

The Total-Store Pharmacy Solution

Multiple complex forces are shaping the retail pharmacy challenge. To ensure collective, long-term profitable growth, manufacturers and retailers need to work collaboratively to create genuine value for shoppers.

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Retail pharmacy continues to have significant top-line potential. The aging population, therapeutic advances extending lives, and increased access for seniors benefiting from the Medicare Reform Act all bode well for continuing the +13% average annual increase in prescription drug sales.

This growth is under ever-increasing scrutiny from managed care and employer payers. Pharmaceutical costs are a small part of U.S. healthcare expenditures (10%), but represent a disproportionate share (20%) of increased costs. This has placed pharmaceutical cost containment efforts into high gear, squeezing retail pharmacy margins thinner and thinner.

Industry experts predict pharmaceutical costs will double by 2007 and may exceed medical spending within 20 years—a forecast sure to drive further cost controls and force inefficient operations out of the market.

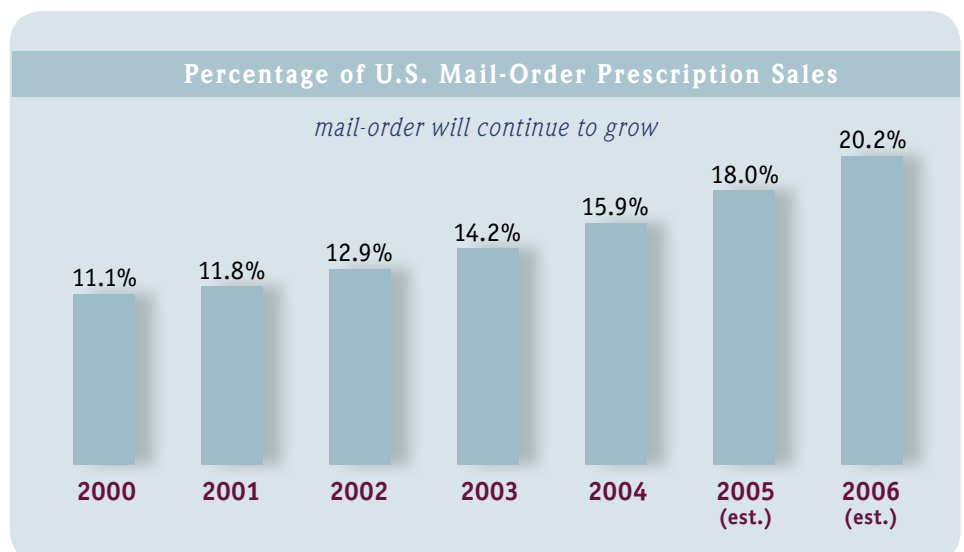
The growth of mail-order Rx represents an additional significant challenge facing retail. Centralized supply chain, claims processing and three-month Rx's create a highly efficient prescription-fulfillment model for mail-order.

But that is just the cost of entry; these organizations are also equipped to provide superior customer service. Mail-order pharmacies can provide concurrent drug utilization review, resulting in a higher safety and efficacy profile. Add web- and telephone-based direct-to-consumer service, and the result is a highly efficient, safe and effective delivery system.

In addition, mail-order pharmacies can collect extensive data on all of their patients, not just those who opt in for shopper loyalty programs. The sophisticated operators can combine this fundamental knowledge with in-depth dialogue from patients who order via the telephone and online. Together, this means, mail-order has an advantage in understanding who buys what, when, and most importantly, why.

Why should manufacturers care about this? Because in this low-margin environment, only the chains with highest store volumes will survive. A few highly consolidated and powerful pharmacy retailers will emerge and only those manufacturers that bring differentiated solutions to drive profitable growth will win out over the competition.

Percentage of U.S. Mail-Order Prescription Sales



Source: Industry estimates

Driving incremental sales on higher margin over-the-counter drugs and health-and-beauty products is the key to retail pharmacy health and an opportunity for consumer goods and pharmaceutical manufacturers to lead.

A “Shopper-Centric” Solution

The convenience of the “total store” is the key weapon retail pharmacy has to compete against mail-order operations. In a recent study conducted by GMDC, 79% of shoppers said they desire “one-stop” shopping for their health management needs. This translates to an opportunity to broaden category definitions from Rx “drug classes” to integrated total condition (Rx and OTC) healthcare management, and provide solutions to consumers that span all of their needs.

Consider the low-hanging fruit:

- Nearly half of consumers who fill a prescription do not buy anything else.
- Few consumers remain compliant with doctor-recommended guidelines for their chronic prescription medicines.

These opportunities speak to the need to better understand the retail shopper and identify the levers to close the sale.

Where to begin? Start with the highly prevalent categories that also represent the highest shopper value. These are categories with the most highly prescribed medications and have sufficient critical mass to merit the creation of differentiated programs (see examples on the right).

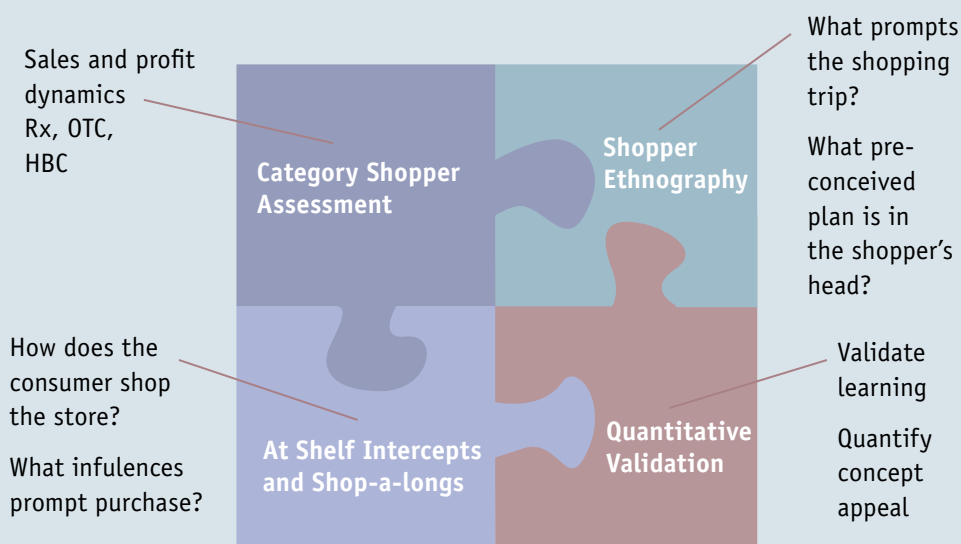
Creating an integrated approach to holistically marketing to these shoppers carries some significant challenges. Today, pharmacy is rarely linked to merchandising approaches in the front of store and organization “silos” create artificial barriers to an integrated approach. Retailers need to re-think organizational barriers from focusing on traditional product categories to a shopper-centric approach.

Similarly, the role of the pharmacist can be better leveraged. Many retailers, focused on throughput and efficiency, do not provide the pharmacist the opportunity to act as a health-care provider. Shoppers value the pharmacist and the opportunity for the pharmacist to improve patient care will also result in an improved market basket. →

Examples of Categories with High Shopper Value

Integrated Category	Prescription Medications	OTC concomitant products	Supporting Services
“Heart Healthy”	Anti-hypertensives Cholesterol	Aspirin Vitamins Low-fat foods	Cholesterol testing Walking clubs
Allergies	Antihistamines Nasal-inhaled steroids Asthma medications	OTC antihistamines Nasal decongestants Analgesics	Seasonal allergy alerts Safe home education Nutritional counseling
Women’s Health	Birth control Osteoporosis Menopause	Feminine hygiene Skin care Vaginal anti-fungal	Aging support
Obesity	Diabetes medications Heart medications	Low-sugar foods Nutritional supplements Footcare	Nutritional counseling Exercise Diet planning

The Shopper Immersion Puzzle



← The most critical element in building a shopper-centric solution is to ensure a solid foundational understanding of category and consumer dynamics from which the appropriate strategies and programs can be developed. In partnership with SmartRevenue, a shopper-centric research firm, Interscope has developed an integrated process to pinpoint the right manufacturer–retailer solution.

1. Category and Shopper Assessment.

Before embarking on the investment in shopper research, retailers and manufacturers should begin with the vast amount of data typically available from a variety of sources. In this phase, an integrated understanding of category profit and productivity is gained from mining POS and pharmacy adjudication systems. Retailers gain a clear picture of the profit contribution of segments of the integrated category (*e.g.*, Rx v. OTC; branded v. generic), including operational and inventory investment. Manufacturers understand the role their brands play and how to better leverage pharmacy programs to drive sales.

In addition to the category metrics, manufacturers and retailers are urged to share their vaults of insights into the consumers they serve in senior-level, top-to-top sessions. This engages senior-level commitment to new solutions and assurance of a proprietary approach that benefits both the manufacturer’s and retailer’s brands.

2. Shopper Ethnography. Building upon the analytical phase, the consumer research ideally begins with deep qualitative understanding of consumer behavior in the category. For example, if a consumer uses mail-order pharmacy for chronic medications, do they shop the retail pharmacy at all—and why? This step guides concept development of specific retail solution concepts and provides insightful, new understanding of the shopper.

3. At-Shelf/Shop-a-longs. This is a key phase to observe behavior as it actually happens. Understanding the triggers for Rx and OTC purchases—and how retailers and manufacturers can influence consumers

to increase compliance, improve their care and drive the market basket—is critical.

The SmartRevenue approach leverages a handheld PDA with proprietary software to record in-store observations, store mapping, shopper voice recording, photographs and video, loyalty/frequent shopper card scans and product scanning. The PDA is used to record answers to both closed and open-end questions; photograph and/or video aisles, shelves, and displays; and scan UPC codes of shopping basket contents, shelf stock, and product positioning.

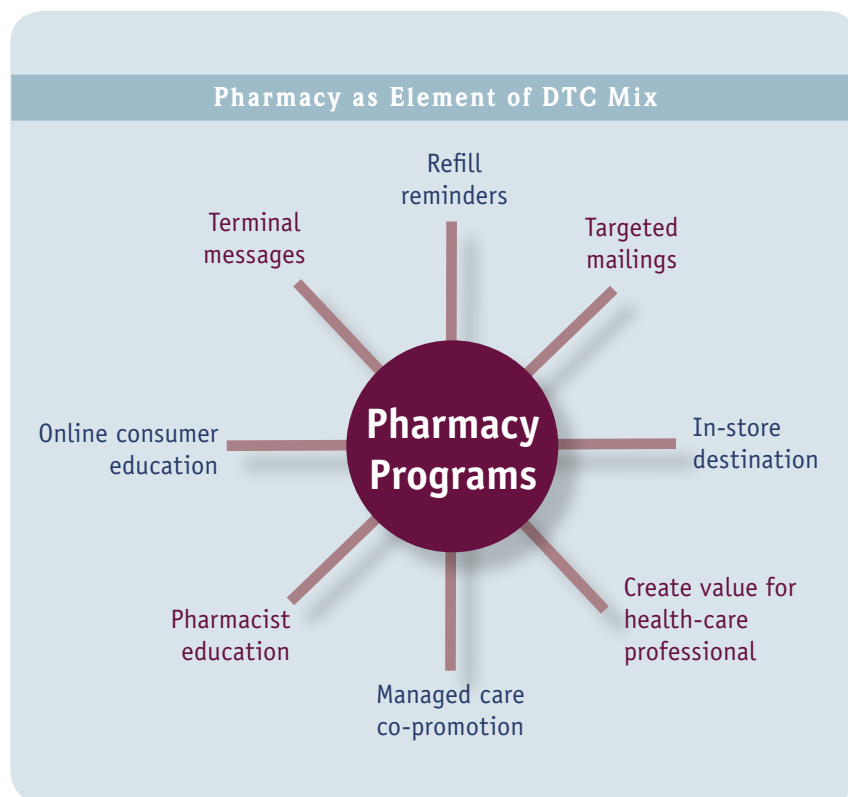
4. Quantitative Validation. Lastly, findings are quantified in a final study, which often includes specific concepts for retail solutions. Retailers and manufacturers can work together to create differentiated, branded platforms to increase consumer loyalty and drive sales. This solution testing should be addressed with the rigor of a new product development process, beginning with cross-functional ideation, concept development, preliminary consumer screening, refinement and quantitative opportunity projections.

Bringing It All Together

These insights and the resulting solutions are a new way for retailers and manufacturers to compete more effectively. Creating specific shopper-centric approaches by core need-state is very much untapped potential for today’s traditional pharmacy. These programs include:

Terminal messaging. Today’s sophisticated pharmacy systems can be leveraged to provide the pharmacist with real-time messages to inform and educate consumers. Messaging can include co-pay information or educational material provided by manufacturers. For example, a “new” Rx prescription for a chronic condition can be flagged and the pharmacist can use that information to offer counsel.

Create value for health-care professional. Legislation has been passed to pave the way for a pharmacy to be reimbursed for providing counsel or “cognitive services.” Although regulations are still murky, the stage is set for the retail pharmacist to provide more care, becoming



ing an important adjunct to the health care professional — and a preferred destination for healthcare needs.

Refill reminders can be developed in conjunction with manufacturer programs to ensure patients are following recommended regimens while also driving a shopping occasion.

In-store destinations can be created to offer educational material and navigate the consumer through in-store purchase decisions. Category adjacencies can be driven by need-state to maximize the potential for cross purchasing and serve as a convenient destination for shoppers' needs.

Targeted mailings can be developed based on an understanding of high-value need-states, and manufacturers can provide incentives for future purchases.

Managed care as a retail partner is often overlooked but can be a highly leveragable and credible marketing tool. For example, managed care organizations advocacy of new Rx-to-OTC switches can be effectively used to drive consumers to the retail pharmacy, while also providing important educational materials to ensure proper patient care.

Educational programs. Manufacturers can provide a pharmacist education program to ensure that up-to-date information is available at retail. For example, the recent change in allowing OTC medications to qualify for flexible spending account reimbursement continues to be under-leveraged at retail. Equipping a pharm-tech with simple and turnkey educational materials could be an effective tactic to enhance the value-image of the store and be a significant value-add to the consumer.

Shopper-Centric Research

Gaining shopper insights is a matter of combining shopper observations, interviews, and scanning of purchases to answer the following questions:

- ▶ How are shoppers segmented?
- ▶ Who are the high-value shopper segments?
- ▶ What are the purchase drivers by segment?
- ▶ What causes shoppers to shop certain departments, categories, and brands but not others?
- ▶ How does each shopper segment navigate the store and what are the hot spots?
- ▶ Who is most likely to make an unplanned purchase?
- ▶ How and why are different segments bundling different products and categories?
- ▶ How do shoppers react to new products, out-of-stocks, planogram changes, and varying levels of customer service?
- ▶ How do store personnel drive additional purchases and what is the ROI?
- ▶ What pricing, promotion, and in-store merchandising approaches are most effective with high-value shoppers?
- ▶ Where else are shoppers shopping and why?

Online content. Retailers should look to manufacturers to create online content that enhances the retailers' credibility as a healthcare information provider. Consumers look to the internet to seek healthcare information and the retail pharmacy is a perfect source to provide a complete picture of their entire healthcare needs.

These programs can be complemented by a broad array of additional programs that currently are underutilized in today's marketplace. Increasingly, the retail environment should be viewed as a critical element in the DTC equation — and one too often overlooked in traditional category management approaches.

In the past, pharmaceutical companies simply sent sales people into doctors' offices to explain why their drugs were best for a given disease state, in hopes that the doctor would prescribe them. What the insurance would cover and at what level was, of course, up to the managed-care gatekeepers; by the time the consumer got to the pharmacy, any relationship there was largely transactional.

That scenario has now changed for both consumers and retailers. Consumers are now more likely to self-diagnose a condition. With new blockbuster Rx-to-OTC switches, such as Claritin and Prilosec, consumers can now choose between both prescription and non-prescription solutions to their conditions. And now their decisions are based on the combination of perceived product efficacy, convenient access, and cost.

As a result, the retail pharmacy is more important than ever as a lever for both manufacturers and retailers. Creating specific, shopper-centric insights will lead to developing the right programs to drive consumer loyalty to the store and to the brands that create the most value. ■



Carol Lauer is a Principal of Interscope, a sales and marketing consultancy focused on the intersection of the consumer and the customer. Interscope works with manufacturers and retailers to develop growth platforms based on a foundation of highly analytic category understanding and applying the consumer insights to find the right business solution. Interscope has a breadth of category and company experience in a broad array of channels and consumer mindsets. Carol can be reached at: carol.lauer@interscopellc.com
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