



retailing

retail management

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Fighting with one arm tied

THE recent entry into the community pharmacy market of the sophisticated retailers (Priceline, owned by New Clicks Australia [NCA], is the most obvious example) created quite a stir.

However, the interesting aspect that is mostly overlooked is that these retailers are leveraging off the benefits afforded to community pharmacists by the good work of the peak pharmacy bodies, the pharmacist's PBS number, state and federal regulations and the incredible range of services offered by the wholesalers. On the flip side, the pharmacist owner of a Priceline Pharmacy is leveraging off the excellent retailing expertise of NCA honed in the super tough South African retail environment where the parent company Clicks owns approximately 240 stores including pharmacies. So both parties win.

Strength of the sophisticated retailer

NCA owns approximately 140 stores, plus three Priceline pharmacies, to which they provide services comprising retail management, non-scheduled product procurement, logistics, provision of IT retail management systems, merchandising and local area marketing, utilising one of the best loyalty clubs in Australian retail.

These strengths are designed to create a strong customer value proposition, increased customer numbers, higher net profit and, ultimately, lower business risk.

What is Woolies up to?

Add the recently announced intentions by Woolworths to enter the pharmacy market and one could conclude that the whole game has changed significantly. Woolworths has proven its ability to successfully leverage off its excellent customer relationship into non-grocery market segments such as petrol, financial services and so on. So, how hard will it be for it to do the same thing in pharmacy, whether via an alliance arrangement similar to Priceline or, as they announced, via more direct means in the territories despite the

ACT legislation having been changed in October 2001 and pending changes in the Northern Territory. Only time will tell which way they go.

Implications

Priceline and Woolworths are strong retail brands in Australian retail and therefore represent a significant threat to community pharmacies within their trade area. Priceline has stated that it has the capacity to deliver 200 Priceline Pharmacies while Woolworths hasn't announced details at this point. However, the big question for those community pharmacy owners who either don't wish to adopt these models or don't fit their requirements is how do they plan to compete with such good brand retailers.

I believe this is made all the more difficult because the sophisticated retailers compete with the benefit of scale and corporate structures. Of course, they are able to do that because they're only providing services to their members and don't own them. Therefore, unlike community pharmacy, they aren't constrained by state regulations that limit the number of pharmacies a pharmacist may own and structures they can use.

Yet community pharmacists are being asked to compete against pharmacists who benefit from services provided by the sophisticated retailers. It's like fighting with one arm tied behind your back.

How will they effectively adopt the strengths that characterise the sophisticated retailers and then ensure that the result leads to a customer value proposition strong enough to compete with them, retain existing customer base and grow?

A structural issue—an answer

In my view, providing individual pharmacy owners with the benefits flowing from greater infrastructure capability and economies of scale would produce significant gains in areas including:

1. business management skills;

2. retail management skills;
3. retail POS systems and technology;
4. relevant retail management information;
5. merchandising and services delivery;
6. category management, that is customer and supplier-oriented;
7. purchasing power;
8. staff training programs—selling, services and category knowledge;
9. shared in-store specialists—naturopaths, baby health nurses, wound care, and so on;
10. marketing, human resources and information technology specialists;
11. consistent retail delivery;
12. consistent healthcare solutions, medication management services; and perhaps, ultimately,
13. a branded offering.

Corporate structures, for example, won't suit everybody, as some capital gains tax advantages may be lost. However, the option ought to be made available because of the ability to repay more quickly the current huge levels of debt and, as an option available to those who want to use it, for commercial structuring reasons. It also improves the efficiency and affordability of partnership equity plans and succession.

We have to find a way to make the advantages of size that are afforded by corporatisation (as evidenced by Woolworths and Priceline) available to community pharmacy owners within the cultural framework that has made Australian community pharmacy an integral player in primary healthcare delivery.

Unless pharmacists quickly and significantly improve their business and retail management skills, they will lose out to the low cost/price operators, sophisticated retailers and those leveraging off their advantages.

