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JOHNSTON RORKE JR PHARMACY SERVICES

Last chance, your move

'EMBRACE your fear and innovate!' (Jack Welch, ex chairman General Electric)

Never truer words have been spoken with such application to the current state of Australian community pharmacy.

It's time to move and it's up to the pharmacy owner to make that move.

At the moment much consternation abounds in the industry regarding the impending Guild/Government deal. Despite this, very few pharmacy owners are actually doing anything to improve financial management and customer offer in preparation for the changes. This is the fourth agreement I have 'lived' through and each time after announced, most pharmacy owners relax and go back to sleep, safe in the knowledge that there's another five years of secure income and rising pharmacy values.

This time it's differentbecause:

1. Government is paying less for prescription dispensing supply.
2. Government will continue dampening PBS script growth.
3. Real competition attracting customers away from 'me too' pharmacies.
4. Colesworths continue taking pharmacy non-scheduled market share.
5. Consumer behaviour is changing rapidly.

The Guild has already delivered pharmacy owners 15 years during which to innovate and build sustainable, customer-relevant, retail healthcare pharmacies. With a few notable exceptions this opportunity has been largely wasted!

The 'business' model has not changed either and is still founded on maximising script throughput while minimising expenditure. Result: retail 'offer', retail management and business financial management are ignored because profits have come anyway.

It's time to realise that this model isn't working now and pharmacy owners must begin moving to one that will. On average, net profit has been struggling to grow. This can be seen in the Johnston Rorke client base averages for the last three years and here are some results from our 2003/04 averages.

- Total sales increased by 4 per cent. Dispensing up 5 per cent and retail barely 2 per cent.
- Non script sales comprised 33 per cent of the total (including 9 per cent S2/3);
- Dispensing gross profit dollars increased 3.7 per cent while retail margin dollars dropped 1.2 per cent.
- Overheads increased 6 per cent, so net profit dollars (EBIT) grew by only 2 per cent (less than inflation).
- Return on investment fell from 23.1 per cent to 20.4 per cent due to increased stocks and re-fits that have provided only a 2 per cent lift in profit.

These results prove that the business model of the past 15 years is now irrelevant and pharmacy has become, due to inaction, a captive of Government policy, competitors and customer behaviour.

The answer lies in the retail healthcare categories, leveraging off the prescription traffic into these high-income areas and utilising competent retail financial management to generate a profit.

But, in framing what your move will be, the decision is inextricably linked to the customers and competition in your specific marketplace. A pharmacy's offer must provide customers with something that's important to them and yet, highly differentiated from the competition. Dispensing scripts competently supported by excellent clinical expertise is very important. But, there's no point of difference, except turnaround time and on-line access, because all pharmacies do this.

So what moves could you make?

1. Short-term quick fix

- Replace lost dispensary GP$s by increasing generic substitution rate.
- Join one of the three pharmacy brands gaining prominence and to do it for you.
- Relocate to a superior location.
- Merge or sell out.

2. Long-term viability

Several quick fixes will only provide respite for a short while. You will still be eventually forced to make axiomatic changes to your pharmacy's offer. But later will be more difficult.

If you are already a member of a banner instead of a brand, or choose to join one, it will be up to you and your team to build on that platform and create a brand offer in the local market.

You must provide retail healthcare solutions that lead to valued customer healthcare outcomes, such as lose weight, wellness, manage conditions, quit smoking, improve wellness of the ageing, wound care and home healthcare. Also leverage the script traffic into these high margin and differentiating categories.

In the months to come I will discuss how you can go about achieving this.

The steps are:

- Get the systems right first.
- Understand the customers in your market, including what drives them.
- Take ownership of regulatory changes and their impact on your business.
- Identify all competition and how they compete. Obtain and understand your financial results and position.
- Develop a vision and goal.
- Then deliver these via premises; merchandise offer and specialisations; staff knowledge and working climate; communication with customers; the difference of your offer; data management—GMROS and GMROII; supply chain/logistics; supplier alliances to reduce cost of product; and retail and business management skills.

You have five years to get it right. Your move.

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