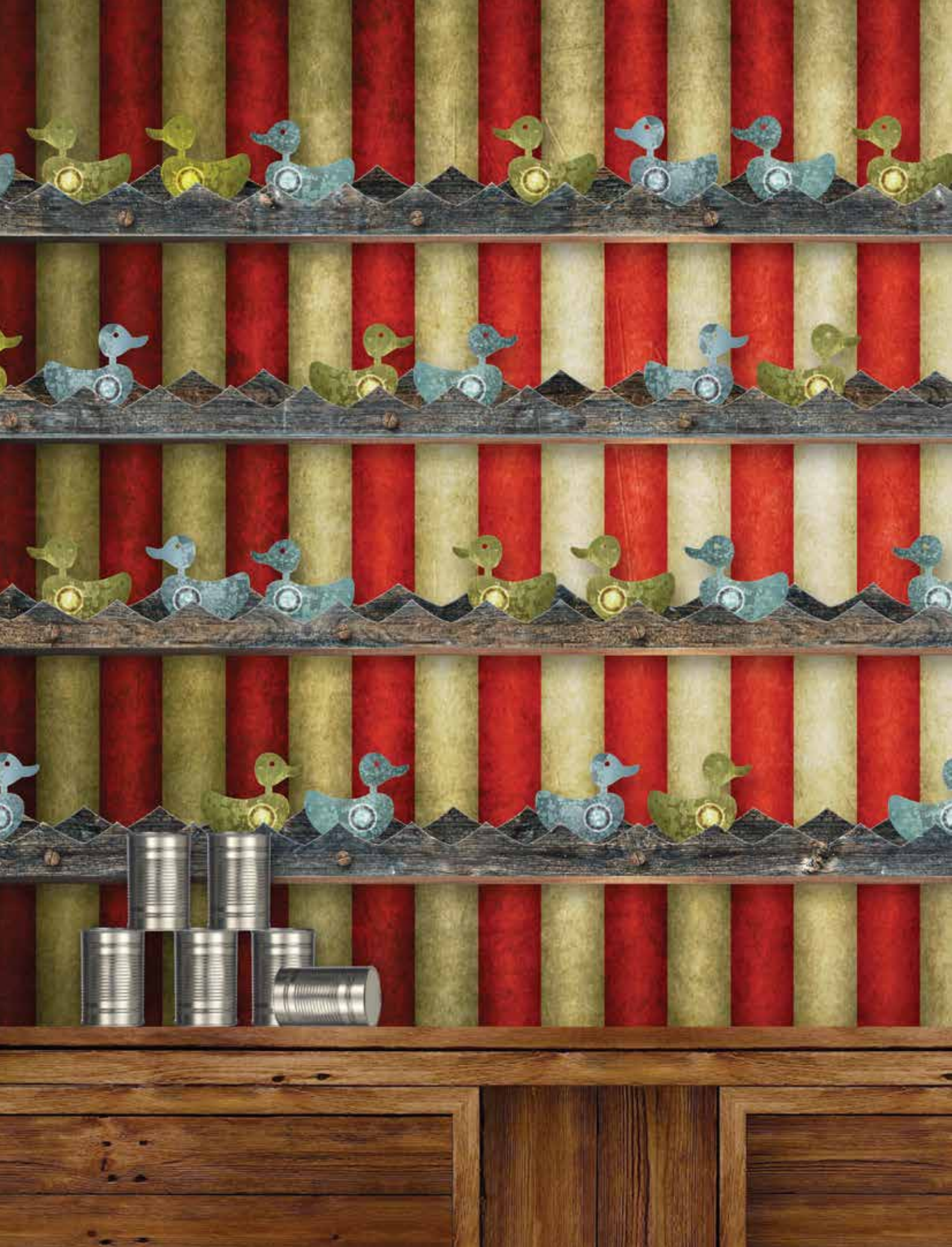


S3 dead as a duck? Think again

BY ANDREW DANIELS

It has been called a black hole, a dead duck, a pharmaceutical graveyard and the most underdone area of pharmacy but the Schedule 3 Pharmacist Only (S3) category could just be the opportunity community pharmacy owners need right now. And it has been sitting staring them in the face for years.

With margins reduced as a result of accelerated price disclosure, pharmacy owners and managers are looking for ways to replace lost pharmacy income. Pharmacy owners who have revisited the S3 category have discovered that by providing S3 training and moving pharmacists up front where they can talk to customers, losses from accelerated price disclosure can be recouped and pharmacists, freed from the dispensary bench, are reporting increased work satisfaction.

The industry is watching with interest and hoping that S3 may soon be transformed from a pharmaceutical graveyard to a central pillar of community pharmacy – especially if the current Review of Medicines and Medical Devices Regulation, due to report at the end of the month (March), recommends permitting direct-to-consumer advertising of S3 medicines.

The most underdone department

According to pharmacy business analyst and advisor Bruce Annabel, S3 'is the most under-done department in pharmacy' and is taken for granted.

Mr Annabel has been preaching about the potential of the S3 category for decades.

He told *Australian Pharmacist* that the problem is that S3 is *Pharmacist Only* – that means the pharmacist has to get out of the dispensary and talk to customers. They can't leave it to pharmacy assistants.

This isn't a new problem. In 2000, responding to the *Galbally COAG Review of drugs, poisons and controlled substances legislation*, then PSA National President John Daffey wrote in *Australian Pharmacist* under the headline – Use it or lose it – that 'if ever pharmacy was looking for a wake-up call, then this is it. The review has indicated that it is in the public interest to restrict the sale of these potent medicines contained in S2 and S3 to pharmacy.

'Clearly, pharmacy has now been put on notice that if it wishes to retain current ownership of S2 and S3, then it is going to have to produce the goods that is, to demonstrate over the next couple of years that it is the rightful custodian of these schedules through providing the appropriate counselling, interventions and level of service that we have told both the Review and the Government that pharmacy can deliver.'[1]

That was 15 years ago and apart from PSA producing the *Standards for the provision of Pharmacy medicines and Pharmacist Only Medicines in Community Pharmacy* and a swag of S3 guidelines for specific medicines (at: www.psa.org.au/supporting-practice/professional-practice-standards) nothing much appeared to have changed.

Then along came cyclone accelerated price disclosure. Since then profit margins have tightened considerably and the community pharmacy landscape has been buffeted and shaken to its core. Pharmacy owners are looking to broaden their income stream and become less reliant on dwindling PBS margins.

S3 medicines provide a long-ignored opportunity and are an obvious place to start by – in John Daffey's words – 'providing the appropriate counselling, interventions and level of service'.

The progressives

S3s have not been ignored by everyone. What Bruce Annabel calls 'the progressive owners' have been working on developing their S3 business for years.

He said: 'The manufacturers see S3 as being a graveyard because their products are poked out the back and assistants find it much easier to recommend S2s. Therefore S3s are not used anywhere near where they could be. The progressive pharmacists are using S3s extremely well and getting massive growth.

'You can get a very strong margin out of S3 medicines. They are a massive, massive opportunity for pharmacies and a big part of the answer to how to deal with price disclosure. S3 should generate a gross profit of 55% to 60% because they are advice driven (by the pharmacists and the margin is how they get paid), offer health solutions, are the pharmacists' product and are not available in supermarkets,' Mr Annabel said.

This is music to Deon Schoombie's ears.

Mr Schoombie, Executive Director of the Australian Self Medication Industry which represents companies involved in the manufacture and distribution of consumer healthcare products, told *Australian Pharmacist* that around the industry S3 is known as a pharmaceutical cemetery.

'It's a bit of a dead duck and for some it is a sensitive topic. One of our position papers said the S3 category is completely and totally under-utilised – sub optimal,' he said.

However, he hastened to add that ASMI has retracted a little bit on that but not because of a lack of evidence.

'There is no single explanation why S3 has not reached the full potential that it could or should,' he said.

One reason Mr Schoombie gave is what pharmacists are doing, or not doing, in the community pharmacy setting. He highlighted Nick Logan as one pharmacy owner 'who performs miracles with S3s. He is quite inspiring talking about the potential of S3s.'

Last year Nick Logan from Pharmacist Advice Artarmon in Sydney and Reckitt Benckiser launched Pharmacy Forward,* a training program for S3 products based on Mr Logan's experiences in building up the S3 category in his pharmacy.

He told *Australian Pharmacist* that pharmaceutical companies see the S3 department as a black hole in community pharmacy where products go to be never heard of again.

'Good quality S3 training reinforces the three pronged benefits of embracing this department.

'Firstly, the consumer benefits from being introduced to a more effective product. Second the business benefits from the loyalty generated by professional interaction and the sale of a product (or products) with a larger margin, and third, our staff find the process professionally satisfying,' Mr Logan said.

Mr Logan said that the Pharmacy Forward program has shown him that respecting and nurturing the S3 department is an efficient way to start offsetting the profitability damage from accelerated price disclosure.

'The trial pharmacies increased their gross profit dollars by 22% across the entire S3 department by focusing on five categories. In my pharmacy it meant we clawed back almost $15,000 in net profit.

'Rolling out rostered management of the entire S3 (and S2) schedules would go a long way to restoring a pharmacy's viability,' he said.

Mr Logan is not the only pharmacy owner actively building the S3 area.

West Australian pharmacist owner Linda Keane has been actively growing the S3 section at her Dunsborough pharmacy south of Perth (about 50 km north-west of Margaret River).

She told *Australian Pharmacist*: 'We are developing the S2/S3 category. We are doing what I think most pharmacies are doing to combat price disclosure, including:

- Having a consulting front-of-shop style pharmacist to deal with product requests.
- Training up staff in all types of companion selling not only S2/S3
- Keeping a wide range of brands in the S2/S3 category.

'My front of shop pharmacist definitely gets more job satisfaction than the script checking pharmacist and puts himself forward for that role on any day he can – so that's a tick to professionally rewarding.

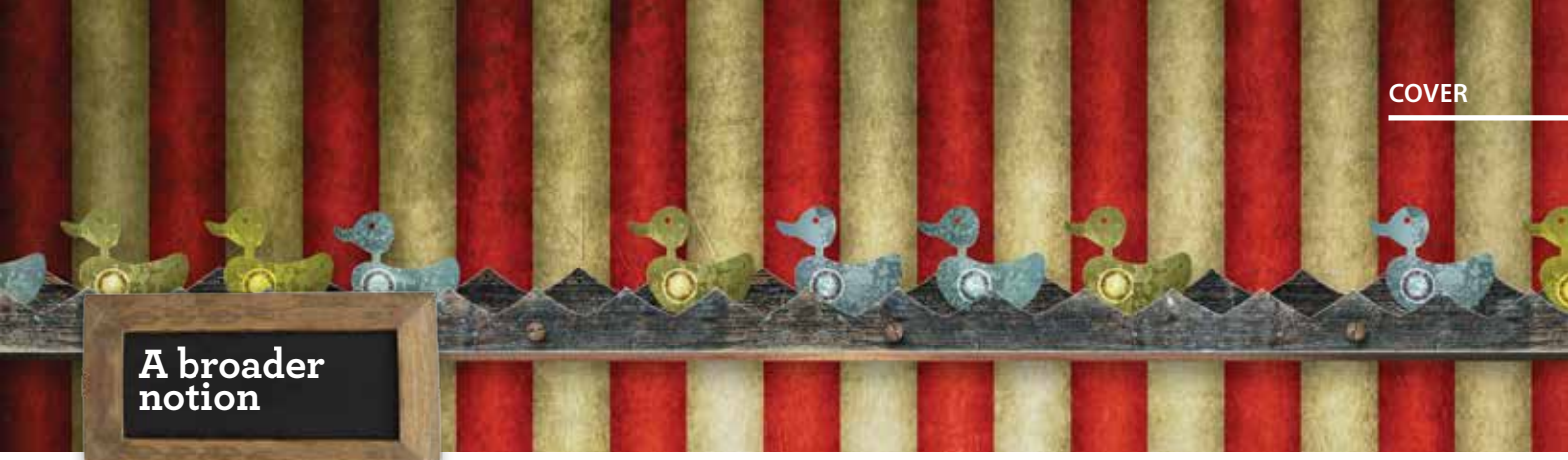
'As for financially that is harder to say. Our S2/S3 category is growing but we are still showing growth overall in turnover compared to most other pharmacies,' she said.

S3 advertising

The S3 dead duck scenario is not just a result of pharmacy not grasping the S3 opportunity. ASMI believes that another contributing factor is the present regulatory arrangements.

*The Pharmacy Forward program is available free online at: www.rbhealthhub.com.au.

 ©Pharmaceutical Society of Australia Ltd.



A broader notion

Bruce Annabel sees S3 as part of a broader notion. That notion being – there are products pharmacists have knowledge of and know how to apply to solving health problems.

'We are talking S2 and S3, particularly S3 because they are pharmacist-only products. The other types are things that come out of the general area like practitioner lines, calcium and Echinacea. They should be displayed at the script out counter and in the minor ailments area. That's really the broader concept – utilising special products in solving problems.

'Where we see pharmacists at the front with S3s displayed close by so they can be recommended for minor ailments, or recommended with prescription products (where there is evidence) you can get quite a significant increase in the average retail sale per customer.'

'I've seen increases from anywhere between 15% and 25%. As part of the Health Destination Trial three quarters of growth came from the S2/S3 area,' Mr Annabel said.

'If you get the dispensary set up right with the right people in the right roles, the products in the right places and have a customer focus looking at solutions, the numbers come up.

'It keeps coming up in the data that when a person has a minor ailment they think mostly about going to the pharmacy for help so we should put the products that can help in the right place, make them easily available and use the expertise of the pharmacist.

'I saw a recent example of 12 months of data. After reorganising the dispensary, putting techs out the back and the pharmacist up the front and arranging the S2 and S3 nearby, the average retail sale per customer grew by nearly $4 dollars. That was an increase on around $23 per customer which was what it was before.

'The majority of that came from S2 and S3s. The rest came from practitioner lines,' he said.

However, Mr Annabel warns that S3s should not be seen as commodities and not excessively discounted which, he says, many banner groups are trying to do drive volume via catalogues.

'Because of this many banner group members' S3 (and S2 for that matter) margins have been obliterated,' he said.

'Commoditising, low S3 margins and switching customers from requested brand into private label is exacerbating the difficulties experienced by pharmacists seeking income sources to help offset dispensary price cuts.'

Mr Annabel said a popular line of thought at the moment was that pharmacists should have a wider role in primary care or minor ailments. He sees S3 as 'front and centre of that whole argument – and it just sits there and sits there!'

He says the average retail sale per customer for pharmacies in strip locations – which includes the majority of pharmacies – is a bit under $11 and has been the same for the past 16 years.

'They [pharmacies] just haven't changed their practice model approach. That's one of the reasons I've been so pushy with the health destination model** because that's the enabler of this. It helps get the pharmacist out the front and trains them up. It helps get them used to dealing with customers and their S3 sales, practitioner lines and S2 sales all go up.'

**Health Destination Trial at: www.psa.org.au/pharmacy-support/health-destination-pharmacy

Mr Schoombie said that when it comes to S3 advertising 'there is no doubt in our minds that the chief contributing factor to the poor [S3] performance would be the lack of consumer awareness.'

He says the dynamics must come from two points. The first comes from the pharmacist who engages with the consumer when they walk into the pharmacy and pick a product off the shelf. The second is the regulatory issue.

'It's no secret that it [S3 advertising] is top priority for ASMI. And I'm pleased to say that both the Guild and the Society supports us in this. ASMI wants a new regulatory model where we can create consumer awareness of S3 products,' Mr Schoombie said.

The Review of Medicines and Medical Devices Regulation discussion paper released in November 2014 included direct-to-consumer (DTC) advertising of S3 medicines among the issues that needed to be examined.

The ASMI submission says, 'that Schedule 3 Medicines – which must all be supplied only on a pharmacist's advice – should all be able to be advertised to consumers.'[2]

The Pharmaceutical Society of Australia and the Pharmacy Guild have lodged submissions to the review supporting a level of direct-to-consumer advertising. >

The Society submission says, 'currently PSA supports the advertising of Schedule 3 medicines on a case-by-case basis. We do not believe that all Schedule 3 medicines are suitable for advertising and we are opposed to price promotion of these products.'[3]

In its submission the Pharmacy Guild says it is 'open to supporting some modest reforms to the current regulations for the advertising of Schedule 3 medicines.' It then goes to list the conditions under which it would do so.[4]

However, not everyone supports S3 advertising.

The Australian Medical Association (AMA) opposes DTC advertising for prescription medicines and S3 medicines. In its submission the AMA says, 'many of the concerns about DTC advertising of prescription medicines also apply to Schedule 3 medicines and there appears to be little benefit in changing current regulations.'[5]

The Consumer Health Forum of Australia also opposes it. In its submission it, 'strongly opposes any relaxing of Australia's laws concerning DTC advertising.'[6]

Mr Schoombie is 'quietly confident that there may be an appetite from government for change.'

He said: 'We think it [the Review] is the best opportunity for change that we've seen in a very, very long time. We've been pushing for reforms in this area for the past 15 years and it's been an uphill battle. It is only in recent times that we've had the kind of support that's required to achieve meaningful change.

'Things change over time, not only politics but the socio-economics of it all, and price disclosure has certainly forced the issue. There is no question about that.

'People are now forced to think differently about things. But the potential [of S3s] has always been sitting waiting to be had. And we all believe the time is right for this to happen.'

The Review is scheduled to release its report and recommendations by the end of this month so Mr Schoombie does not have long to wait to find if his optimism is justified.

Nick Logan believes it is time the S3 category is allowed to advertise, but with some restrictions.

'I would like to see strictly enforced guidelines for all advertising suggesting that the consumer ask their pharmacist if it is a suitable product for them. Consumers deserve to be alerted to the great products that exist in S3.

'Introducing them to clinically effective products and prompting them to have a professional interaction with a pharmacist can only lead to improved primary health care,' Mr Logan said. However, he said that combination codeine products and pseudoephedrine containing products should not be allowed to be advertised.

There's life in the S3 duck yet

Mr Annabel said that while the awareness created by advertising would be useful, even without it there is much that pharmacies can do to raise consumer awareness of S3s.

'The main thing, which can be easily done, is to get the S3s that can be displayed out the front so customers can see what you've got. It's basic but it's amazing how many owners fail to get the basics right in this area.

'I think it comes from making so much money from generics that they haven't really cared. Some S3s need to be hidden from the public view so what a lot of pharmacies do is hide the lot because it's easier, neater and tidier to keep them all together. Often they sit on a dispensary shelf out the back or on a side shelf somewhere out of the way where no one can see them.

'The first thing to do is get those that can be displayed out the front so customers can view them. The other thing is to make sure they are near the script out and minor ailments service area so they can be easily accessed when giving advice and making product recommendation,' he said.

References

1. Daffey J. A wake-up call we had to have. Nov 200;19(10)580.
2. Australian Self Medication Industry. ASMI Response to the Review of Medicines and Medical Devices Regulation, Jan 2015.
3. Pharmaceutical Society of Australia. Submission to the Australian Government Department of Health Review of medicines and medical devices regulation. Jan 2015. At: www.health.gov.au/internet/main/publishing.nsf/Content/Expert_Review_Submissions
4. The Pharmacy Guild of Australia. Submission to the "Review of Medicines and Medical Devices Regulation Discussion Paper". Jan 2015. At: www.health.gov.au/internet/main/publishing.nsf/Content/Expert_Review_Submissions
5. AMA submission – Review of TGA medicines and devices regulations. Australian Medical Association. Jan 2015. At: www.health.gov.au/internet/main/publishing.nsf/Content/Expert_Review_Submissions
6. Submission to the Review of Medicines and Medical Devices Regulation. Consumers Health Forum of Australia. Jan 2015. At: www.health.gov.au/internet/main/publishing.nsf/Content/Expert_Review_Submissions