BUSINESS SENSE

Surviving the new game

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PHARMACY BUSINESSES NEED TO BE BUILT OUTSIDE BRICKS AND MORTAR IN RESPONSE TO DOMINATING PRICE OFFERS BACKED BY MARKET SHARE.

In Queensland this year, a large community pharmacy group took out advertisements in *The Sunday Mail* offering prescriptions for PBS generic medicines for $4.99.[1] From an international perspective, offers like this are not unheard of. Walmart in the United States for example, has a $4 prescription offer.

Pharmacy's responses centred near exclusively on questions surrounding: '…but is this allowed?'

Whether or not this particular action is 'allowed' or not does not detract from the signal it sends: there is a new game emerging here, not just some smart fine-tuning of the old discount game.

It may not be obvious but this new game has been in play for several years. Players building the new game first have to build enough 'market share' to make game-change work. Then it's time to really play, and the implication should be clear.

Observing other industries using large-scale, high-volume/low-price strategies to market highly necessary goods tells us that it is likely unstoppable. Why? Because this is what a significant segment of the community want and expect in the 21st century.

An increasing number of pharmacy groups are developing growth strategies to meet this expectation. The argument as to whether or not medicines should be treated as 'commodities' is unfortunately well past its use-by date.

COMPETITION AND INNOVATION

Competition in any industry generates not only lower prices, but also developmental innovation. According to organisational management researcher Teece,[2] in dynamic business environments, necessary managerial capability must contain entrepreneurial elements that deliver willingness to go beyond mere 'adaptation'. Instead, the response to competition should be toward shaping the business environment. There is little doubt that industry shaping is being activated by pharmacy enterprises that have the scale to do it. More will come.

But for those pharmacies without the power of scale and scope of the big price-players, what can be a feasible response? Plenty has been written about the diversification and/or specialisation options—pharmacy services and the like. However, we cannot expect that a majority of pharmacies, who are unable to play the low-price game, will successfully switch to a viable and profitable service-focused alternative. All the research to date bears this out.

The problems associated with moving and growing into a service-focused business model are many, including that it be done at the same time as the supply-focus is at least maintained, in an increasingly competitive environment.

Most pharmacists struggle with basic management capability in a stable environment. Successful morphing into a new business model while preserving the old one will require the special capability of the truly ambidextrous. Some have and will succeed. Most, I suspect, will not.

The competitive business environment for both prescription sales and everything else in pharmacy is likely to rapidly grow in heat and dynamism, especially in the next few years as the teeth of the 2007 PBS Reforms start to really bite bottom lines. A new game at an altogether different scale, centred on gaining market-share, is at a middle stage of emergence. Boundaries both legal and ethical will be challenged increasingly.

OLD RULES DON'T MIX WITH THE NEW GAME

Unfortunately, despite occasional 'wins' in the legal and/or ethical area, the eventual effect of trying to apply 'old rules' to the 'new game' is likely to be interpreted by the public as an argument to keep prices (and profits) high, rather than the opposite. Unless the arguments are absolutely watertight, they will become socially and politically untenable. And sitting as precedents in our globalised view of the world, is the reality that these arguments within and about pharmacy have been lost long ago. Rarely does anything get in the way of 'cheaper prices to customers'.

As many pharmacies struggle within this environment, the important and new developing roles for pharmacists are likely to languish. They will do so as long as these roles are only permitted as an extension of the limited number of existing pharmacies. We have seen evidence of this in the underspending of the Fourth Agreement money. Queues of highly trained but under-employed pharmacists will continue to grow.

Informed, robust and therefore brave conversations need to be had to move the profession with the times. A diversification of allowable business models, beyond the bricks-and-mortar business, as is the case in most other professions, is much needed.

IT IS TIME TO RELEASE INDIVIDUAL PHARMACISTS TO INNOVATE THEIR OWN LEAN AND FLEXIBLE BUSINESS SERVICE-MODELS

RELEASE PHARMACISTS

It is time to release individual pharmacists to innovate their own lean and flexible business service-models. Pent up and untapped creative potential awaits the opportunity to take a new look at aligning what pharmacists do, with emerging public needs.

The idea of pharmacy being just one thing needs to come to an end. Traditional community pharmacies will remain a valuable component of what pharmacy can be, but it is time for the profession to truthfully reflect itself in practice as the many things that it is. ■

1. The Sunday Mail, 23 January 2011:40.
2. Teece, DJ. Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance. Strategic Management Journal 2007;28:1319–50.