



JR_x PROFICIENCIES

SUMMER

- 2** **FEATURE**
 Missed Opportunity or
 Upside Opportunity?
- 4** **FEATURE**
 Introducing
 bizlinkIT
- 5** **FEATURE**
 FBT, Gifts and
 Christmas Parties
- 6** **FEATURE**
 Better the
 Data you Know
- 8** **COMMUNITY**
 Cambodia
 Relief

Mark Nicholson
Managing Partner, JR.pharmacy

A word from the *Editor*

Welcome to JR.pharmacy's summer edition newsletter. With 2013 drawing to a close and the December 1 price cuts being top of most Pharmacy owner's minds it is important to recognise that a change of Government appears to have brought new economic optimism while continued low interest rates provide a platform for owners to make necessary investments in growth strategies.

Following on from a recent presentation I delivered at PAC 2013 in Brisbane I have written an article which considers large retailers use of Big Data and technology platforms while reinforcing the power of Little Data and related strategies that are available to all Pharmacies.

On the one year anniversary of

Johnston Rorke changing its name to Pitcher Partners (yes we are still the same business with the same owners) JR.bizlink has now changed its name to bizlinkIT and Teresa tells us why in the enclosed article. The customised systems and tools available to Pharmacy owners have continued to be developed and 2014 will see the introduction of a competitively priced fully integrated bookkeeping service made available to clients which will feature integration with point of sale information and electronic invoice filing removing the need for long term storage of paper invoices. Please call Teresa should you want to register your interest.

Annette has provided a timely reminder of how Fringe Benefits Tax is applied to Christmas Parties/Gifts while Norm considers the increased

importance of retail performance to offsetting the impact of price cuts. Also Angela (Mrs Bruce Annabel) has a special Christmas request of support on the back page regarding the lifesaving rehabilitation work she is returning to Cambodia to do. Any support in the way of stock will be put to great use by Angela.

Finally from everyone at JR.pharmacy, bizlinkIT and Pitcher Partners (yes we are happy to answer to any of the above) have a safe and happy festive season. As usual please email or call any of us should you want to discuss any of the enclosed.

- Mark

Missed Opportunity or Upside Opportunity?

Norman Thurecht
Partner, JR.pharmacy

The importance of margin in the retail area of pharmacy is often dismissed/ignored on the basis that the total store has remained profitable...



Over the last decade there has been a proliferation of community pharmacies discounting retail products in the pursuit of customer growth.

The JR.pharmacy averages highlight that the margin given away in retail has deepened the losses made in the area which has been disguised by the rising gross profit dollars per script achieved through stronger trading terms and higher substitution over the same period.

In the face of unpreventable reductions in the GP\$ per script, retail sales and more specifically the retail margin and average retail sale must be viewed as an opportunity to make up some of the difference.

Over the last two financial years (FY12 and FY13) we have seen a stabilisation of the retail GP% at 34.5% which highlights to me that we have hopefully seen the bottom of the cycle in terms of trying to chase customers on price alone. In my view this margin needs to increase to 37%+ for sustainable profitable growth.

Opportunities to grow GP% include:

1. Buying right;

2. Pricing correctly;
3. Leveraging Known Value Items;
4. Increasing the basket size.

Buying Right

The role of the stock controller in the pharmacy should not be underestimated. They are investing your cash and from that a return must be generated.

Two main points should be their focus:

1. Are they buying/stocking what the customer wants in sufficient quantities? Whatever discount they gain on buying certain stock will be quickly lost if the customer does not buy it and it remains on the shelves unsold. If profitability begins to fall in the next 6 months, this 'dead stock' will suffocate cashflow. Understanding what the customer is coming to the pharmacy for is therefore paramount;
2. Are they maximising the net into store buying opportunities with either the wholesaler or manufacturer? Often not buying

the right order quantities or at the wrong times will reduce buying discounts which is a missed opportunity. There is a balance though because the pharmacy cannot afford to be out of stock in 'key' categories that the customer expects pharmacy to stock. If it is out of stock, that is an invitation for your customers to shop the competition.

Pricing Correctly

1. Knowing your local prices and being competitive on certain lines is a key to retailing in the 21st century. Local prices now include on-line but remember community pharmacy remains to a large extent a convenience retailer so those customers that shop on-line are happy to wait for their delivery.
2. In understanding that the bricks and mortar pharmacy is a convenience retail offer, the pricing must be based on better before cheaper. In other words, better known (branded) products that are keenly priced but not cheap.

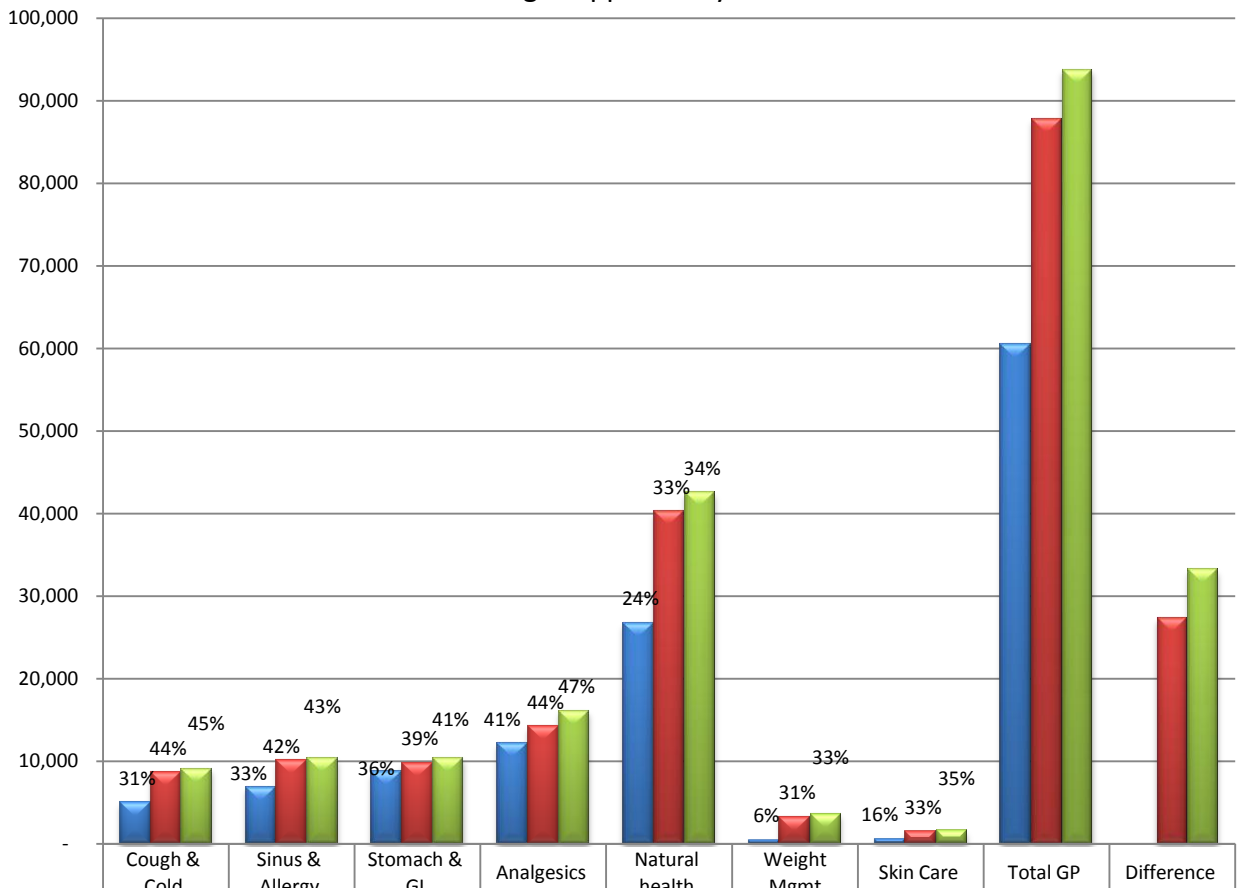
Leveraging the KVI's

The Known Value Items have an important place in driving customer traffic and creating a customer perception of your price competitiveness. Therefore it is imperative to understand the difference between categories and products that drive traffic as opposed to those that drive profit.

The staff in the pharmacy must have a clear understanding of the difference and when they are engaging with a customer must look for the opportunity to switch from the KVI to either a product of better quality for the customer's needs or looking to add to the customer's basket with an additional product that will improve the customer's outcome and the profit of the pharmacy.

Note I am not suggesting a private label switch. This can only occur if the customer is indifferent to the brand. Understand what they have asked for on entering the pharmacy and avoid offending them with a private label switch in the pursuit of margin protection.

Margin Opportunity



Example Pharmacy	4,977	6,867	8,696	12,177	26,725	451	604	60,498	
JR Pharmacy	8,650	10,087	9,809	14,171	40,264	3,299	1,520	87,801	27,303
Turnover <2.5million	9,074	10,327	10,380	16,096	42,547	3,660	1,630	93,715	33,217

Bringing it all together

The table below is based on a client example where seven of their 'key' categories showed the GP% was lower than both the JRP all pharmacy average and the JRP turnover based averages.

By lifting the GP% to either the total

average or the turnover average highlights that in 2013, this pharmacy had a missed opportunity of retail GP\$ of approximately \$30,000. Any or all of the above opportunities can be used to lift the retail GP%.

In the face of profit reduction in the dispensary this presents a great opportunity to review and maximise

the retail profit by reviewing performance compared to averages.

Remember using the data is important, but interpreting it and acting on it is the challenge because there is more than one thing that can influence the outcome.

Introducing bizlinkIT

Teresa Hooper
Partner, JR.pharmacy



We are excited to announce that our JR.bizlink division- a leading provider of business management software including Greentree and QlikView - recently changed its name to bizlinkIT and launched its new web site www.bizlinkIT.com.

The new bizlinkIT website provides improved presentation and easy navigation through products and services. The appearance is deliberately simple so that it does not overshadow important new content – but at the same time it communicates bizlinkIT’s contemporary and active approach to delivering integrated solutions to Australian Pharmacies and other small to medium size businesses.

The underlying philosophy in delivering the new website has been to highlight the real-world benefits of integrated business software. Among the new features are client log in areas, a blog section, product videos, solution areas, customer testimonials and direct links to social networks.

Along with enhanced navigation and usability, the new website offers each visitor access to a growing collection of articles and product brochures as well as case studies highlighting

tailored solutions bizlinkIT have delivered for clients.

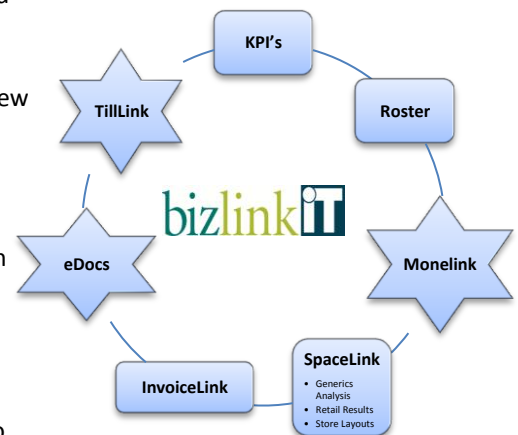
The launch of the new website is a critical step in communicating both the vision and strategic objectives of bizlinkIT as a company, which will continue to address technology and pain solving business solutions.

Early in 2014 bizlinkIT will launch new functionality around the already successful SAAS product. We are working with pharmacy clients to streamline the processing of bank statements and relative transaction processing through a new product known as Monelink.

Clients are also now able to incorporate scanning technology to streamline transfer of paperwork between sites through our new product known as e-Docs. This also eliminates the need to retain paperwork as the electronic version is kept in the cloud in a version that satisfies the respective authorities.

And finally but not least, after the successful process of transferring invoices from the Point of Sale to the financial system we are now beta testing our replacement for TillLink –

an electronic transfer system of the standard Daily Z reports from any Point of Sale via an interface and into the Greentree accounting platform used by bizlinkIT.



All of these new initiatives are working towards minimising the need to touch data (either electronically or by paper) and still produce management reporting that best suits your business. To find out more about how bizlinkIT software solutions and services can add value to your business please visit the new web site at: www.bizlinkit.com.

FBT, Christmas Gifts and Parties

Annette Ivory-Barker
Manager, JR.pharmacy

Are you having or already had your Christmas party ? Did or are you providing gifts to your valued employees ? And finally have you considered the related fringe benefits tax (FBT) implications and in particular the use of the minor benefit exemption (\$300) ?

Christmas Gifts

Where a gift is provided to an employee at Christmas (for example a hamper, bottle of wine, gift voucher, perfumes etc) it may be a minor benefit that is considered an exempt fringe benefit.

To be a minor benefit, the benefit must have a value of less than \$300. However, a minor benefit that satisfies the "less than \$300 threshold" is not automatically an exempt benefit. Other factors need to be considered, most importantly the infrequency and irregularity of the benefits.

For example, if monthly payments less than \$300 are made on behalf of an employee, these would be less likely to be treated as a minor exempt benefit as they are paid on a regular basis. However, if an expense less than \$300 was incurred only a couple of times during the year in relation to an employee, it is more likely to be able to be treated as a minor exempt benefit.

If the gift is greater than \$300 per employee, FBT may be payable.

Christmas Parties

Generally, any social function provided for employees not on an employee's premises is subject to FBT. A Christmas party provided to current employees on your business premises or worksite on a working day may be an exempt benefit. The cost of associates attending the Christmas party is not exempt, unless it is a minor benefit.

The costs associated with Christmas parties held on your business premises will give rise to a taxable fringe benefit for employees and their associates unless the benefits are exempt minor benefits (i.e. less than \$300 per person).

Generally, the cost of providing the Christmas party will be tax deductible only to the extent that it is subject to FBT. If you are a GST registered entity and entitled to claim a tax deduction for the entertainment expenses, you can also claim an input tax credit for the GST.

If the benefit is an exempt fringe benefit as it is a minor fringe benefit, then it is not tax deductible and you cannot claim an input tax credit for GST.

When accounting for Christmas parties and other entertainment, you should include as much detail as you can. For example it pays to narrate the number of employees/associates/clients attending, location of the party and total costs.

FBT rules regarding entertainment are unfortunately too complex and common sense does not prevail in its application. Further, the FBT year ends on March 31 with FBT returns due for lodgement before May 31.

If in doubt about the FBT treatment of expenditure or your requirements to complete an FBT return please discuss with your JR.pharmacy accountant.

Better the Data You Know

Mark Nicholson
Managing Partner, JR.pharmacy

The importance of data to business for improving relationships with customers and ultimately improving performance is certainly a topical one. Just last month, Business Review Weekly (BRW) magazine featured Big Data both on its front cover and with a feature article. The same article focused on how big retailers are using data from many sources to gather customer insights and incorporate them into the development of their offer as well as their marketing and loyalty programs.

Interestingly the article discusses how an adult nappy manufacturer used data insights from the old Ninemsn (now called Mi9) to more directly reach their target market online and through mobile advertising.

Community pharmacists occupy a unique space in retail and generally both understand and embrace their position as health practitioners operating in a complex retail environment. Up until the turn of the century the industry was largely left alone by mainstream retailers while it developed a strong foothold in consumers hearts and minds for health related products and advice. From about 2000 onwards however technology and other sophisticated resources which come with size have assisted large retailers in developing a greater understanding of their category opportunities. As a result non Pharmacy retailers have been able to attract and redirect customer

spend from Pharmacies to themselves.

While Pharmacies still of course enjoy the benefit of regulation that ensures they are the only retail businesses capable of dispensing medicines, the consumer and competitive retail environment in which we all participate is changing our expectations and the way we shop at an increasing rate and on a global scale.

It seems much longer but the iPad has only just turned three years old while the iPhone is a very grown up six years old. Between the two of them and their cousin Androids and Tablets they manage to delight consumers and trouble retailers who have been slow to broaden or deepen their engagement with customers.

The speed of take up of these devices has occurred with the assistance of technology previously unknown to the average consumer but now mainstream in our vernacular. These technologies include Wi-Fi, 3G, 4G and of course the slowly transitioning NBN or National Broadband Network. The opportunities and benefits stemming from NFC or near field technology will also begin to appear over the next few years as consumers allow retailers to push through information to them when they are located in the immediate vicinity.

With the improvement of network

speed and the increasing take up of Smart TV's it will not be long before using the family TV to shop or watch YouTube while at the same time as catching up with Facebook and Twitter feeds becomes part of mainstream usage rather than for just those at the front of the technological curve .

But the devices and technologies are simply the enablers of the retail revolution that is enhancing the reach and understanding of retailers as well as the influence and experience of consumers.

Insights are gained and offers promoted via social media networks such as Twitter and Facebook while QR(Quick Response) codes are now a standard form of information delivery for general retailers and manufacturers. And of course the YouTube phenomenon continues unabated.(It is interesting to note that Google bought YouTube in 2006 for \$1.6bn and seven years on now receive \$3.6bn per year from advertising revenue which is growing at 20% pa.)

Just like the world did not necessarily understand what Google knew or at least believed in 2006 regarding YouTube's potential then at a business level the same may well be said in few short years about the impact of Google Analytics.

Google's business units now cover Media (Youtube) Advertising (Google Adwords), Books (Google Books), News (Google News), Data Storage (GoogleDrive), Digital Photography (Picassa), social networking (Google+), operating systems (Androids), computers (Chromebook), /Browsers (Chrome), mobile banking (Google Wallet), phones (Nexus), telecommunications (GoogleVoice) and of course the just announced Calico – Google's fledgling Health business project that is intending to initially target decreased mobility and mental agility that comes with age and life threatening diseases.

Clearly there is a "chicken and egg" business cycle for businesses willing to invest in the use of technology to collect data then interpret and translate it into improved customer experiences.

It has been reported by IBM that 90% of the World's data has been created within the last two years with Walmart and Amazon leading the way on the International stage. Walmart now globally collect two petabytes of customer data per hour – that is the equivalent of 50 million filing cabinets of paper per hour.

Anyone who has shopped digitally with sophisticated retailers will understand exactly how consumer analytics translates into targeted recommendations. Amazon themselves have reported that about 30% of their sales are generated from their recommendation engine while McKinsey Global Institute's study of the US retail sector found that Big Data could improve retailers' Gross Profit dollars by up to 60%.

Many of these data insights are not immediately obvious and can often surprise, but once known will influence the merchandising decisions of those retailers. One quirky example is Osco Drug in the US who learned that nappies and beer were consistent common purchases in their stores during the evening.

Of greater relevance and much closer to home, Woolworths recently purchased a 50% interest in a data analytics company called Quantum while Coles relaunched Fly Buys in 2012 and now reaches out to 7 million members. These efforts mark a clear move beyond just tapping credit and loyalty card data to track consumer habits. With greater data and analysis these retailers are seeking to improve promotions and marketing by increasing their level of personalisation.

Part of this ongoing development also sees companies like Woolworths sharing their customer data with manufacturers – at a cost no doubt - so they too can improve product development and customer engagement at a branded product level.

Woolworths is in fact in many respects starting to resemble a technology company as their 2014 IT project budgets exceed planned refurbishment costs - \$603m vs \$472m. A key component of their spend is an upgrade of their Point of Sale systems to allow customers to connect at store level via their electronic devices (I assume one example would be in-store scanning apps etc for customers) while also allowing for easier integration of data into their Enterprise Management System.

Back overseas and Nieman Marcus the US department store is now able to enhance a customer's shopping experience by allowing you to use your smartphone interactively while shopping in-store. This occurs by the customer being able to check-in via the app which will notify a store sales assistant of their location, what they look like, their prior purchases and preferences before they even get approached.

There is no doubt that the pace of change in the general retail and consumer environments is greater than it has ever been in the past. (At a

Pharmacy level in Australia Priceline could lay claim to leading the way with gathering customer data given the 3.9m members in their Sister Club loyalty program and their ability to enhance the information with Point of Sale data also managed and controlled by head office.)

Regardless though of how well placed any Pharmacy Group is in relation to customer data collection all will readily acknowledge that as critical as data analysis is in helping develop strategies to improve customer engagement and sales, it does not of itself automatically guarantee great financial results to all group members.

Part 2 of this article addresses the importance of combating the impact of big data and big retailers by using the power of "little data". This means using key determinants such as space, cost of space, quality and efficiency of staff, level of competition, generic substitution levels and the number of nearby health practitioners to enhance a Pharmacy's ongoing financial success. By using the below QR code or emailing Victoria Cole at vcole@pitcherpartners.com.au you can view the article in it's entirety.



Angela Annabel and the Children's Surgical Centre



As Christmas approaches, it is important to think of those less fortunate - and at JR.pharmacy, our extended family is asking for your support.

Angela Annabel – (wife of JR.pharmacy partner Bruce Annabel) is returning to a small children's surgical hospital in Pham Penh, Cambodia in March 2014 - eager to continue offering her rehabilitation and physiotherapy assistance to those critically in need through the Children's Surgical Centre (CSC) initiative.

This small hospital, like many mission hospitals and clinics around the world, operates entirely on charity - and aims to improve the quality of life for

disabled Cambodian children and adults by providing free rehabilitation surgery (encompassing orthopaedic surgery, eye surgery, and plastic & burn surgery).

Angela is asking pharmacies to donate any of the following unneeded or older physio and surgical supplies to the CSC – which will directly aid in changing the lives of the people of Cambodia:

- Tubigrip
- Theraband
- Finger splints
- Wrist braces
- Ankle braces
- Cream oil, sorbolene for burns (no fragrance)
- Swiss balls

- Dumbbell weights that are water filled
- Exercise putty
- Bandages stretch
- Tape - rigid or stretch

Alternatively, any small financial donations made would go a long way towards the purchase of the same types of supplies - that Angela will organise during her stay in Pham Penh. Angela can be contacted by email at angelaherde@hotmail.com should you be able to assist.

Angela also welcomes anyone wanting to join her on this initiative, and for more information visit the CSC website at <http://www.csc.org/>.



Brisbane

Telephone +61 7 3222 8444
partners@pitcherpartners.com.au

Melbourne

Telephone +61 3 8610 5000
partners@pitcher.com.au

Sydney

Telephone +61 2 9221 2099
partners@pitcher-nsw.com.au

Perth

Telephone +61 8 9322 2022
partners@pitcher-wa.com.au

Adelaide

Telephone +61 8 8179 2800
partners@pitcher-sa.com.au

Newcastle

Telephone +61 2 4931 6000
newcastle@pitcher.com.au

www.pitcher.com.au

Pitcher Partners is an association of independent firms.
In Queensland, Pitcher Partners refers to the Queensland partnership and its associated entities.
Liability limited by a scheme approved under Professional Standards Legislation.

For comments on this edition or if you wish to be removed from the *Contact* mailing list please email us at vcole@pitcherpartners.com.au