

keep taking THE MEDICINE

Old and new pharmacy retailers are moving quickly as they jostle for the health and wellness dollar – but they're taking the odd bump and bruise along the way.

Most agree partial deregulation of pharmacy retail is just the tonic. Under the new legislation, which came into effect in September 2004, pharmacists can own up to five pharmacies as long as they retain majority ownership – 51 per cent or more – in each shop. Also, non-pharmacists, who were previously restricted to minority investment in one store, can now own up to 49 per cent of any number of pharmacies.

The new rules have opened up a previously closed shop to outside investment and unleashed a frenzy of new pharmacy retail activity.

MARKET MOVEMENT

Pharmacybrands, through banner groups Amcal, Unichem and Dispensary First, accounts for half of the country's pharmaceuticals turnover and has been quick to explore new opportunities. The

opening of its first pilot store-within-a store pharmacy at Albany's Pak 'N Save in November last year was followed on with the August announcement of a new Smart Pharmacy franchise.

Partial deregulation is making for 'vibrant times', says Pharmacybrands CEO Alan Wham.

"It's allowing us to respond to direct competitive pressures."

The first of six Smart Pharmacy pilot stores will appear sometime in the new year with 100 targeted to open within four years. The launch of the new franchise is in direct response to partial deregulation, and the changing competitive landscape, that's seen pharmacies raking in less of the health and beauty spend.

"Increasing competition means we need to change our approach to remain competitive in the eyes of the consumer and to ensure independent pharmacists have a sustainable business model into the

future," says Wham.

The mid-market, fully-compliant franchise model will be a win-win for both consumer and Pharmacybrands' 200 members.

"They'll be larger format, have higher stock weight and have convenient locations." Customers will also notice standardisation in ranging, pricing, fixtures and fittings.

Smart Pharmacy will also give members the opportunity to convert to a fully-compliant franchise model.

The existing Amcal, Unichem and Dispensary First brands are "eighty per cent-compliant" models but, with consistency becoming more of an issue, Wham says a number of members will be keen to make the change.

"Partial deregulation is a double-edged sword ... you'll see more corporate models and it would be harder for individuals to compete, that's why we've introduced this franchise."

SECTOR DEVELOPMENT

Growth is also on the cards for Pharmacybrands' former stable-mate, Life Pharmacy, which became the country's first listed pharmacy group in March 2005.

"It's a market share game and that's why we listed, to raise money," says CEO Tim Roper.

The \$38.4 million deal, made possible by a back-door stock exchange listing via on-line cosmetics company Beauty Direct, involved a 49 per cent buy-out in 17 of the 21 franchise-owned Life Pharmacies.

The new corporate structure provides the perfect platform for standardization, economies of scale, compliance, and the building of the brand. And it's the brand – and what it stands for – that Roper has been quick to evolve.

"We stock nine brands of cosmetics as the norm. You'll usually find us in a mall and we're well-lit, modern, and have beauty experts.



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1: Stylish fragrance display within the Unichem Perham pharmacy on Willis Street in Wellington. 2: The entrance to Life Pharmacy in James Smith's building on Cuba Street, Wellington. 3: The exterior of Amcal's Eden Quarter pharmacy in Mt. Eden, Auckland.



4: Unichem Perham Pharmacy in Willis Street, Wellington was one of several pharmacies that featured a Boots promotion in late September. 5: A freestanding QVS product stand in Unichem Perham Pharmacy, Willis Street, Wellington. 6: A beautifully designed and merchandise Dior cosmetic stand in the Life Pharmacy within the James Smith building on the corner of Cuba and Manners Streets in Wellington.

We've defined ourselves and have focused attention on developing Life brand equity."

Life Pharmacy is "unashamedly retail-focused" and competes head-on with other fragrance and cosmetic brand retailers. Top-shelf cosmetics and fragrances account for a third of sales, with over-the-counter products (OTCs) providing another 30 to 40 per cent.

"The average pharmacy gets 65 per cent of income from the dispensing of products," says Roper, "so we're the complete opposite."

How best to expand, yet complement Life Pharmacy's in-store offer, is always under the spotlight. Recent initiatives include the

opening of 'Tranquillity', a beauty salon treatment centre (upstairs in Life Pharmacy at 277 Newmarket, Auckland), and in-store educators who dispense tips and advice on a range of lifestyle and health issues, such as asthma and weight management.

A medium-term goal is to open a total of 30 Life Pharmacies.

"We see this as the potential limit of the Life brand as we know it ... there are probably 30 pharmacists that could take a Life Pharmacy without diluting the offer."

Ultimately, the group is aiming for market capitalisation of \$100 million by 2010 and a 30 per cent market share. By then, 'strategic alliances'

will have been made with other health sector companies to vertically integrate the Life Pharmacy business.

"We may own an optics company or vitamin supplier ... there are lots of opportunities for us to better manage our systems and achieve economies of scale."

NEW ENTRIES

Roper gives partial deregulation (which he says will ultimately lead to full deregulation) the thumbs up, but others are more guarded in their reaction.

There are some reports of pharmacists selling up or leaving the industry but on the flipside there are new entrants, says Pharmacy Guild

CEO Murray Burns.

"The move has attracted new capital to the industry but left the core accountability with the pharmacist ... it's brought with it flexibility of ownership and the opportunity for pharmacists to integrate their business with other health service providers, which is something that the Government is encouraging."

Providing integrated health and wellness, alongside medical and support services, is part of the vision for the fledgling Radius Care pharmacy group.

The group of 30, including ten Unichem, five Amcal and eight Dispensary First stores, re-branded to Radius Care in December 2004.

CASE STUDY

With its prominent rooftop digital temperature thermometer, Budes Pharmacy and Bookstore is something all Alexandra locals look up to.

But it's what locals look for inside their shop that is always front of mind for owners David and Susan Budge. "Our core business is traditional pharmacy and books, but we're always trying to add complementary lines," says David.

The couple, both pharmacists, sold their Auckland dispensary-orientated pharmacy and bought the Central Otago business 10 years ago.

"We saw a limited future for smaller dispensary-only pharmacies due to limited Government funding."

Further fuelling the decision to sell was a desire to move from Auckland and, for David, an opportunity to buy a broader-based business and apply some of the learning acquired from a recently completed MBA.

Over the past decade the couple has built a pharmacy and book business employing 12 staff, including three pharmacists and one pharmacy technician.

The Budes work in with a group of other independent pharmacists who import gift and novelty lines. "It provides diversity, interest and a different dimension; we're always on the lookout for new products."

They also employ a marketing consultant to plan, co-ordinate, and measure responses to monthly letter-box flyers

distributed throughout the Central Otago region.

But marketing is irrelevant if you can't back it up in-store. "Service, service, service, then quality of staff and product knowledge are so important."

While diversification of the product mix will continue, David is adamant that the business remains true.

"We have to be careful we don't move too far outside our core business – pharmacy and books – and lose sight of being a quality business."

IN-STORE PHARMACY

Based on his firsthand experience, Lindsay Smith, owner of Your Pharmacy at Progressive's Auckland City Foodtown, says supermarkets and pharmacists can operate as separate entities yet have a "very good, symbiotic relationship".

"Progressive has strengths and expertise in their field of operation and, conversely, 'Your Pharmacy' has its areas of expertise ... together we're offering the customer a 'one-stop shop', saving them time."

The core business of the 30 m² pharmacy situated in the supermarket's health and beauty aisle is the dispensing and sale of pharmacist, and pharmacy only, medicines. He doesn't regard the

supermarket setting as hindering service levels.

"There are always one or two pharmacists on duty. We have a number of pharmacists employed to cover the longer hours that we are open – compared to a 'normal' pharmacy."

The opening hours (9 a.m. to 9 p.m., seven days a week) and under cover parking are other built-in supermarket services that benefit the pharmacy customer.

Smith, a pharmacist with 30 years' experience and a founding member of the Amcal pharmacy group, hopes to open more Progressive in-store pharmacy shops.

The pharmacies are part of the Radius Health Group (RHG) whose website's stated aim is to 'become the nation's preferred supplier of health and life care services'. Other services under the RHG banner are The Doctors System, Radius Residential Care, Radius Security, home handyman service, '@ Your Request', Radius Properties and NZ Loan. RGH is also a partner in the Southern Cross health management and insurance plan, Activa.

Mike Seymour, RHG director/shareholder and managing director of the Radius Care pharmacy group, has ambitious plans for the new community pharmacy brand, aiming for a nationwide company of up to

100 pharmacies.

Focused on the health and wellness of middle New Zealand, the bread-and-butter business of Radius Care will be in OTC medicines.

He talks much about Radius Care's retail plans and aspirations and admits that, as yet, there's not much visual evidence. But in 18 months-time the look will be apparent to all. At the heart of the retail strategy is a full compliance code which could ultimately involve a franchising arrangement.

"We intend to refine (the franchise) model over the next year if we do bring it (a franchise) to life; we'll be the McDonald's and better ... we'll be driven at the



7: Raduis Care pharmacy group's pharmacy at the Grand Arcade, Willis Street, Wellington.

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- 8: Pharmacybrands has indicated that the first of six Smart Pharmacy's will open early next year.
 9: Radius Care Direct website.
 10: On-line cosmetics company Beauty Direct's website.



consumer level.”

Regardless of the in-store product offering, the maintaining of high quality dispensary practices will remain a priority. “You need compliance for both the Government and the consumer ... you mightn't make money from dispensing but it allows you to interact and engage with a huge market.”

Other cornerstone operational developments centre on staff training.

“We feel the standard of service in general is very variable. We're putting processes in place so that our staff has the ability to continually educate.”

In-store layout and merchandising will also be crucial. “It's critically important. We want to standardise the offering, but tailor it to different locations and size of pharmacies.”

The long-term goal is to “expand engagement” with customers, and into health products.

“We have more knowledge than Hardy's or Natural Health 2000 and we'll be launching a full frontal attack on nutrition, skin care, natural health and health information.”

NUMBER CRUNCHING

Pharmacy retail revolves around the selling of three broad category groups: toiletries, cosmetics and pharmaceuticals (including controlled and unscheduled medicines).

Household expenditure on the three categories topped \$1.08 billion* in 2004, up \$511 million from the same period ten years previously.

Most of the increase was from spending on pharmacy products (\$271 million), followed by toiletries (\$161 million).

Pharmacy tills received most of the extra spend (\$185.5 million). Supermarkets claimed \$172.2

million, but achieved the greatest percentage sales growth (90 per cent) over the decade.

Whether the traditional pharmacy remains the most preferred destination for the buying of cosmetics, toiletries and pharmaceuticals, depends on how they develop and evolve their offer, says Tim Morris of fast-moving consumer goods (FMCG) market research company Coriolos Research.

“The offer chemists make in New Zealand is narrow and quite poor. In fact, the offer is abysmal; the price is wrong and the range is wrong, and many just aren't good retailers ... they'll need to get their act together.

Look at Boots in the UK or Walgreens in the US ...”

Overseas experience shows that chain – or corporate – owned pharmacies provide the best structures for delivering a supermarket-competitive offer, but

that will take time to evolve here.

“You've got to look at where we're coming from; a protected and fragmented market of 900 or so pharmacies,” says Morris.

He predicts fewer independents – but the best of those remaining will retain their share of business.

“People will still go there for convenience. In the United States, independents still account for 26 per cent of total drugstore sales.”

Just how much more supermarkets will claim of the pharmacy spend depends on their ability to develop a credible offering. “It's early days and supermarkets are still experimenting. There's a steep learning curve.”

HALO EFFECT

To date, two in-store supermarket pharmacies have opened: Your Pharmacy, at Auckland City Foodtown, and Amcal Pharmacy, at Pak 'N Save, Albany.

ON-LINE PHARMACIES

They come and go, but to last the distance takes dedication, time and money, says pioneer cyber chemist Mark LaHood of Pharmacy Express (www.pharmacyexpress.co.nz).

“If a pharmacist is running it on the side, it's difficult to do well ... you have to have dedicated staff.”

Behind the Pharmacy Express cyberspace shop front, three full-time and one part-time staff members maintain the database

and fill orders. Much time is also spent answering on-line questions and advising customers.

Orders are dispatched twice a day by courier, with local customers receiving product the next day and overseas customers within three days.

The bulk of Pharmacy Express is from the selling of OTC pharmacy products and cosmetics to overseas customers, with health and beauty, cameras and the dispensing of prescriptions to New Zealand customers accounting for one-third of business.

“We have areas of expertise, such as vitamins. We've done well

with cosmetics but changes in the dollar have changed that.”

When LaHood and business partner Jonathan Tomlinson launched the site in 1997 they saw it as a relatively inexpensive retailing platform. “That wouldn't be the case now, you'd be spending six figures now ... we've spent vast sums on advertising and making sure we get picked up by the right search engines.”

Another major investment has been in technology to keep the site running smoothly. “We run our two servers in Christchurch where we can access 24-hour service.”

Initially, suppliers were reluctant to do business with Pharmacy Express but now it's a different kind of supply problem LaHood has to contend with. “Some suppliers don't keep enough stock in New Zealand so we may soon have to look for overseas suppliers.”

Although the on-line site is a separate entity to LaHood's Gore pharmacy and camera shop, the building has advantages for the on-line business, with the 520 m² upstairs space used for storage.

“You simply couldn't afford to do that in a high rental site.”



11: Unichem's Eastgate pharmacy in the Eastgate Mall, Linwood, Christchurch. 12: The Timaru Unichem pharmacy is housed in a character building.



Morris has firsthand US supermarket experience and says in-store pharmacies owned by supermarkets made very little money from pharmacy product sales – but their presence had a ‘halo effect’.

“If customers were after headache relief they came in knowing there was a pharmacist on site to discuss their ailment.”

He says, aside from the dispensing of controlled medicines, New Zealand supermarkets could further push their credibility factor by the ranging of more unscheduled medicines (OTCs).

The halo effect of pharmacies in supermarkets should not be underestimated, says Pharmacybrands’ Alan Wham. But he cautions supermarkets and other newcomers to get a grip on, and budget for, the effect of Government legislation and industry trends.

“The sale of controlled

medicines is ruled by a Government-controlled prescription and reimbursement system of low margins and low stock-turns, and pharmacists need a critical mass to survive ... (new entrants) will need to decide if they’re looking for OTCs or (sales of) prescriptions.”

And those wanting to build a credible pharmacy offering of controlled and unscheduled medicines will need to attract pharmacists – from a dwindling pool – and factor in the higher labour costs.

Murray Burns says both the shortage of pharmacists and our aging population, many of whom will be lining up more frequently for prescription medication, are making for a crisis situation. “It’s a serious issue and many proprietors have problems attracting pharmacists, especially in the rural areas.”

He also questions whether supermarket pharmacies will be able to deliver the Government’s mandate for a more closely integrated health system, and provide the service level of a pharmacy.

“Supermarkets are there to shift product.”

Service levels do not appear to be an issue at Albany’s Pak’N Save’s Amcal pharmacy. Customer response has been very positive, says Rob Chemaly, Foodstuffs strategy and new ventures general manager. “Our customer feedback confirms that their needs are being well catered for.”

Foodstuffs had no further comment as to the future plans for pharmacy service.

New Zealand’s first supermarket in-store pharmacy, Your Pharmacy at Auckland City Foodtown, was established primarily to serve customer needs and fill a

developing need, says Progressive’s CEO, Richard Umbers. “We’ve been evolving our health and beauty offer and there was a visible gap for a pharmacist.”

The pharmacy addition has provided customers with additional advice and help and enhanced the quality of the overall offering.

He won’t say where and when the next in-store pharmacy will open, but Progressive regard pharmacy as an evolving and important part of an integrated offer.

“Around the world there is a trend to wellness. Pharmacy, health and beauty are trending to this wellness concept.”

* Statistics New Zealand’s Household Economic Survey.

By Lynda Gray, a freelance writer based in Alexandra and a regular contributor to NZRetail.

PHARMACY FIT-OUT TOP TIPS

Clear the clutter and usher in the one-on-one service, says Lloyd Sinton who has 25 years experience of pharmacy design and branding.

1) Define your head and subcategories

Take a helicopter view of your business. Define your bread and butter product categories and communicate these to your customers with clear branding and signage. “It’s something pharmacies haven’t done well in the past.” Also, keep in mind the needs of the most frequent pharmacy customer; typically a woman in a hurry. “They want to go into a retail environment and know from the clear and concise grouping and signage that they’ll find what they

want and get out quickly.”

2) Cut the clutter

Formalise your layout; look to your nearest supermarket for tips on how to do so, and ensure product categories are clearly defined.

3) Beware of the six-month wonder

New but more-of-the-same products are rife across all traditional pharmacy categories. Give the latest product release some time in the limelight – but

don’t trash it.

“Put it in the standard category location and monitor sales to see if it is a six-month wonder.”

4) Promote seasonal events

If it’s the season for colds, flu or hay fever, push it with a proactive and changeable promotional unit.

5) Make your pharmacy user-friendly to everyone

Pharmacies should be accessible and welcoming to all customers:

young, old, and those with disabilities.

“Make sure you have ramp access and high seats inside for the disabled and the elderly. Have seating where the elderly can recharge ... independent and community pharmacies need to up the ante on relationships because that’s their important point of difference.

“If you help your customer, you’ll earn loyalty.”

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