



Commentary

Future-proofing the pharmacy profession in a hypercompetitive market

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Summary

This paper highlights the hypercompetitive nature of the current pharmacy landscape in Australia and to suggest either a superior level of differentiation strategy or a focused differentiation strategy targeting a niche market as two viable, alternative business models to cost leadership for small, independent community pharmacies. A description of the Australian health care system is provided as well as background information on the current community pharmacy environment in Australia. The authors propose a differentiation or focused differentiation strategy based on cognitive professional services (CPS) which must be executed well and of a superior quality to competitors' services. Market research to determine the services valued by target customers and that they are willing to pay for is vital. To achieve the superior level of quality that will engender high patient satisfaction levels and loyalty, pharmacy owners and managers need to develop, maintain and clearly communicate service quality specifications to the staff delivering these services. Otherwise, there will be a proliferation of pharmacies offering the same professional services with no evident service differential. However, to sustain competitive advantage over the long-term, these smaller, independent community pharmacies will need to exploit a broad core competency base in order to be able to continuously introduce new sources of competitive advantage. With the right expertise, the authors argue that smaller, independent community pharmacies can successfully deliver CPS and sustain profitability in a hypercompetitive market.

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Keywords: Hypercompetition; Pharmacy; Hypercompetitive pharmacy market; Differentiation; Strategy; Professional services; Community pharmacy

Purpose

This paper highlights the hypercompetitive nature of the current pharmacy landscape in Australia and suggests either a superior level of

differentiation strategy or a focused differentiation strategy targeting a niche market as two viable, alternative business models to cost leadership for small, independent community pharmacies. The

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descriptor, 'small independent community pharmacies,' refers to single pharmacies that are independently owned or a small group of pharmacies (five pharmacies or less) owned by either one pharmacist or a small group of pharmacists. Under Australian Government legislation, only pharmacists whose qualifications are recognized by the Pharmacy Board of Australia can own community pharmacies in Australia.

Following a differentiator strategy involving the development and implementation of cognitive professional services (CPS) is not new to community pharmacy in Australia or elsewhere. In fact, the viability of Australian community pharmacy may well depend on this diversification into expanded CPS.¹ As more and more of the smaller independent community pharmacies in Australia implement professional services and follow a differentiator strategy to compete against each other as well as against the warehouse and discount pharmacies with their cost leadership strategies, sustaining competitive advantage will become increasingly difficult. In this paper it is proposed that these smaller, independent community pharmacies adopt strategies to further differentiate from the 'differentiators'² to gain competitive advantage.

Background

The Australian health care system

Australia has a universal health insurance scheme called 'Medicare' which was introduced in 1984. Medicare provides Australian citizens with free treatment and accommodation as a public patient in a public hospital and free or subsidized treatment by practitioners such as doctors (including specialists), optometrists, dentists and other allied health practitioners (in special circumstances only). Australia's public hospital system is jointly funded by the Commonwealth, State and Territory Governments and is administered by State or Territory Health departments, which sit under the jurisdiction of their relevant State or Territory governments.³ To help fund the Medicare scheme, Australian taxpayers pay a Medicare levy of 1.5% of their taxable income (this levy is waived for low-income earners). Australia also has a private health sector that is comprised private hospitals, health care professionals in private practice, not-for-profit organizations, and private health insurance funds. There is a certain degree of crossover between these two sectors e.g., the

government (State or Commonwealth) may pay for services provided to patients by practitioners in private practice and private health insurers may pay for services provided to patients in public hospitals. The difference between the two sectors is that public patients waiting for elective surgery go on to waiting lists (which can be lengthy) with precedence on the basis of clinical need whereas patients with private health insurance who elect to go privately and pay (with reimbursement from their health insurer) have much shorter waiting times for their procedures.⁴ To reduce the pressure on the public hospital system, the Australian government has endeavored to increase the number of Australians who have private health insurance. One strategy is the Medicare Levy surcharge—in addition to the 1.5% Medicare Levy, individuals and families on higher incomes who do not have private hospital insurance cover are charged an additional Medicare surcharge of 1% of taxable income.

Community pharmacy in Australia

The pharmaceutical benefits scheme

With regards to medicines, Australia has the Pharmaceutical Benefits Scheme (PBS), a government-subsidized scheme that is part of the broader National Medicines Policy. The PBS comprises a list of medicines used in the treatment of most medical conditions.⁵ Patients obtain these medicines from community pharmacies and public or private hospital pharmacy departments. Patients pay a proportion (co-payment) of the cost of the PBS-subsidized medicine and the government pays the rest. The patient co-payment has two tiers – one tier consists of a lower co-payment for those patients holding a concession card (war veterans, pensioners, low-wage earners and unemployed) and the second tier is for 'General' patients. It is illegal for any Australian pharmacy to offer discounts to patients on any PBS medicines that are subsidized by the government. Some medicines on the PBS are cheaper than the General patient co-payment – they still attract a government subsidy for concession patients but not for 'General' patients. These medicines do not command a price set by the government.

In 2007, the Australian Government commenced a process of PBS reforms (called price disclosure) to cap the rising PBS costs and keep the PBS sustainable. These reforms were around the payments community pharmacies would receive from the government through Medicare for

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