



retailing

retail management

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The dark side of regulation

WHERE has the growth gone? Have you wondered what has happened to pharmacy sales growth since December 2004? The Federal Government is obviously succeeding with its plans to dampen PBS prescription growth, yet have community pharmacy owners adjust operational plans to accommodate for this trend and find alternative income sources?

Community pharmacy continues to be over-reliant on the existing PBS remuneration formula and prescription dispensing. Until now, these two factors have contributed to strong increases in dispensary gross profit dollars and, hence, total store gross profit dollars. Also, generic substitution strategies will need refining from 1 August when new generic market entrants trigger the 12.5 per cent discount clawback across 11 therapeutic groups. But don't take my word for it. Let's look at the evidence.

Chart One describes July 2004 to May 2005 monthly sales growth this month this year compared with this month last year for Australia-wide total retail sales and Australia-wide pharmaceutical, cosmetic and toiletry sales made by all retailers dominated by pharmacy.

Total retail sales have trended down significantly since September 2004 for myriad reasons. But, in the meantime pharmaceutical, cosmetic and toiletries sales have suffered a huge fall that is perhaps alarming to some with high debt levels.

Since November and December the drop has been huge and nowhere near the

usual 5-6 per cent growth pharmacists have assumed in the past. The dominating influence has been the PBS, as evident in Chart Two.

Chart Two tells us that the 1 January 2005 consumer co-payment increases have caused a massive reduction in PBS prescription demand. Over the four months, prescription volume has fallen by about 2 per cent compared with the same period last year. In fact, approximately 10 million prescriptions have been removed from the PBS system that otherwise would have been dispensed.

Therefore, consumer sensitivity to small price increases is huge and marks a very high price elasticity of demand.

Many would suggest that, as PBS dollars have grown while prescription volume has fallen, pharmacy sales would have grown anyway! While correct, the true measure of dispensary performance isn't sales growth, but rather gross profit dollar growth. And that only occurs in a significant way from script volume growth.

Therefore, PBS growth has suffocated growth in the overall retail category (Chart One) and, hence, reflects the sensitivity of PBS script sales/dispensing on total category performance.

So some solutions that will increase gross profit dollars include:

- Devise a customer-centric generic substitution policy.
- Improve dispensary efficiency through use of dispense techs, improved processes and streamline product replenishment and ordering policies.

- Establish a customer-focused dispensary. The pharmacist is permanently stationed outside the dispensary providing healthcare solutions.
- Conduct an audit of your store from the customer's perspective.
- Ask yourself: Does your pharmacy offer anything significantly different compared with other competitors? If so, is it important enough for customers to forsake other retailers?
- Use the data that's in the POS (point of sale). GMROS (Gross Margin Return on Space), GMROI (Return on Inventory Investment) and GMROL (Return on Labour) remain the most useful measures of retail pharmacy performance and productivity.
- Regard the whole store as the retail offer—not just the dispensary. It's the whole store that customers see and conditions their perceptions.
- Understand and apply the eight pharmacy retail key success factors to drive the pharmacy business. I have been talking, writing and applying this approach for over seven years. It works. Apart from the first four points, the solutions are complex and necessarily so. That's because the retail pharmacy business model itself has to change.

Those who do take up the challenge will benefit from the opportunities provided by regulation while others will ignore at their peril and only see the dark side. ■

