



Water can run uphill

RECENTLY Roger Corbett was heard to say that 2005 will be Woolworths year for pharmacy. The other supermarket bosses may have the same view.

However, Roger went further by saying that supermarkets will eventually get pharmacy as sure as 'water runs downhill'. Well, what may well be true in nature does not necessarily hold in the case of Australian community pharmacy.

The water of which Roger speaks may not run downhill, although it may leak out the sides and find other pathways. As I proved in my last two articles, this has already begun with the leakage of significant open selling pharmacy healthcare categories, resulting from supermarkets getting on with doing the healthcare category seriously. One could observe that water is running downhill and straight into the pockets of the supermarkets companies.

However, the baby category is a perfect illustration of how the tide can be turned and water can indeed run uphill, but this time into the pharmacy owner's pocket.

During the last few years we have watched pharmacy owners give away the baby market to supermarkets and discount department stores. Typically most pharmacies have hastened this process in a number of ways, including not stocking the brand leaders because supermarkets have them, shrinking the baby section because the category isn't profitable, charging uncompetitive prices, locating in

poor positions and not utilising the 'adjacencies'. Result: more sales are lost and customers perceive pharmacy as expensive. Little wonder!

In response, we (JR Pharmacy Services) have advised our clients that the baby category is essential to the success of community pharmacy. In most demographics baby is a category that will generate traffic, lead to profitable baby sales, create loyalty (thus adding other profitable pharmacy product sales), and develop a point of difference with the supermarkets. After all, baby is one of the key pharmacy categories essential to underlining the characteristics that pharmacy wants to project.

Case study

Our client owns a bannered pharmacy in a shopping centre that includes a large Woolworths supermarket and an array of specialty stores. He, like many others, had all but lost the baby market to Woolworths. So we advised him to start thinking about baby as a core category. The key aspects of our advice included stocking the top nappy and formula brand leaders, set the selling price below Woolworths price point, negotiate improved buying terms, allocate more space and stock, place in a prominent location and communicate the offer to the wider market. The following account is an edited version of his correspondence to me about his experience:

'We had been waging guerilla warfare on the Woolworths baby product for

some time before this became a success. In the past I had negotiated with the supplier to run the nappies at \$1 below Woolworths. This only gave us a slight improvement and I gave up in response to the Woolworth manager dropping his price below cost.

'So I spoke with the supplier again and negotiated to buy a guaranteed quantity that reduced the price by \$5 below Woolworths normal retail price. That was done and, in July, a large quantity were placed out the front of the pharmacy for the passing Woolworths foot traffic with signage and I put an advertisement in the community paper.' (Figure One summarises the result.)

'Woolworths have run the odd weekly special to counter but can't beat the price. So you would think not a big deal. Some flow-on to the baby department for the effort and we have stopped the rot to Woolworths. However, the benefits from these extra sales have flowed on to the rest of the store.

'As the JR Biz.link monthly reports show, our front shop sales have grown significantly. Now I have a new group of customers who not only buy their nappies, formula and baby consumables from us, but it seems everything else as well. Within the section we maintain a smaller stockholding of the lesser known nappy brands. We have adopted the same strategy for formula with similar results.

'While I can't claim that this strategy alone has resulted in our increased sales for the five months, it certainly has helped.'

The client case study demonstrates how important the baby category is to the pharmacy, the flow-on into profitable retail categories, and the way it can be redeemed from supermarkets. Yes, you can make water run uphill. ■

Figure One: Retail Sales Growth, June to November 2004

Month	No. of Cartons	Gross Profit \$	GP%	Retail Sales Growth
June	15	\$893	17%	0%
July	79	\$953	12%	12%
August	67	\$1,005	15%	15%
September	58	\$867	14%	18%
October	76	\$884	14%	18%
November	77	\$836	13%	18%
Av. since June	71	\$909	14%	16%