



Efficient, effective or both?

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'A great leader takes people where they don't necessarily want to go but ought to be.'¹

The majority of community pharmacy owners are not at a crossroads; they are stuck in the roundabout circling around in ever-decreasing circles.

Chemist Warehouse exited this roundabout years ago while others have been forcibly ejected by going broke. Others have found the exit after revolutionising their pharmacies from supply/commodity/process to a total uncompromising focus on customer health outcomes. I call them pharmacy's new leaders because implementing transformational change at pharmacy store level requires great in-pharmacy leadership.

FIRST ASSESS YOUR RISK POSITION

The Government has announced the results of two reviews (two more to come including Alzheimer's disease and diabetes) conducted into anticoagulant therapies in atrial fibrillation, including the future role of new therapies such as the big volume Pradaxa, and the high potency statins.

Pradaxa, if approved, represents a good volume growth opportunity for pharmacy. However, against that it's likely we will see a significant WAMTC (Weighted Average Monthly Treatment Cost) price cut, not price disclosure, applied to the two statins later this calendar year.

We know community pharmacy bottom lines are now heavily dependent on various generic and wholesaler discounts and cuts will continue so it's important to get on with making changes for a sustainable future.

To assess your pharmacy's bottom line risk exposure, work out the:

- (1) percentage of your EBIT derived from dispensary supplier discounts;**
- (2) percentage of your net profit after interest and principle loan repayments that comes from dispensary supplier discounts;**
- (3) gross profit dollars earned on average per prescription dispensed, including discounts and rebates; and**
- (4) effect on 1 and 2 above if your gross profit per script dropped by, say, \$2-3.**

Has your pharmacy become overly reliant on script drug supplier discounts, heightening bottom-line sensitivity to small changes at the top?

THEN GET ON WITH IT

If so, it's time to emulate the changes being made by pharmacy's new leaders to their dispensaries, S2/3 lines, merchandise and retail categories. Doing so will remove a variety of impediments to adding non-price value in the form of expert advice and



Pharmacists freed to offer more effective customer engagement.

health solution services, particularly via pharmacist/customer engagement.

Referring to my April article that outlined 10 points to revolutionise the dispensary, most pharmacists just make the physical changes (ie. point 4 and some of points 3 and 6) but fail to grapple with roles, culture and customer engagement opportunities of delivering customer-valued health solution services. Many are yet to take full advantage of the funded Pharmacy Practice Incentive (PPI) services.

Peculiarly, most pharmacists and owners think they already do these things whether having made the recommended physical changes or not. This is verified by independent research, observation of pharmacy operations and my own experience.

A common thread is in the

behaviour and leadership (or its absence) of the owners and pharmacists who find it difficult to change, thus perpetuating a technical/process role that allows services and their income opportunities to languish.

ENHANCING EFFICIENCY

Improving dispensary efficiency is largely about producing the same or greater prescription volume with lower wage costs and often space. This is becoming more difficult as Fair Work legislation drives up costs and script volume flat-lines. Therefore, taking out costs has become the key to improving efficiency, which is where most justify installing gravity shelves with drawers, carousels with drawers and robotics. The efficiencies to be gained include reduced replenishment and picking time, freed space for better merchandising S3 and S2 medicines, as well as some minor stock redundancy and stock-turn benefits.

Table One outlines my calculations of script volume break-even points for the three dispensary solution alternatives mentioned above



TABLE TWO: Improved retail sale per customer following improved dispensary efficiencies and effectiveness

Pharmacy	Total sales	Customers pa	Retail sale before	Retail sale after	Sales increase
City strip	\$1.4m	35,046	\$9.97	\$13.42	\$120,909
City strip centre	\$2.5m	49,465	\$15.21	\$20.12	\$242,873
Neighbourhood centre	\$3.8m	93,667	\$12.42	\$14.13	\$160,171

(dependent on circumstances).²

The break-even point is where savings to wages and on-costs and improved space productivity match the capital cost and financing of the respective technology. Past that point profitability is enhanced.

Pharmacists who also address other physical and process enhancement opportunities will save additional time (this can often be more than one minute per script on average) thus saving labour costs or, instead, releasing time which, over a 12 month period, can be significant.

GETTING EFFECTIVE

But enhancing dispensary effectiveness (as opposed to efficiency) is where the 'gold' lies. While improving efficiency is useful, the profit effect occurs only once without change being made to those business fundamentals that are crucial for a sustainable future. These include competitiveness, customer value-enhancing capacity, solutions sales capacity, managing-up margins, focusing on reducing customer waiting time, leveraging front-of-pharmacy sales and capacity to bolt-on pharmacist-delivered services.

Pharmacists working as pseudo technicians won't, for example, be able to use their knowledge and skills to add value to the customer's experience nor the pharmacy's bottom line.

Dispensary effectiveness requires a major change of mindset and workplace culture and encompasses strategies that transform the dispensary into a healthcare destination where:

- **pharmacists utilise time-savings to engage the customer out the front;**
- **assistants operate in a valuable support capacity;**
- **dispensary technicians run scripts-in and the dispensary;**
- **customers receive benefits that improve their health, lifestyle, condition or medicine efficacy;**
- **customer script waiting time is reduced offering more time for pharmacist engagement;**
- **customers have a good reason to return;**
- **health solution products are offered;**
- **primary health services are provided by the pharmacist;**
- **sales of high-margin lines, S3 medicines in particular, are increased via pharmacist recommendation;**
- **services are offered and delivered by the pharmacist, including PPIs as a base;**
- **MedsCheck and Diabetes MedsCheck services facilitate discussion with the consumer, focusing on improving medicine use through education, self-management, and medication adherence strategies;**
- **management services for conditions are provided by the pharmacist;**
- **customers are delighted; and**
- **price pressures are alleviated.**

Opening the door to this style of

pharmacy model requires a cultural mindset throughout the team that proactively focuses on customer health benefits.

The 'door' is kept open via constant and effective day-to-day in-store leadership by the owner or managing partner. Absentee owners have an incredibly difficult task doing this. Pharmacy's new industry leaders have the right cultural mind set and achieve outstanding growth and margins: The role of dispensary technicians is vital in allowing the pharmacist to interact with customers without whom the transformation those pharmacies have achieved would not be possible.

WHY NOT DO BOTH

Being more efficient and more effective is the objective all pharmacy business leaders should aspire to and is the way the new industry leaders determine their futures.

Table Two shows the improvement achieved in retail sale per customer³ (the industry average being \$11.34) by some of the new industry leaders.

A culture of efficiency and effectiveness in achieving outcomes has resulted in these pharmacies generating double-digit growth in everything, holding margins and thus not having to discount. The pharmacists love it as do the customers.

The leaders in these pharmacies and others like them lead from the front, showing the way for the rest of community pharmacy. They have taken their people to where they want to be and love being there. n

References available on request.

TABLE ONE: Dispensary solution alternatives

System	Break even Rx/day incl. space utilisation	Time released Per annum	Time released per annum If all physical changes made
Gravity shelves + drawers	80	81 hours	380 hours
Carousel + drawers	120	144 hours	680 hours
Robot - entry level	375	935 hours	2,300 hours