

 KEY POINTS

- A lot of dispensary profit is going to disappear on the weight of price disclosure.
- Professional services have always been seen as a silo and not as an integral part of pharmacy.
- No matter what services are being offered the pharmacist pharmacists should be at the front of the shop, providing these services to their patients.
- Professional services integrate well with product departments, which is where professional services assimilate well with the business and offer a concrete point of difference and generate traffic; thus price discounting is not needed.
- People who forge a business model based on those services that are backed by government funding are under threat as they're relying only on what the government can fund.
- Having two or three pharmacists on the floor who are ready and willing to help customers solve their health issues has a myriad of benefits including: the promotion of professional services—through the pharmacist's face-to-face interaction with customers, greater customer loyalty (through direct access to the pharmacist) and increased average sales.

Balancing business and professional: a matter of behaviour

THERE IS GROWING PRESSURE ON PHARMACISTS TO PROVIDE AN ARRAY OF PROFESSIONAL SERVICES, DISPENSE PRESCRIBED MEDICINES AND ENGAGE AND EDUCATE CUSTOMERS.

LEANNE PHILPOTT INVESTIGATES HOW BEHAVIOURAL CHANGE MIGHT JUST BE THE KEY TO CUSTOMER LOYALTY AND MAKING A PROFIT.

We know that for most community pharmacies, up until now at least, the dispensary has accounted for around 70% of their gross income.

So it's no surprise that pharmacists should find it difficult to come out from behind the dispensary counter. Being located behind the counter has been the tradition, but growing pressures to offer increased professional health services and maintain a profit in light of cuts to government-funded services and price disclosure signals that it's time for pharmacists to change their behaviour.

"When you look at the bottom line, 95% of the net profit comes from the dispensary," says pharmacy business consultant Bruce Annabel.

"S2 and S3 products make a profit, the therapeutical and health categories make money—they are net contributors to the bottom line—but

two thirds of the stock in pharmacy doesn't go towards the cost of rent.

"Moving forward a lot of dispensary profit will disappear on the weight of price disclosure so if pharmacies do nothing with the other departments and services their bottom line will be cut by half or two thirds of what it has been historically. That's the conundrum."

Annabel says professional services have always been looked at as a silo and not as an integral part of pharmacy, but he says they should be seen as a link to the rest of pharmacy—with the dispensary and medical area.

"Professional services—those that are government funded and the ones that pharmacies can deliver themselves such as wound care, diabetes, nutrition, and sleep apnoea—integrate well with product departments, which is where professional services assimilate well with the business and offer a concrete

point of difference and generate traffic; thus price discounting is not needed," says Annabel.

"There's an expectation that professional services will be developed and hand delivered but you need to forge a market for yourself based on the demographic of your customer base. When it comes to professional services you can offer ones developed in the industry—dose administration aids, HMR and MedsCheck—or you can develop your own services," says David Dixon from Goldfields Fullife Pharmacy in Gympie.

"People who forge a business model based on those services that are backed by government funding are under threat as they're relying only on what the government can fund—and with the cuts to funding for MedsCheck and HMR this will severely hamper income," he says.

Annabel identifies four levels of professional service:

- **Government funded services;**
- **Those developed by manufacturers such as PainSmart;**
- **Pharmacy developed fee-for-service, which offer a valuable solution for a major problem at a cost to the customer;**
- **Quality service, which refers to the pharmacist on the medicine counter and on the shop floor talking to the customer and making recommendations.**

He says that no matter which service is being offered, pharmacists should be at the front of the shop, providing these services to their patients.

“This is the only way pharmacies can compete with supermarkets and online players. Professional services need to be part of the platform of health solutions service delivery. The pharmacies that do this well generate script growth, customer growth, strong margins and good bottom line,” says Annabel.

Dixon has been successful in utilising the government-funded services as well as developing his own services. He says, “look for gaps in the market in your local area, make sure your professional services model provides remuneration. Pharmacy has been doing lots at no charge for a long time, but you need to make money, and be able to pay your debts.

“Where we have been successful is understanding who our customers are and what services aren’t readily available in the local area.

“Gympie is quite far from Brisbane so it’s quite a travel to access services such as sleep apnoea management. People are happy to do this locally and in offering this service we’ve created a distinct point of difference,” he says.

Nick Logan, from Nick Logan Pharmacist Advice in Artarmon, Sydney, says that when taking on new professional services, select a few services and look at them from a commercial perspective, practice forward dispensing and focus on a high mix of professional staff.

“I focus on having a high mix of professional staff. Each day I have five people working: a front of shop manager, dispensary manager, two pharmacists and an intern; 60% of staff have a pharmacy degree.”

Logan says that while many pharmacists might be terrified of the wages, you have to look at it from a business perspective.

PROACTIVE COUNSELLING

More time with the customer could mean increased margin

To put into perspective the behaviour-driving-commercial-success hypothesis Glen Guilfoyle offers the following anecdote:

“If you look something like the typical or average pharmacist in our cohort, then you will be producing around 200,000 customer transactions per annum. Further, you will be ringing up around \$15.50 from the non-script health categories for each one of those 200,000 customer transactions.

“The data also tell us the a pharmacy performing better than average in this respect, and specifically, performing at the level that marks the lowest point of the upper quintile (i.e. the start of the top 20% of pharmacies, by performance on this specific ratio), will be ringing up around \$22.50 from the non-script health categories for each one of those 200,000 customer transactions; a difference of around \$7 per customer transaction.

“If we run a crude 50% GM overlay

on that, we can take the emerging \$3.50 GM per transaction and multiply that by the 200,000 customer transactions pa, and salivate at the thought of the increased \$700,000 margin opportunity.”

Addressing pharmacists that may be skeptical of his 50% rationale, Guilfoyle says “raise your proactive counsel from 39 seconds to 1 minute! In doing so, proactively look for relevant add-on complementary health solutions sales. Prove to yourself whether my \$700,000 claim is valid or not. Even if I end up 100% over the odds, will \$350,000 increased margin from 20 seconds extra investment in each script customer be a bum deal?”

“From the off I was unafraid of having a high professional mix as I looked at the sales distributed to each person. The higher the number of pharmacists forward dispensing the higher the sales. Not because they loaded people up with junk—but because they offered a complete solution to each person’s query.”

Logan tells the AJP that having two or three pharmacists on the floor who are ready and willing to help

“It’s all about pharmacists recruiting at the coal face rather than being sheltered by the dispensary,” Logan says.

“If a customer comes into the pharmacy, drops off a script and comes back and picks up their medication from the check out with no professional interaction it is difficult to promote professional services. Having two pharmacists on the floor means it’s never overwhelming to take the time to engage with customers or offer a MedsCheck.

“The future of pharmacy is that we need to value ourselves as health centres. Plus young pharmacists want to use their counseling skills, so they get a kick out of recommending products that are more effective.

“Pharmacists view forward dispensing as difficult, slow and expensive but it’s really efficient with the extra wages from a higher professional mix paying off; for me it has always been an investment,” he adds.

Logan offers the following tips:

- **Start with good intern and recruit carefully;**

“...select a few services and look at them from a commercial perspective, practice forward dispensing and focus on a high mix of professional staff.” NICK LOGAN

customers solve their health issues has a myriad of benefits including: the promotion of professional services—through the pharmacist’s face-to-face interaction with customers, greater customer loyalty (through direct access to the pharmacist) and increased average sales.

- **Don't consider you're hiring more pharmacists in case you can adopt more professional services; it's to enhance customer loyalty;**
- **Start increasing your professional mix; don't be afraid;**
- **Try and move out of the dispensary onto the shop floor.**

Dixon agrees with the forward dispensing model. He says “a good start is get your pharmacists forward. As pharmacists we tend to hide in the dispensary too often and not be accessible to the public.

“Pharmacists out front engaging with customers is good practice; customers will engage and open up more. If possible employ a second pharmacist—as the increase in sales will flow. We need to change the pharmacist mindset from being located in the dispensary to being located in the front of shop—or prescription area.”

BEHAVIOURAL CHANGES BOOST PROFITABILITY

At the recent APP 2014 congress pharmacists were presented with some sobering statistics and benchmarks. New data, collected by real time, on-site observations focused on dispensary workflows and customer engagement across 70 retail pharmacies over the past two years, indicates that more time spent with the customer could pay dividends.

“There is a very good case to suggest that behavioural change, which is more attitudinal than anything else, amounting to converting value-neutral time at the dispensary counter with the customer to value-adding time, in the order of 20 seconds, could deliver a significant boost to profitability,” says Glenn Guilfoyle, principal of The Next Level—the group involved in collecting, assessing and reporting these new findings.

“We are continually adding to this

pool of data from the stores we have already assessed, and so it is still very much a ‘work in progress’. But for the first time, we can start to define best practices for retail pharmacy—at the script and S2/S3 counters—in terms of actual data, rather than relying on the various gurus out there who have been trying to articulate best practices on the basis of experience, judgment, perceived wisdom and other non-data driven exhortations,” Guilfoyle says.

New data reveals a bevy of behavioural patterns—all of which reach statistical significance:

- **despite the fact that 48% of customers choose or are encouraged to leave and come back later to collect their script, if the customer stays in the store for the duration of the dispense there is a moderately strong correlation with relatively long customer engagement duration;**
- **high visit retention correlates even more strongly with quick script processing duration;**
- **long customer engagement duration strongly correlates with relatively long proactive medicines and health counsel duration;**

“Pharmacists out front engaging with customers is good practice—as the increase in sales will flow.”

DAVID DIXON

- **relatively short script processing duration very strongly correlates with relatively short white space duration (the time that processing stops before completion for any reason—a rehandle) and relatively low rehandle frequency.**

Guilfoyle says practicing pharmacists need to apply

understanding and patience in interpreting this data, and this is especially so for those contemplating adopting the learnings from this research.

“You need to understand that all of the correlations expressed are purely behavioural. The pharmacist and dispensary team members enjoy a high degree of control over the extent to which they execute these sorts of behaviours or otherwise. That is why this is a good news story! And this partly explains why these correlations are coming through with good strength and significance from a relatively modest population pool at this stage.

“Increased sales of complementary products and services, leveraged from executing such behaviours, are prone to other forces besides the behaviours of the team; for example, local area marketing and competition dynamics. In other words, while still palpable, the pharmacist and dispensary team members enjoy a comparatively lower degree of control over the extent to which they can influence commercial performance, when compared to their behaviours. There is also a “pollution” factor that we continue to work on with pharmacists, in terms of consistency and accuracy of data that they extract from their point-of-sale systems to send to us in these studies.”

Nevertheless Guilfoyle adds, “we can reason that as the cohort pool grows, and if the behaviour-driving-commercial-success hypothesis is sound, eventually the correlation strength and significance will come though.”

“The good news is that the interpretations indicate that the change of behaviour required by most pharmacies to avail themselves of the commercial opportunity is very readily within reach,” says Guilfoyle. ■