Stick to the main game

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THE SUSTAINABILITY AND RELEVANCE OF YOUR PHARMACY IS THE MAIN GAME.

It can sometimes be difficult to remain focused on your pharmacy's goals when there are a number of 'sideshows' that can easily distract attention and encourage complacency. But remain focussed you must because of the significant risk in the industry, including risks arising from two significant areas:

1. Generics and government

In seeking a 2012/13 budget surplus the Federal Government is raising the spectre of again targeting PBS expenditure. This was flagged publicly in the 8 November 2011 Australian Financial Review *and to Pharmacy Guild of Australia members the next day in the Guild's* Forefront *newsletter. Yet government flagged this with manufacturers months ago.*

2. Excess price discounting

Business models used by the majority of traditional community pharmacies—bannered and independent—have not evolved to meet the new consumer, competitive and technological environments.

Instead of responding with innovation, most take the easy yet precarious decision to follow the fallacious and overdone strategy of price-cutting, thus belting margin, net profit, cash flow, valuation and above all, viability!

Combining the two—an over reliance on generic discounts and price discounting—creates a potentially toxic cocktail.

GENERICS AND GOVERNMENT

The Federal Government appears to be preparing for further PBS savings by:

- **targeting the 'super statins' and rolling them into one large therapeutic group with the other statins. This possibility was first raised in November 2010 when the independent Senators Fielding and Xenaphon asked Health Minister Roxon whether such a group was being considered. Minister Roxon is also understood to have since asked the Pharmaceutical Benefits Advisory Committee's advice. This may lead to significant price cuts in late 2012 impacting the whole supply chain including pharmacy. Pharmacy owners would likely see their atorvastatin 'pot of gold' reduced significantly as its price would be benchmarked to the lower-priced F2 statins; and**
- **asking pharmaceutical industry to identify ideas by 12 December 2011 for reducing 2012/13 PBS spending.**

While these are not 'set in stone' and merely signalled as intentions, they do signal an important truth: that 'easy' dispensing profitability arising from generics is now subject to higher risk. But it's the potent combination with price discounting, funded by generics profitability, which exacerbates the situation.

THE DISCOUNTING FALLACY

In response to a flat economy and increasing competition, many pharmacies try to generate sales growth by discounting to excess. As lower prices get matched by others, a discounting spiral is created that blunts any sales growth that lower prices might have achieved. Despite this, it is widely understood that price is most important to only a minority of health consumers.

Instead, low prices:[1]

- **attract low-end buyers for your high-end products and services;**
- **can scare away your high-end customers looking for quality, not something too cheap to be valuable;**
- **can tag you as a discounter;**
- **can attract customers who love your initial buy-in (it's so cheap) but leave you on the follow-up (full price) offers;**
- **can establish you in a particular market segment that may not be right for you; and**
- **can trap you in a loss-leader position you can't afford to maintain.**

In response to the dash to lowest pricing, owners and groups: put pressure on suppliers to cut price and alleviate falling margins, push harder on generic substitution, push products not solutions, reduce wages and advertising, postpone refits; and shun innovation (eg: dispensary revolution and services).

Some have woken up to this dumb tactic, including one of JR Pharmacy's better operators who said last month: 'discounting is for mugs, I'm putting my prices back up!' Those who use selective KVI (known value item) pricing as a tactic only will continue to enjoy margin and sales growth despite all the price competition around them.

Two pharmacies I consult to invested heavily in culture change and innovation, resulting in businesses founded on a quality health offer with skilled engagement at the core, and promoted to the market place using funds released from getting rid of catalogues. They now trade on health solution services and Table One offers the results.

So, you don't have to just cop whatever government and your competition throws at you. Start innovating the quality of your offer now before it's too late, don't listen to those who say 'she'll be right' and don't get distracted by the recent pharmacy 'sideshows' and debacles.

'The sharper your differentiation, the greater your advantage.'[2]

TABLE ONE: **Commercial results of business culture change**

	Pharmacy 1 City suburban	Pharmacy 2 City suburban	Benchmark average JR Pharmacy 2011 series
Warehouse in market area	Yes & pretend disc	Yes & pretend disc	
Additional pharmacist(s)	1 extra full time	1 extra full time	n/a
Services income	$70,497	$81,531	n/a
Customer & Rx no. growth	2.3%/14.3%	3.8%/7.2%	.06%/.7%
GP%	38.6%	41.1%	33.9%
Wages/sales %	16.8%	14%	13.6%
Wages/GP$$	43%	34.5%	40.3%
Net profit (EBIT)/sales	11.3%	17.6%	8.3%

References available on request.