



Making customers 'stick'

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DO YOU HAVE A CUSTOMER 'STICKINESS' PLAN IN PLACE TO ENSURE CUSTOMERS COME TO YOUR PHARMACY... AND RETURN?

Very few pharmacies have such a customer 'stickiness' plan as it requires thinking and acting outside the traditional pharmacy culture. But it will involve initiatives that delight customers, grow bottom line profitability and deliver on Fifth Community Pharmacy Agreement obligations.

These are not mutually exclusive because delivering on all three will help ensure a happy, successful and profitable future.

UNDERSTAND WHAT SHAPES YOUR FUTURE

Before the planning process can begin, consider how the big market-changing issues will frame the future of pharmacy.

- **Growth of costly 'modern' conditions. These include obesity, diabetes, mental health, asthma, heart health and smoking. And the ageing population is related.**
 - Pharmacy can implement health services aimed at prevention, improving medication compliance, wellness, screenings, ageing population services (such as dose administration aids (DAAs)) and compliance.
 - Converting customers to DAAs significantly increases compliance compared with the average 67% according to Mirixa data. That translates into additional sales per annum of \$28,314 for every 50 customers.¹

- **We have entered an age of slower economic growth that will lead to:**

- pressure on government budgets with implications for PBS; and
- an opportunity for pharmacy to help alleviate broader healthcare budget cost pressures.

- **PBS per script profitability, from my own analysis, is not expected to grow when comparing 2010 and 2015 years.**

- Australian pharmacies enjoy relatively high prescription margins and these should be invested in reinventing the offer.
- Implement alternate health income strategies and fix process inefficiencies.

- **'Genericisation' will impact both originator and generic manufacturers as well as wholesaler distributors. Expect pressure soon from all on trading terms, discount dollars and forward charge.**

- **Fast, accessible Internet:**

- Government e-health policies and tools like eRx will ultimately lead to improved efficiencies, cost/patient management, cost reductions and information flow.
- Importantly, in the retail pharmacy this also means a transfer of power to the consumer who will have instant access to information, price comparisons and options from virtually anywhere at any time.
- Activity is already shifting from the purely bricks and mortar pharmacy to the total brand via a myriad of touch points such as media channels,

customer relationship marketing, catalogue, in-store kiosks, Internet, smart phone (mobile internet), social media and loyalty club marketing.

Traditional pharmacies that succeed will focus their efforts on enhancing customer relevance using all these touchpoints.

- **Customers are changing rapidly including the rise of three groups: value consumers; busy consumers; and digital consumers.²**

- Value consumers are growing because of increased financial pressure due to the economic slowdown and are:
 - more risk averse and careful—trading down;
 - concentrating more on what they need;
 - being smarter or not spending at all and confident in trusted brands;
 - using price comparison websites such as Lasoo more often; and
 - defecting to the warehouse pharmacy lowest price and range offer.
- Busy consumers are time-starved so seek convenience, which is a broader concept these days than simply the bricks and mortar pharmacy. Speed of service is very important as well as relevance to their needs including solutions to their problems.
- Digital consumers are growing rapidly and well represented among the above groups—online research helps those seeking lowest price and time savings. Pharmacy's long-term opportunity is primarily with the busy and digital consumer groups. The rapid increase in use of the mobile internet applications (smart phone/iPhone) is instrumental in achieving these objectives. The 2009 annual

Mobile Phone Lifestyle Index released by the Australian Interactive Media Industry Association found the following statistics:²

- 77% of respondents used their mobile for a purpose other than voice and SMS;
- 36% used email on their mobiles in the past 12 months and, of those, almost half used email daily—a growth rate of 80% from the previous year; and
- 32% accessed social networking sites from their handsets, with half of those accessing sites daily—up 7% from the previous year.

- **Absence of new blockbuster drugs that would otherwise provide pharmacies with automatic 'unearned' growth in customers and scripts.**
- **Meeting the needs of the ageing boomer looking to maintain lifestyle versus those of Generation X and the demanding Generation Y.**

THE OLD CULTURE IS RISKY

Are the standard strategies employed by traditional pharmacy to improve competitiveness and increase profitability sufficient to also deliver customer 'stickiness'? Do they address market-changing opportunities and challenges:

Lower prices to attract customers

Lowering prices doesn't work for long as other pharmacy owners move to cover it. So what's the next move? It's not reducing prices again as some owners do. These tactics are only temporarily affordable for most, while being disastrous for some, because of the current temporary margin buffer provided by generics.

JR Pharmacy client series (preliminary) data for year ended 30 June 2010 noted that the dispensary margins of two high-profile pharmacy groups engaging in this practice were 33% on average, compared with all others of 35% plus. It's important to realise that traditional community pharmacies have very high overheads compared with warehouse and supermarkets and continuing these tactics will significantly increase pressure on profitability. The damage would be mitigated if other strategies replaced the lost income.

Lowering prices and advertising them everywhere only highlights how uncompetitive these businesses are compared with warehouse pharmacy and supermarkets, thus further damaging pharmacy bottom lines and competitiveness. Traditional pharmacies must adopt non-price strategies to be competitive.

Known-value-item (KVI) pricing of commonly purchased benchmark brand lines is an important tactic to ensure some customers are not given a reason to go elsewhere. But a strategy of price alone will damage most traditional community pharmacies by hitting cashflow, valuation and competitiveness. Such a decision also defers transitioning to a competitive and sustainable business model by reducing the vital dollars required to finance it.

Catalogue promotions

Almost all pharmacies rely on catalogue promotions (or promotional flyers) as their primary marketing activity to attract customers.

They have a place in a strategy to generate customer traffic but are

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mostly price/product focused, fail to deliver much profit and often result in leftover stock that has to be further discounted or even trashed.

Meanwhile little time, money and energy is spent on communicating to customers what the pharmacy stands for and the health services/initiatives that do drive profits. Some owners I know have chosen to discard catalogues entirely and instead spend the money creating profitable growth by communicating what they stand for in the market their customers are interested in.

According to Nielsen, the impact of the global financial crisis has caused Australian consumers to re-assess how they spend and shop.³ Given shoppers search for value, a promotional strategy is often an appropriate approach. But recent studies have found that the Australian shopper is less sensitive to promotions than shoppers in other countries.

According to the 2010 Nielsen Global Shopper View report, 26% of Australian shoppers claim promotions rarely change their brand choices and 22% only buy promotions when they like the brand. And only 11% change stores due to promotion.

Location convenience

We know from data that good location is insufficient now to drive traffic into traditional pharmacies because many customers are spirited away by the strength of the supermarket and warehouse pharmacy offer.

Supermarkets leverage off the food offer giving customers a more convenient/time-saving experience by tossing into the shopping trolley open-selling health, vitamin and beauty lines. That's the way it is.

One of the major wholesalers recently surveyed a large group of customers in one of the major cities asking them which pharmacy they went to: 28% said they visited a particular warehouse pharmacy brand. Yet that brand didn't have 28% market share, suggesting that those customers also visit traditional pharmacies for PBS scripts and perhaps convenience needs when it suits them.

Location convenience by itself is no longer enough to guarantee growth and viability as it doesn't create customer 'stickiness' and another way is desperately required.

PLAN TODAY FOR TOMORROW

Building strategies with the outlined opportunities and challenges firmly in mind will help ensure your pharmacy grows, lifts profit and generate customers that 'stick'. Choosing to start down this road before being painfully made to do so is important.

Those who have already begun to implement such strategies are reaping rewards. And it isn't hard—just start by implementing one change with the support of all the staff. But it does start from the top, the owner, and requires leadership.

The pharmacy landscape changes dictate that traditional community pharmacies must transition to become healthcare destinations, not just merely convenient, if they want to make customers 'stick'. ■

1. Johnston Rorke Pharmacy Services client data.
2. Dr Colin McLeod. International retail trends, including multichannel retailing. Presentation at Global retail insights presentations series initiated by the Australian Centre for Retail Studies 2010.
3. ACRS Retail Insights, Ed.134. June 2010, p2.



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