



PHARMACY MANAGEMENT

How to prosper in the gloom: surviving and thriving in difficult economic times

Pharmacy 2009

ADVISORY

Outline

- **Are we out of the woods yet ?**
- **What shape is the Australian pharmacy industry in?**
- **What key success factors should your business be focusing on?**

Are we out of the woods yet ?

The competing views !

- Do economic forecaster's actually have a clue ? – some examples
 - The XXX !
 - Are SP's the right thing to do and do they work ?
 - Australian economists budget estimates of Aus growth

Growth	May 08	Dec 08	Feb 09	May 09	Jul 09	Aug 09
Govt	+2.8%	+2%	+1%	-1.5%		
IMF				-1.4%		+0.5%
RBA					>+1%	
UniMelb						+1.5%

The competing views !

- **The Pessimists**

- Was supported by 96% of Australian economists in June 2009
- Now the view of 60% and falling

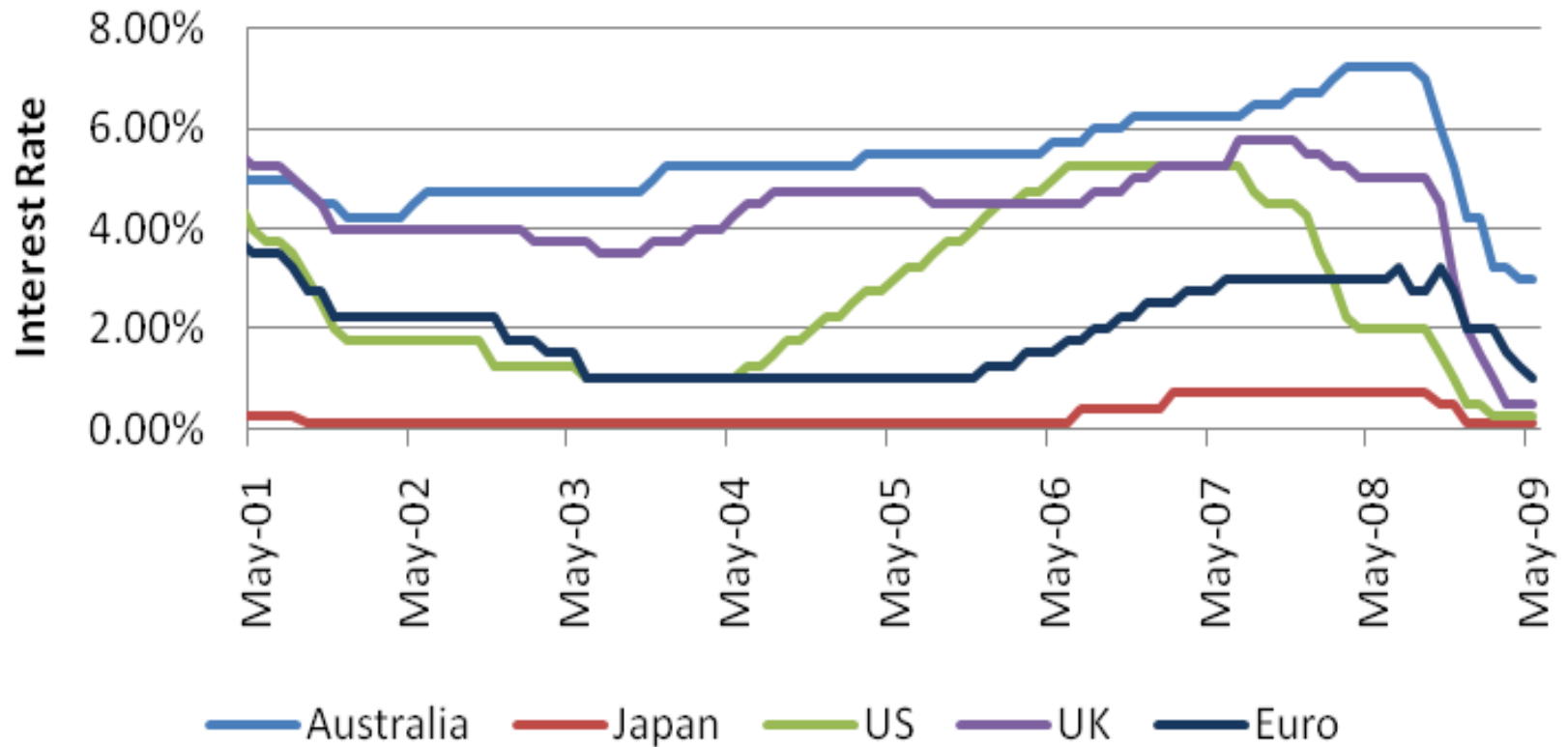
- **The Optimists**

- Was the view of only one Australian economist in June 2009 (Professor Neville Norman, UniMelbourne)

The Pessimists

- The recovery is in the shape of a **W** not a **V**
- The current global economic improvement is all driven by SP's
- Australia can't rely solely on China as no-one knows if their figures are true or false - and their SP was \$500,000,000,000 ! (John Talbot, US merchant banker and author)
- US economy is still weak with further personal debt driven disasters awaiting the finance sector
- SP will only create inflation which may drive up interest rates before there is a genuine recovery – but in Australia, do we need to drop our rates to match the rest of the world ?

Interest Rates May 01 - May 09 (Australia, Japan, US, UK, Euro)

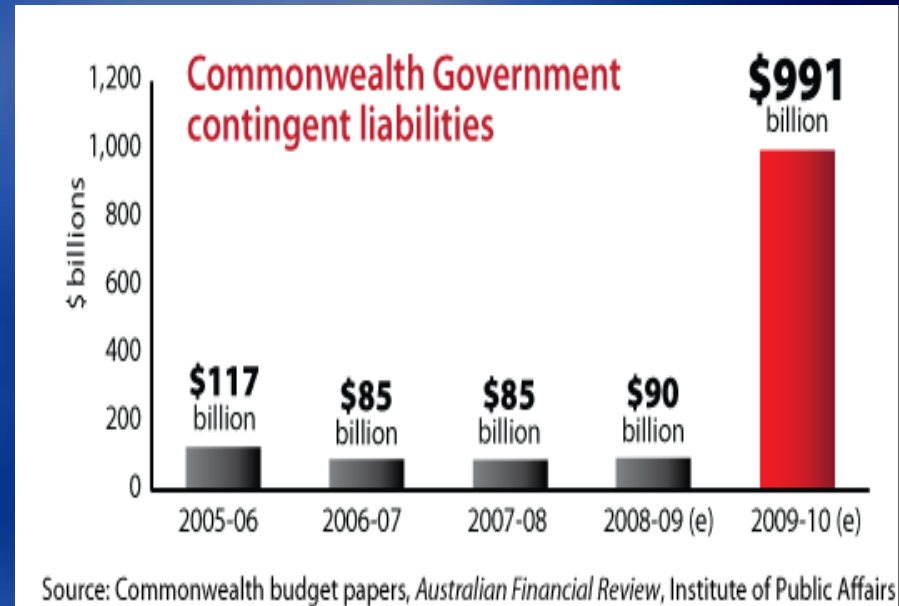
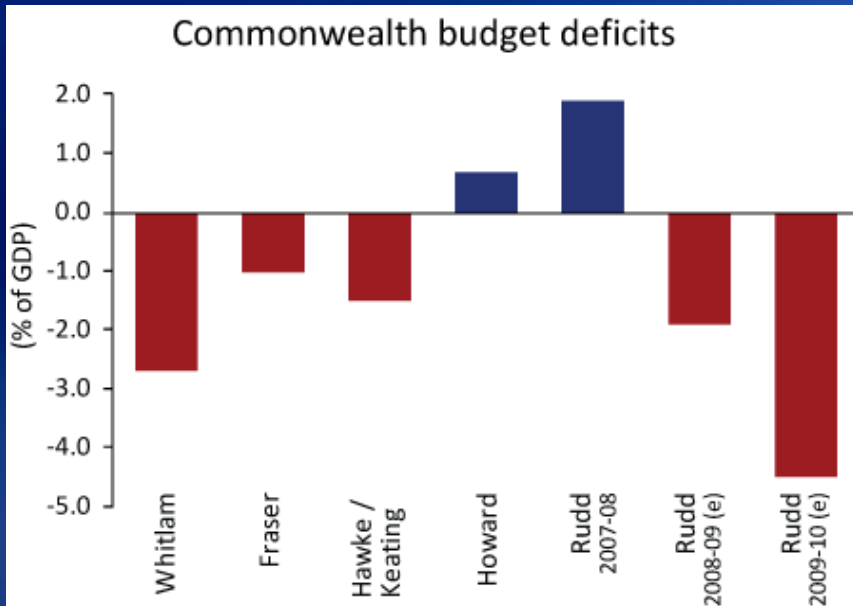


The Optimists

- **Recovery sooner than expected**
 - to Dec 09 some more losses in businesses, jobs (cleaning out the stalls?) and profits
 - Dec09 to Mar10 activity rebounds, confidence returns, SP's work, RBA raises rates
 - Mid10, SP's trimmed, inflation risk emerges, China surges, Aus grows, US and Euro recover later
- **Inflation surge impact on interest rates and rents in 2010/11**
- **Superannuation rules for retirees are unsustainable**

Future Liability

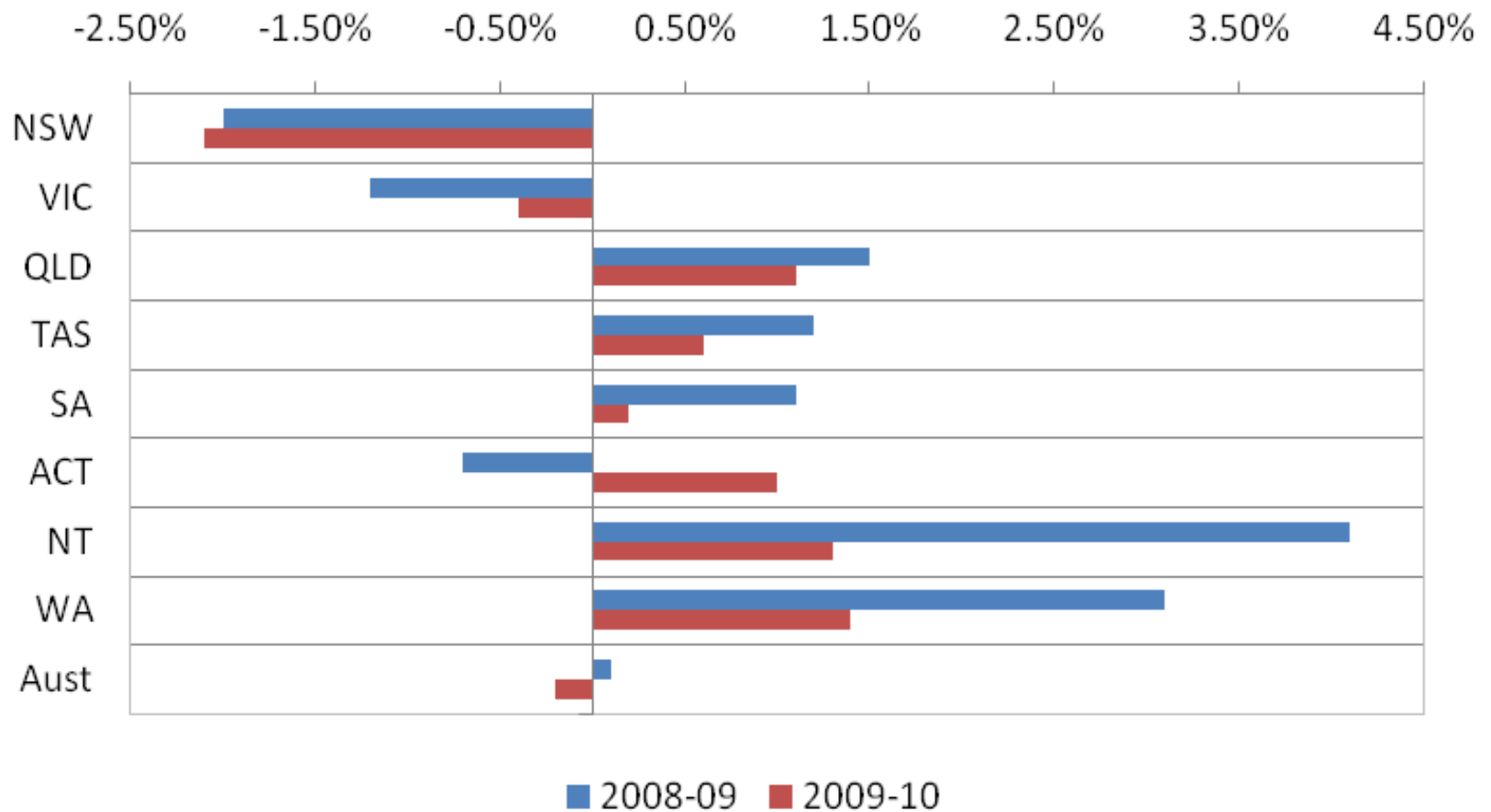
Everybody in this room now has a debt of at least \$9000 and growing!



Australia is a BIG country

**Will there be winners and losers
around our country ?**

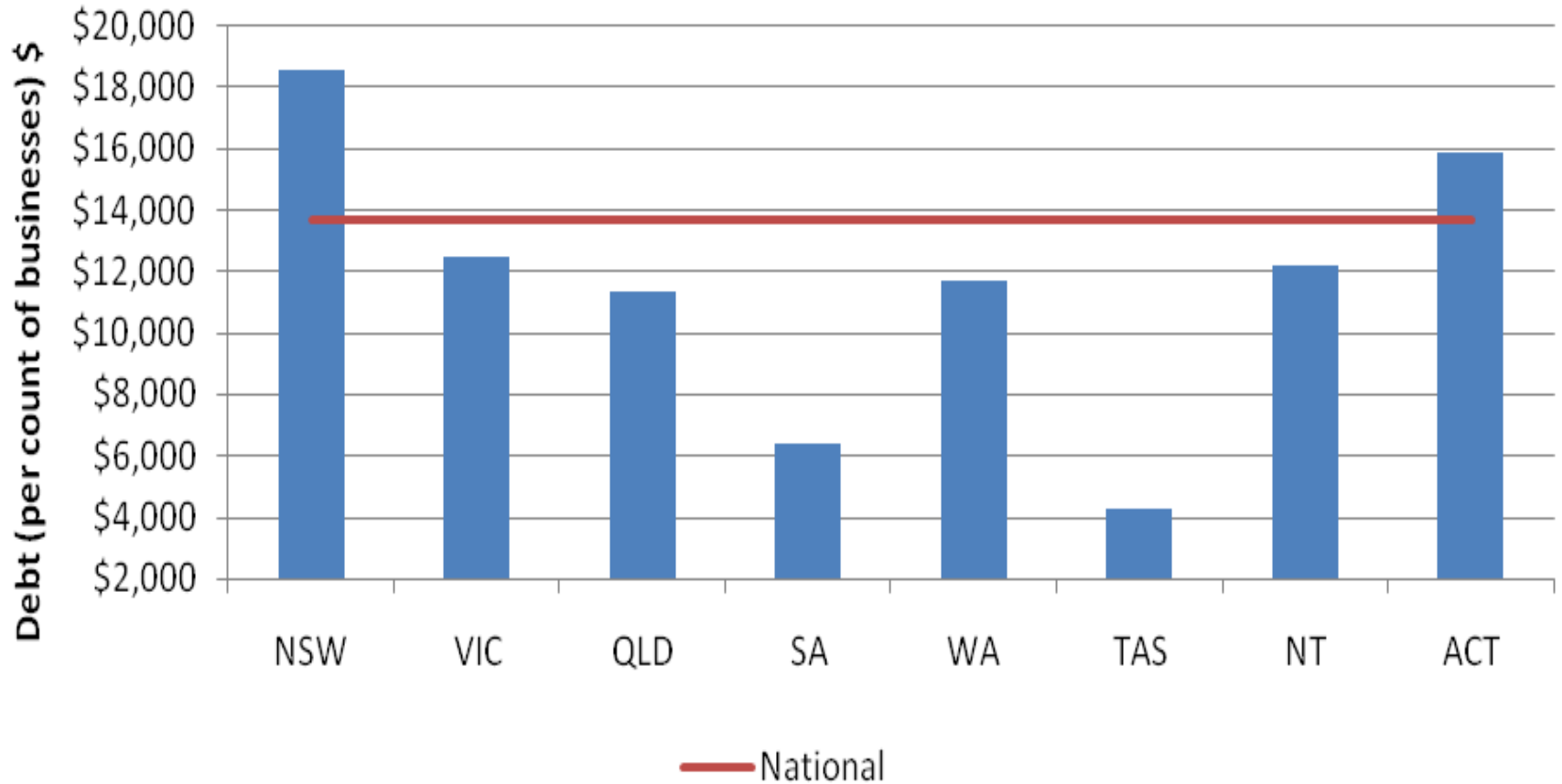
Relative output performance (% ch on yr earlier)



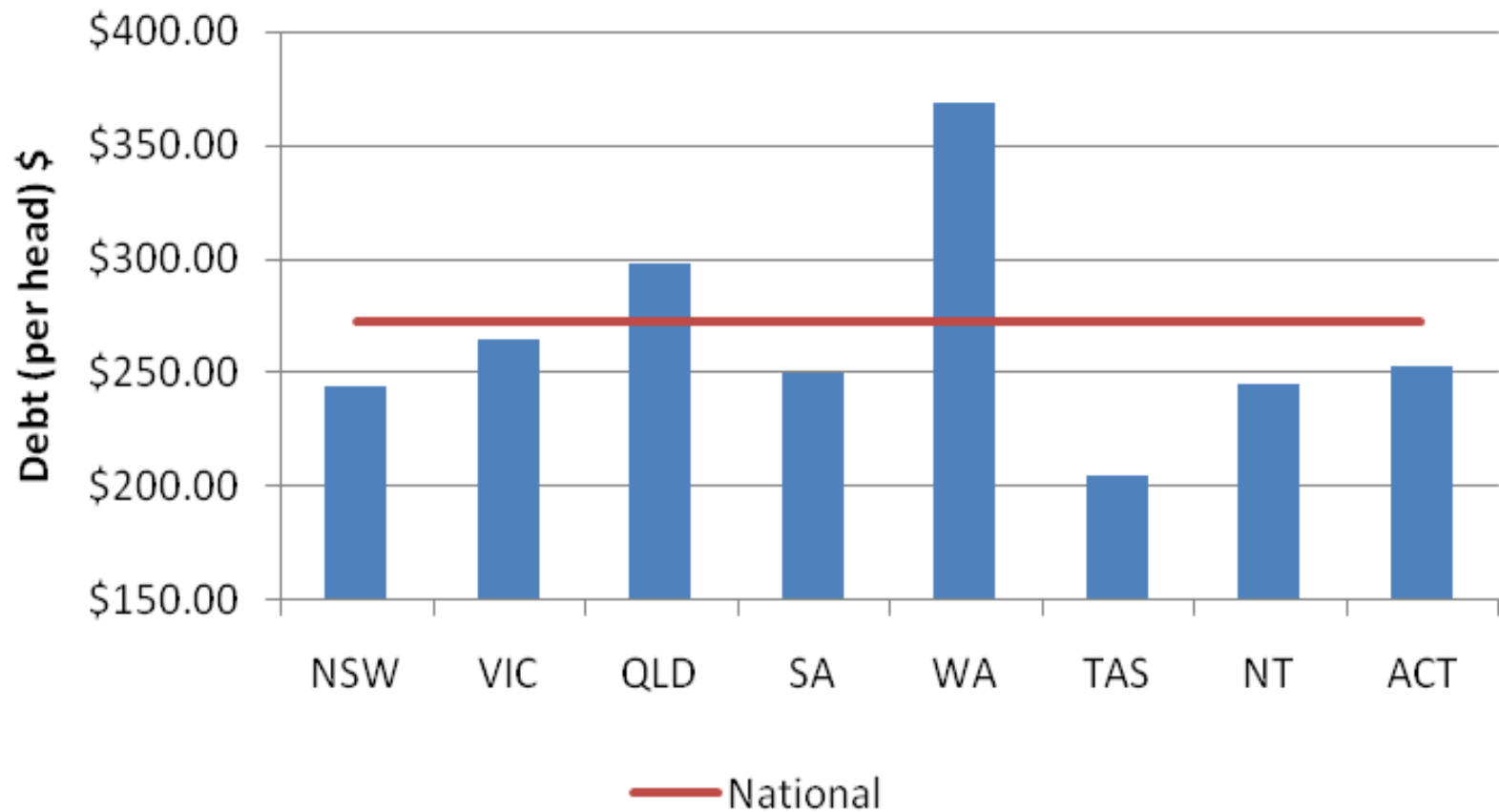
Australia is a BIG country

**Stimulus spending works best
where there are low debt levels –
don't repay the lenders, just
spend it !**

Commercial Debt (per count of businesses) - November 2008

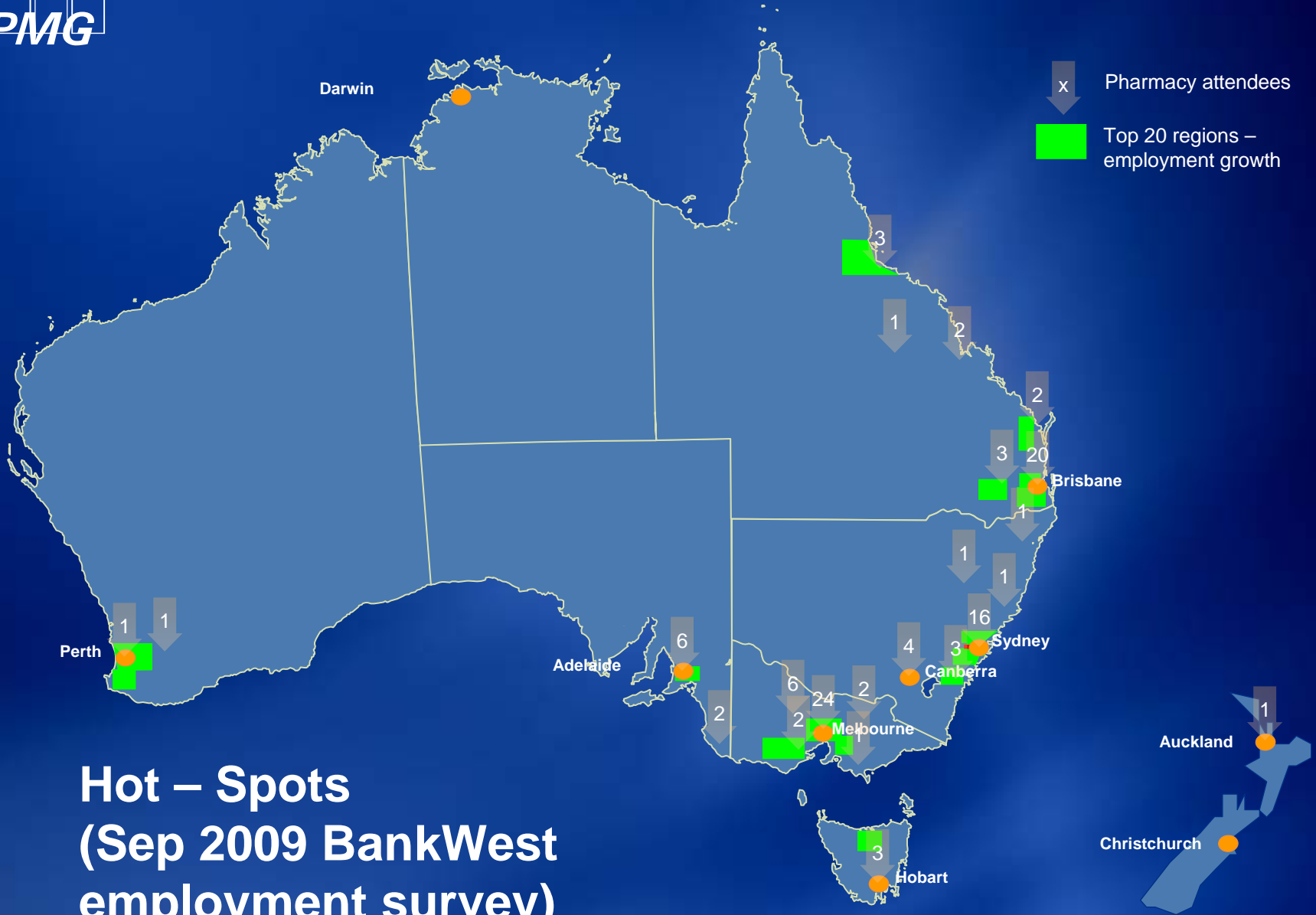


Personal Debt (per head) - November 2008





Location of your pharmacies

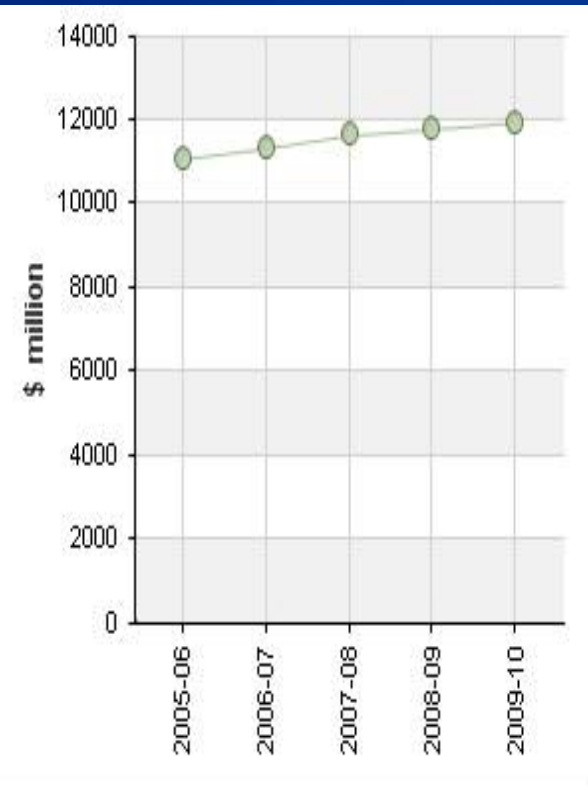


Hot – Spots (Sep 2009 BankWest employment survey)

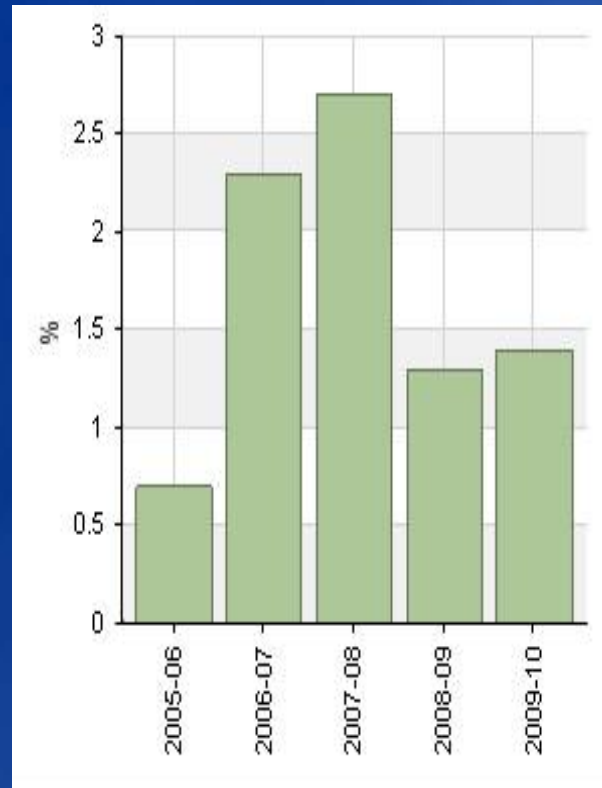
What shape is the pharmacy industry in?

Pharmaceutical industry overview

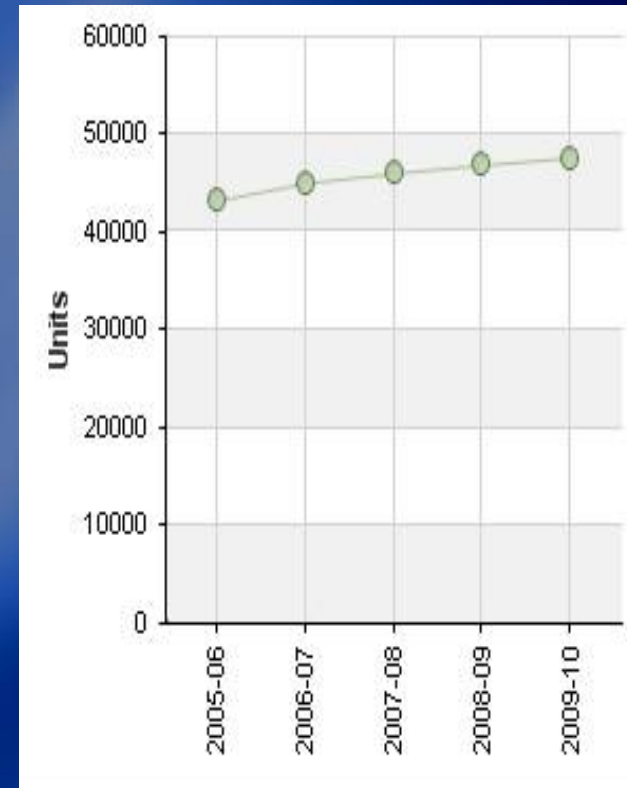
Revenue



Revenue growth



Employment



Industry performance summary

- **Relatively flat growth over the last five years due to:**
 - price cuts on generic and PBS drugs in 2005 – 2008
 - expenditure on medications in 2007-08 grew by just 2.8% compared with an average of 7.8% over the past decade (Australian Institute of Health & Welfare)
 - general lack of success with growth in sales of front-of-shop products
 - competition with non-pharmacy distribution channels

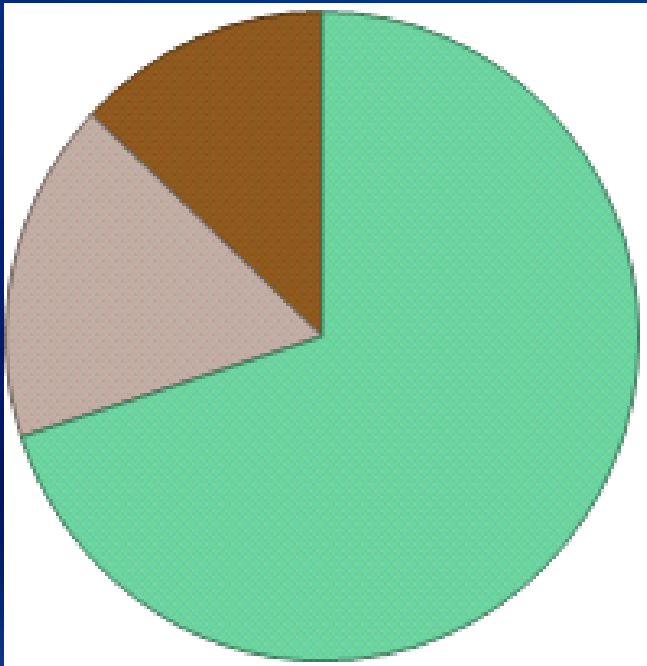




PHARMACY INDUSTRY RISK RATINGS

	Jun-09	Mar-09	Dec-08	Sep-08
OVERALL ASSESSMENT	20	20	18.8	17.2
Security risk	22.1	22.1	19.1	19.1
Political stability risk	13.9	13.9	13.9	13.9
Government effectiveness risk	16.7	16.7	16.7	16.7
Legal & regulatory risk	13.1	13.1	13.1	13.1
Macroeconomic risk	33.3	33.3	23.6	12.5
Foreign trade & payments risk	27.3	27.3	27.3	22.7
Financial risk	5.6	5.6	5.6	5.6
Tax policy risk	25	25	25	25
Labour market risk	30.9	30.9	30.9	30.9
Infrastructure risk	12.5	12.5	12.5	12.5

What are the revenue drivers for the future and how do they look ?

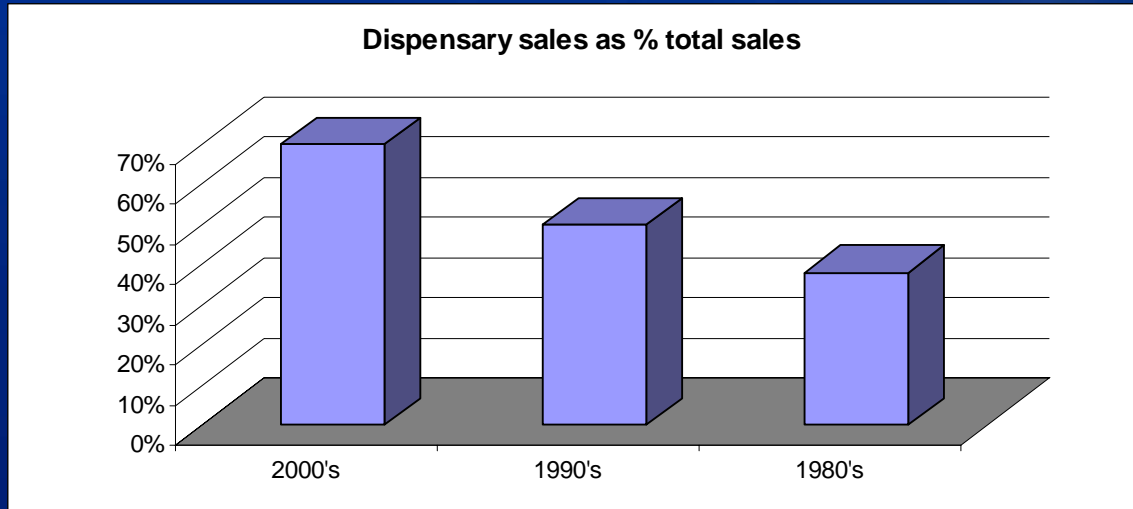
Product/sales mix - 2009



Product/Services	Share
 Prescription medicines	70.0%
 General retail	17.0%
 Non-prescription medicines	13.0%

Product/sales mix

- Product profile of general pharmacy has changed



- Introduction of new business practices to focus on 'front-of-shop' sales has not been entirely successful in existing pharmacies
- For example, Amcal Max stores expect to earn 50% of revenue from front-of-shop sales but not yet achieving this

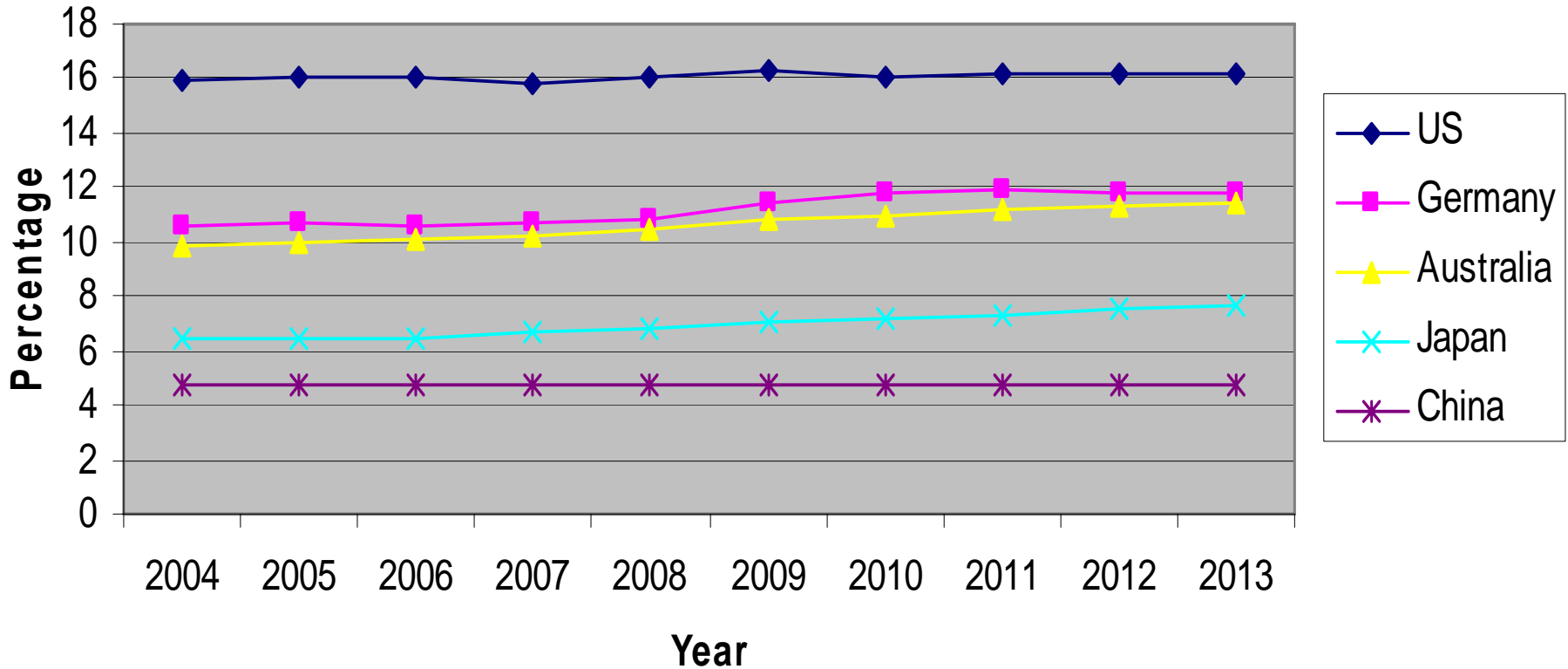
Competition

- **Low cost/low price warehouse style pharmacies – including Chemist Warehouse (75 stores) and Priceline (150 stores)**
- **Online and mail order pharmacies - including the likes of epharmacy.com.au and pharmacyonline.com.au**
- **Supermarkets and other non-pharmacy outlets – including health and beauty niche retailers and discount department stores**
- **Banner groups including AMCAL, Guardian, Chemworld, Soul Pattinson and Terry White – very interestingly, operated by the three full line pharmaceutical wholesalers (Symbion, API and Sigma).**
- **Buying groups such as Chemplus, Blooms or Barretts**

Consumer spending trend

- **“Australian consumers remain willing to spend but are doing so by substituting generic, lower-priced alternatives for brand-name items and bargaining for the best deal”**
- **“The level of consumer spending over the second half of 2009 will depend on how the unemployment rate and interest rates move”**
 - Directional Insights, September 2009, Shopper Research Survey

Healthcare Spend (% GDP)

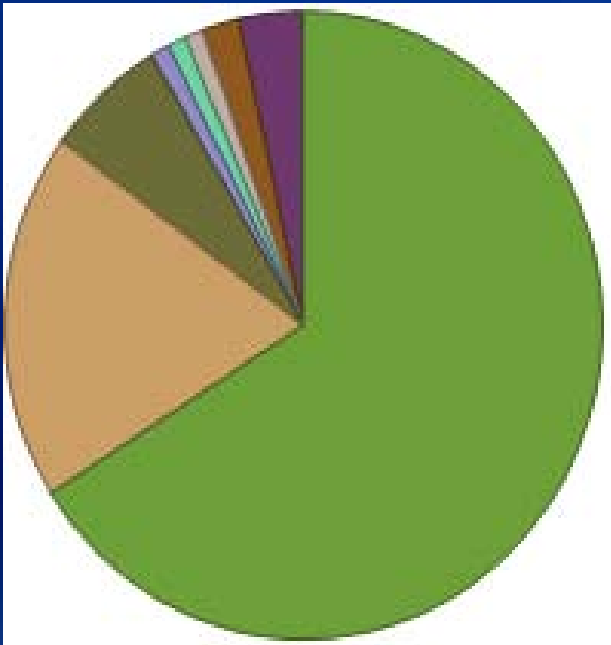


Other future demand drivers to keep in mind.....

- **The ageing population phenomena - the 65+ age cohort already accounts for over 80% of Australia's pharmaceutical spend**
- **Continuing advances in drug formulation**
- **Greater availability of cheaper generic items - expected to continue in line with government policies designed to increase generic substitution rates**
- **Increasing demand for alternative medicines and health focus - such as changes in diet, exercise and meditation – 75% of Australians used complementary medicines in 2007**

**What are your cost drivers and where
are they trending ?**

Pharmacy Cost drivers



Item	Cost %
Purchases	66.0%*
Wages	19.0%*
Rent	6.5%*
Depreciation	1.0%*
Advertising	1.0%*
Interest Expenses	1.0%*
Other	2.0%*
Profit	3.5%*

Pharmacies (2002 to 2006)

Average results for firms grouped as indicated

	City and Suburbs	Non Metropolitan based Businesses	Firms Renting in Shopping Centres
TOTAL INCOME	\$2,813,358	\$2,750,017	\$3,912,301
Less Cost of Goods Sold	66.99%	68.14%	67.08%
Equals GROSS PROFIT	33.01%	31.86%	32.92%
Less OVERHEADS as %'s of Total Income:			
Advertising, Promotion & incl Franchise/Group Fees	0.94%	0.91%	1.29%
Accounting and Legal Fees	0.44%	0.39%	0.23%
All Insurance	0.45%	0.46%	0.37%
Interest, Bank Charges etc	1.63%	1.83%	1.31%
Printing, Postage, Stationery, Packaging & Wrapping	0.43%	0.44%	0.42%
Rent of Premises	3.26%	2.14%	4.10%
Other Occupancy Costs	0.43%	0.38%	0.33%
Other Depreciation, Lease and HP	1.01%	0.84%	0.96%
Repairs and Maintenance	0.33%	0.28%	0.23%
Staff On Costs	1.54%	1.10%	1.26%
Employees' Wages & Salaries	10.13%	9.51%	10.31%
All Other Expenses	1.33%	1.59%	1.20%
TOTAL OVERHEADS	21.92%	19.87%	22.00%
NET PROFIT (bps*)	11.09%	11.99%	10.92%
NET PROFIT (bps*) per....			
Principal	\$226,584	\$271,664	\$364,123
Principal Workhour	\$116.07	\$129.22	\$168.16

Government agreements

- Under the Fourth Agreement with the Government which came into effect on 1 July 2005, community pharmacy is to receive \$11.1 billion over the five years to 30 June 2010.
- What will the fifth agreement contain ? What will be needed to keep the Government happy with the industry to continue with the protection barriers ?
 - July 2009 Fifth Agreement negotiations due to start
 - July 2010 Fifth Agreement commences
 - November 2010 Federal Election due
- As part of the Federal Government's award modernisation process, a newly-proposed Pharmacy Industry Award 2010 could increase wages costs - up to 22 per cent in some states.

As the future economic and industry environment is characterised by:

- uncertain economic times**
- flat industry growth**
- changing regulation**
- increasing competition**

what key success factors should you be focusing on ?

Key success factors

- **Leverage customer “stickiness”**
 - Membership benefits and promotions
 - Direct contact and web buying
- **Proximity/target customers within key growth market segments:**
 - Population growth corridor
 - Aging baby boomers
 - High income earners
 - Users of alternative medicines and treatments
- **Attractive product presentation**
 - Work out how to make front of shop sales grow !

Key success factors

- **Membership of joint marketing group**
 - Leverage brand, promotions, collateral
- **Membership of buying group**
 - Competitive buying means competitive pricing and margins
 - Access to attractive products
- **Ability to control stock on hand**
 - Stock turn ratios
 - Appropriate range of offerings desired by market

Key success factors

- **Superior financial and debt management**
 - Interest rate risk
 - Watch rent pressure
 - Cash is king
- **Experienced, qualified & affordable work force**
 - Attraction and retention qualified staff
 - Manage new award challenges

So, in conclusion.....

In 2007, Captain KRudd said !!

“Federal Labor does not support changing the current pharmacy ownership rules. Labor does not support pharmacies being established in supermarkets. We believe the important role that pharmacists play as health care professionals in the community would be diminished by allowing supermarket chains to operate in-house pharmacies.”



But, he also said.....

Captain KRudd said !!

“Both my Shadow Minister for Health, Nicola Roxon, and I have made it clear on many occasions this year that Federal Labor is committed to retaining the existing private health insurance rebates.....”

November 2007





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