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The Importance of Retail Strategy for Pharmacies

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Abstract

Limited academic research has focused on the retail management of pharmacies since prior studies have primarily addressed the professional service aspect of pharmacy operations. Particularly absent is the investigation of a pharmacist's retail strategy and its relationship with non-prescription pharmacy performance. Moreover, this paper postulates that a pharmacy's natural abilities in the form of organisational characteristics, resources and capabilities are important antecedents to the development of a retail strategy. We propose that the retail strategy and pharmacy performance relationship, which is the focus of this paper, does not operate in isolation and critical organisational antecedents are an influencing factor.

Introduction

The growing intensity of competition from non-pharmacy retailers in the non-prescription sector has concerned retail pharmacists (Blank, 2002). Retail pharmacy is a dual market industry that combines retailing services with professional services (Hindle and Cutting, 2002). Consequently, pharmacists require a superior understanding of their service offer and need to adapt it according to the changing retail environment. Anecdotally it has been suggested that pharmacists need to enhance their retail management skills in order to compete with non-pharmacy retailers (McGee, Love and Festervand, 2000). Academic research has been slow to investigate this relationship. Furthermore, empirical examination of the retail capabilities of pharmacies is sparse. Most research efforts have focused on the impact of regulation on pharmacies (Pioch, 2001), influence of entrepreneurial education on pharmacy performance (Hindle and Cutting, 2002), training of pharmacy assistants (Meller and Mann, 2001) and pharmaceutical quality care (Farris and Schopflocher, 1999; Hepler and Strand, 1990). Thus, this paper, examines retail strategy within the unique context of retail pharmacies, where there is combination of both retail and health services. We also seek to extend existing retail research, which has primarily investigated retail strategy within traditional retail sectors such as department stores (McGoldrick and Ho, 1992), by examining retail strategy in a non-traditional retail sector. Finally, the paper aims to explore the relationship between retail strategy and pharmacy performance. However, this relationship is not expected to operate in a vacuum, hence critical organisational antecedents, namely; organisational characteristics, resources and capabilities are also explored.

Theoretical Foundation

Retail Strategy and Performance

In general, strategy is defined as planning for a goal or allocating resources among business units to attain or determine long-term goals and objectives of an organisation (Robins and Barnwell, 1998). Given this perspective, a body of literature has arisen, termed retail strategy, which encompasses four functional areas, namely; merchandise, trading format, customer

communication and customer service (Walters and Knee, 1989, Helman and de Chernatony, 1999). In extending the retail strategy concept to non-traditional retailers, the aforementioned functional areas are discussed in a retail pharmacy context. A pharmacy's merchandise including prescription and non-prescription items is the tangible product displayed to the consumer, which represents the core of a pharmacy's business. The trading format of a retail pharmacy refers to its store location, store layout and store atmosphere. Customer service incorporates the pharmacists' and their assistants' degree of professionalism and level of service. Customer communications refers to the in-store promotion of products and services offered by the pharmacy. The following section explores the theoretical foundation for examining the association between retail strategy and pharmacy performance.

Vorhies (1998) defines organisational performance as a multidimensional construct that taps financial, operational and customer related performance domains. In contrast, Bharadwaj, Varadarajan and Fahey (1993) proposed that superior organisational performance occurs from the firm's ability to seek a defensible competitive position in the industry. Similarly, this superiority in performance is the result of a value creating strategy that is difficult to imitate by competitors (Barney, 1991, 2001). We postulate that the degree to which pharmacies undertake retail strategies may be an appropriate explanation for variations in pharmacies' non-prescription performance. If pharmacies adopt a retail strategy, they will seek to establish positions of difference through such things as merchandise assortment, store design, in-store promotions (i.e. loyalty programs) and customer service levels. This action forms the basis for differentiation and therefore may have a positive impact on performance.

It is acknowledged that it is highly unlikely that pharmacies will achieve superior performance by merely improving the degree to which they adopt retail strategies. In this capacity, a pharmacy's innate abilities, which are represented by organisational antecedents such as organisational characteristics, resource and capabilities can provide a focus for developing the retail strategy and may be a source of competitive advantage.

Organisational Characteristics (Size and Type of Ownership)

The size of the pharmacy (Dubelaar, Bhargava and Ferrarin, 2002) may also influence the pharmacy's ability to carry non-prescription merchandise and trading format. If the pharmacy is large, it has the opportunity to offer a wide range of merchandise categories. A smaller pharmacy may not possess the capacity since it experiences space limitations. Furthermore, if the pharmacy operates as a franchise, it is provided with advice regarding managing its market image, support with accounting, financial management and procurement (Kyriakos, 2002). In this capacity, the pharmacy's size and type of ownership impacts on the development of the retail strategy which in turn influences performance.

Organisational Resources (Location, Relational and Human Resource)

The location of the pharmacy is an invaluable asset since it increases store traffic and influences the range of merchandise and the level of customer service offered by the pharmacy. In addition, relationships with suppliers and other medical practitioners, such as general practitioners, are critical to the retail performance of pharmacies. This is because firstly, it is vital that there are

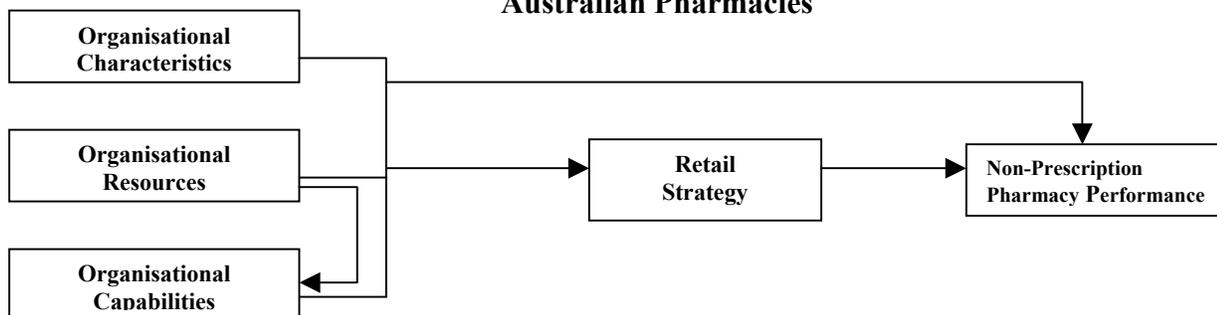
sufficient levels of stock in each merchandise category, since meeting customer demand efficiently is a pre-requisite to providing quality customer service. Secondly, good relationships with general practitioners maybe beneficial to pharmacists since it may increase store traffic to the pharmacy. Furthermore, the quality of the staff is crucial for a pharmacy to develop their retail strategy. This is because the delivering of quality customer service is a core dimension for enhancing performance (Meller and Mann, 2001). Hence, tailoring the retail strategy in accordance with the pharmacy’s location, enhancing the quality of staff and maintaining good relationship with suppliers and medical practitioners influence the development of the retail strategy.

Organisational Capabilities (Market Orientation)

The marketing concept, with the view that customer needs should drive the firm’s strategies, is seen as the foundation of market orientation (Kohli and Joworski, 1990; Narver and Slater, 1990). A review of existing literature suggests a lack of empirical studies addressing the relationship between market orientation and performance in the health care industry (Kumar, Subramaniam and Yauger, 1998), and more specifically in a retail pharmacy environment. Although, pharmacies are customer driven, they may need to assess or develop this culture further and develop the retail strategy accordingly.

In summary, organisational characteristics, resources and capabilities impact on the development of the retail strategy. This is because these innate abilities structure the foundation on which the retail strategy is based. Hence, it is posited that organisational characteristics, resources and capabilities of the pharmacy play a significant role in the development and integration of the retail strategy and subsequent organisational performance. These relationships are depicted in Figure 1.

Figure 1: A Conceptual Framework of the Retail Strategy and Natural Capabilities in Australian Pharmacies



Method

Qualitative research techniques were perceived favourable for investigating the retail strategy, its organisational antecedents and relationship with pharmacy performance relationship. Due to its exploratory nature, in-depth interviews with retail pharmacists enabled a greater understanding and insight into the retail operations of pharmacies. In-depth interviews allow for greater understanding of the issues confronting the researcher (Cavana et al, 2000; McCracken, 1988). Furthermore, they provide a practical element to the study by confirming the applicability of the

research constructs to the retail pharmacy context. Seven in-depth interviews were conducted during June 2002. The unit of analysis for this study was the retail operation of pharmacies. Hence, the sample consisted of four pharmacy managers who were responsible for the overall functioning of the pharmacy, two retail managers who were specifically responsible for managing the front of the shop (the non-dispensary section of the pharmacy), which included the retail products, and one pharmacy proprietor. All of the interviews were conducted in the pharmacy where the respondent was employed and were digitally recorded with the respondent's permission. A structured discussion guide was developed and used to assist the direction of the interview based on the conceptual model in Figure 1. After each of the interviews, the data was transcribed and coded using primarily open coding techniques (Strauss and Corbin, 1998).

Findings

Retail Strategy and Performance Relationship. All the respondents indicated that the pharmacy where they were currently employed had a retail strategy in place. It was valuable to understand how pharmacists perceived the concept of retail strategy and its importance in enhancing the internal operations of pharmacies. A general consensus among the pharmacists and retail managers indicated that the concept of retail strategy was perceived commonly as *“a plan that assists with a variety of things and is put into place to increase sales and to serve as a foundation for operating a retail business”*. In addition, there was a definite emphasis that a retail strategy provided current and future direction for the growth of the pharmacy. However, as Sam explained: *“I don't think a lot of pharmacies have a retail strategy. A lot of pharmacists don't give it much importance and they operate in a usually adhoc style of management that consists of making decisions as they go rather than planning ahead.* Hence, even though, retail strategy maybe perceived as a valuable directional and planning tool, its development and implementation according to the innate abilities of the pharmacy is still uncommon.

The majority of the respondents stated that there were many components to the retail strategy and these were primarily composed of store management, financial management, marketing management, customer service and stock management. It was necessary for all of the five components to work cohesively together in order to enhance current business performance. In addition, customer service serves as a tool to retain the pharmacy's existing customer base. The majority of the respondents expressed concern at the increasing competition from non-pharmacy retailers and indicated the necessity of better appealing to their customers. As Jim explained: *“I think we've got to retain our customer base, we've got to get everybody up to speed in customer service and product knowledge, we've got to keep pharmacy only products. You have to be the place to be when people think pharmacy because we don't want to be placed in supermarkets”. It would destroy the whole professionalism.”* Pharmacists aim to enhance their image as health professionals through superior customer service, exclusive merchandise and competitive positioning.

The general perception among pharmacists and retail managers is that having the correct merchandise available at all times; having a clean and attractive store that is in a convenient location and where there is quality customer service all impact on performance. George explains: *“We have to differentiate our self from supermarkets and other competitors, in doing that we*

need to find out what it is that we can offer that no one else can". When probed as to whether a retail strategy influenced their non-prescription performance, all respondents commented that it was absolutely vital to enhance performance. This was primarily because it provided guidelines and directions for the growth of the pharmacy and helped to increase sales and minimise costs and errors. Salvin explains: *"You need retail strategy to plan ahead, to make things happen and to know what you need to achieve. It is essential for the growth of the pharmacy."* Similarly, Anna explains: *"Retail strategy is important for pharmacy performance because it helps to give direction. You know what needs to be done well and what needs more work."*

Characteristics, Resources and Capabilities of Retail Pharmacies. The findings suggested that there was a diversification in what the respondents perceived as the characteristics, resources and capabilities of pharmacists. First, the recruitment of quality staff, management and training of staff were of great importance since this influenced the level and quality of the service provided. Second, the size of the pharmacy was considered significant since it determined the merchandise range and store format. Finally, a customer-orientated attitude was critical since; meeting the needs of the customer is the pharmacy's key priority. Nina explains: *"We are perceived to be more expensive than supermarkets and health food stores. Therefore, we have to make customers aware that even though our prices may be higher, we provide a service that they cannot get anywhere else. We treat our customers like our family and we know most of them by name and they us."*

Discussion and Conclusion

As indicated by the findings, the general consensus among pharmacists is that a retail strategy is important for enhancing pharmacy performance. This is primarily due to its ability to provide a long-term direction for the pharmacy's growth and to indicate the strengths and weaknesses of the pharmacy's current practices. In addition, it is indicative from these findings that there is a positive relationship between retail strategy and pharmacy performance. However, this relationship does not occur in isolation. The characteristics, resources and capabilities of retail pharmacies including, human resources, pharmacy size and a customer-orientated attitude were found to be influencing factors. Such factors determine the development and integration of the retail strategy within the pharmacy's retail operation. As competition intensifies, non-traditional retailers such as pharmacies are compelled to differentiate their services. The concept of retail strategy acts, as a differentiation framework. This paper has contributed to existing marketing literature in two ways. First, by extending the retail strategy concept to non-traditional retailers. Second, the association between retail strategy and pharmacy performance was examined. Findings suggest that there is a positive association between the two concepts. However, from the results it was also indicative that the organisational characteristics, resources and capabilities of pharmacies influenced the development and integration of retail strategies. In conclusion, it is acknowledged that retail pharmacies are facing increased competition from non-pharmacy retailers. In an effort to enhance their performance pharmacies need to focus on their core capabilities, such as quality customer service and utilize this distinct advantage to develop a retail strategy that will guide the pharmacy's growth.

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