New retail empowers customers

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THE INTERNET EMPowers CONSUMeRS AND DRIVES BEHAVIOUR THAT CAN No LONGER BE IGNORED By PHARMACies.

A friend recently told me of a planned holiday to Indonesia to see the iconic Komodo Dragon iguanas. He related an initial uncertainty with his travel agent—he was originally concerned about whether the agent was a good one, would deliver what was promised and whether he could trust them.

The ‘solution’ to his concerns was to find and visit a couple of customer-review websites where there were plenty of unedited comments about the holiday itinerary and agent. Previous travellers shared their views on both the quality of the holiday as well as the particular travel agent and their subcontractors in the local area. Most travellers gave good appraisals about the agent.

While this anecdote seems to be nothing spectacular in current times, its simplicity masks an excellent example of ‘customer power’, mediated by the internet. More about this power later.

No doubt you’ll be aware of the spectacular rash of receiverships and liquidity problems within some high-profile retail groups. The Red Group, owners of Borders and Angus & Robertson book stores have closed more than 80 stores. The Colorado group shut 140 stores. Then there’s Allied Brands (Baskin Robbins) in administration, as is Krispy Kreme Australia. Then there’s the collapse of Perfume Empire, and the closing of 85 stores of 130, belonging to Ed Harry Menswear, and the near demise of the Just Group, and DFO. As social scientist and futurist Ross Honeywell so bluntly put it on Radio National recently: ‘The whole retail landscape is in complete transformation’.

If you believe the 30-second news grabs you’ll believe ‘people buying their stuff on the internet’ is the cause for at least some of these retail retreats and collapses. This is certainly the popular view for the book-store problems. But if you listen to informed comment, you’ll know that many more ‘causes’ are evident than just the internet, mostly coming back to poor managerial capability, leading to ‘fragile business models’ that fall over when they are ‘bumped’. And big bumps are coming!

Customer use of the internet is a vitally important and potentially fatal influence for fragile businesses or industries. Community pharmacy would do well to pay close attention.

IN THE GROWING ‘NEW RETAIL’, THE CUSTOMER IS IN CONTROL AND THEY DON’T GIVE A Toss ABOUT ‘LOYALTY’

(See Bruce Annabel’s excellent article ‘Creating a commercial buffer’ in AJP, September 2011 for summary of current commercial pressures). It is not that people are using the internet, but the way in which they use it and the human needs (drivers) behind this use, which are of profound importance.

It is over simplistic to believe that customers will either buy what they want online, or come into a brick and mortar store. Customers are increasingly using the internet to:

- a) scout and scope their purchases to expand their relevant choices;
- b) do their own quality control by checking up on the reputation of suppliers; by
- c) engaging in ‘communities of interest’ (virtual conversations) to check, compare and verify the quality of the supplier.

The phenomenon is that consumers are empowering themselves and incorporating this new behaviour (internet use) into their overall shopping ‘experience’. They may buy online, or they may go to the retailer whose products/services they have located and reviewed on the internet. Or, they may seek ‘guidance’ from fellow shoppers who went before them, before they commit their money, as demonstrated in my opening anecdote.

In what is fast becoming ‘old retail’, ‘loyalty’, sellers sell what they want to promote. In the growing ‘new retail’, the customer is in control and they don’t give a toss about ‘loyalty’. There are reports now of people using their iPhones in actual stores to order online the very products that they have examined on display at a bricks-and-mortar store! Customer power is currently on steroids—pharmacy will need to deal with that.

In a recent report released by the Commonwealth Bank, millions of actual online transactions were analysed to offer the first dependable picture of customer shopping behaviour as it relates to the internet. The data shows that only a small proportion of total retail spending (3.8%) is now done through the internet. However, the report reveals the astonishingly high growth trends now evident in many retail categories.

Of all categories analysed, ‘pharmaceuticals’ leads the field in the measure of ‘expected 5-year growth versus past 10-year growth’. Growth in internet sales in the pharmaceutical sector is expected at a compounding rate of 8%. Commenting on the Commonwealth Bank Report, The Australian Financial Review said: ‘The big problem for established retailers is that they are still running costly shopfronts’. Indeed!

There are no easy answers and a wider analysis of suggestions from experts will be the topic of my next column. In preview, the suggestions centre on moving to multi-channel marketing and using the internet as a prominent communication and marketing tool. This is the 21st century version of ‘engaging the customer’.

Retail space of 200sq m (very common in pharmacy), is now deemed the least productive size for the ‘new retail’ game. This then redefines what should be invested in the inventory range. And business flexibility is crucial—something which the pharmacy location rules are not. Finally, we must realise that the customer is not a part of the Pharmacy–Government Agreements—and now, they are in control.