694 | 108,829 | 102,694 | 102,694 |
| Av GP% | 33.70% | 36.8% | 33.70% | 37% | 33.7% |
| COGS per Item | $5.86 | $5.86 | $5.86 | $5.57 | $5.86 |
| Expenses | $293,112 | $293,112 | $293,112 | $293,112 | $278,456 |
| Sales Revenue | $907,815 | $953,206 | $962,048 | $907,815 | $907,815 |
| Purchases Cost | $601,881 | $601,881 | $637,738 | $572,006 | $601,881 |
| Gross Margin | $305,934 | $351,325 | $324,310 | $335,809 | $305,934 |
| Expenses | $293,112 | $293,112 | $293,112 | $293,112 | $278,456 |
| Profit | $12,822 | $58,213 | $31,198 | $42,697 | $27,478 |
| Profit improves | | $45,391 | $18,376 | $29,875 | $14,656 |

Most pharmacies I advise have the opportunity to tweak their retail prices, particularly in the fast-moving health-related departments where pharmacy can add value in terms of range, information and skilled services, particularly including the scheduled medicines. Much of the opportunity can be realised simply by adopting rigorous department, category and stock-keeping unit (SKU) price management.

**MOST LOW MARGINS ARE THE RESULT OF POOR MANAGEMENT AND INEFFECTIVE DELEGATION RATHER THAN A CONSCIOUS OBJECTIVE**

I can hear some readers saying: 'Hey, that's not possible as we have a discounter in our area'. But the reality is we continue to help pharmacists achieve significant income increases without upsetting customers. An example is Fernando's Pharmacy, whose retail margin increased from 33.7% to almost 36% by adjusting certain unnecessarily low prices and concentrating on solution selling high-margin lines. Most low margins are the result of poor management and ineffective delegation rather than a conscious objective, with the only exception being the true warehouse pharmacies.

Now, consider if you were able to adopt all four strategies at once! Some pharmacies are doing it with excellent results. These are the gold coins at your feet but will only be gained by lifting the bar on acceptable pharmacy management practices and realising that income must be earned from sources in addition to script dispensing and generic substitution.

As Peter Drucker, the management guru, argues: 'management is one of the most important engines of human progress: the organ that converts a mob into an organisation and human effort into performance'.[2] ■

1. John Chapman.
2. Scumpeter. Remembering Drucker. The Economist, 21 November 2009;70.