

Bankwest Future of Business: Focus on Pharmacy

2018



Contents

Key insights	4
Industry overview	5
What's driving industry growth?	6
Spotlight on Australia	7
Spotlight on Western Australia	8
What does the future hold?	9
What challenges does the industry face?	10
Where do the opportunities lie?	11
Forecasted industry growth	12



Key insights

Foreword

Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Pharmacy Services Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia's retail pharmacy sector, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

Despite challenges, Australia's pharmaceutical retailing industry performed strongly in the year to June 2017, with revenue rising by a modest 1.4% to \$16.3 billion over the period¹. Driving the industry's growth is Australia's growing population aged 50 and over, an increased number of pharmacies and strong retail product offerings.

The government's 11.3% increase in expenditure for the Pharmaceutical Benefits Scheme (PBS) provided little benefit to pharmacy retailers across Australia as they saw revenue for dispensing prescriptions decline by 1.2% in the year to June 2017². Driving the decline was a 4.0% decrease in prescription volumes over the period, which have provided

less handling and storage fees, as well as decreasing foot-traffic within pharmacies. Western Australian pharmacies have weathered unfavourable retail conditions over the past year with retail revenue stagnant, declining by a marginal 0.6% in the year to November 2017. Western Australians also lay claim to purchasing the least number of prescriptions of all Australian states, with West Aussies requiring just 6.6 prescriptions per capita in the year to June 2017, compared to the national average of 8.2³.

Australian pharmaceutical retailers are projected to experience revenue growth of 6.5% in the five years to June 2022⁴. Technology will continue to drive down operating costs as well as providing greater customer satisfaction. The use of electronic prescriptions is long overdue and should become more widely adopted in the coming years, while applications to assist prescription management and prescription dispensers will be more strongly considered by retailers.

However, this will not diminish the industry's need for quality pharmacists, instead these technologies will free them up to provide greater value-add advice to customers.

1 IBIS 2017

2 Department of Health 2017

3 Department of Health 2017

4 IBIS 2017

Industry overview

Revenue in pharmaceutical retailing continues to recover from 2014 lows, with revenue rising by 1.4% to \$16.3 billion in the year to June 2017⁵.



Satisfaction with discount pharmacies high

Very little separates consumer satisfaction levels amongst Australia's largest discount pharmacy retailers. The small bound of satisfaction scores highlights the competitiveness of the discounted pharmaceutical retailing market and the need to not only compete on price, but also service.

Customer satisfaction by business, 2016-2017



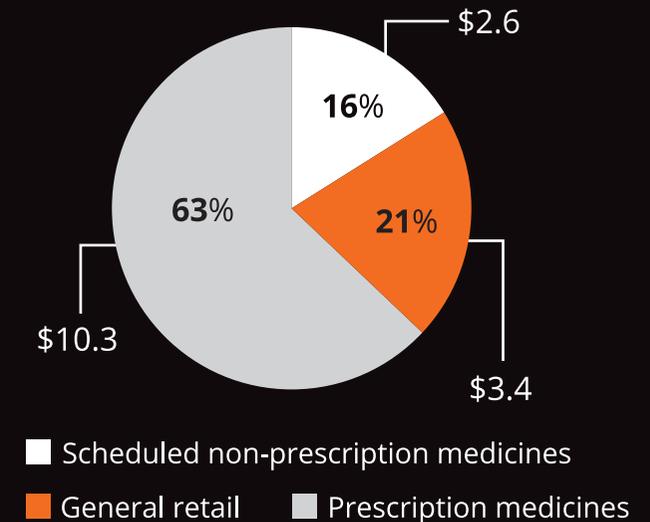
Source: Roy Morgan 2017

*Terry White and Chemmart have completed a merger of 500 stores, rebranded as Terry White Chemmart

Pharmaceutical retail purchases

Pharmaceutical retailers have been driving revenue growth through general retail products, with revenue from the segment accounting for 21.0% of revenue in the year to June 2017.

Pharmaceutical retailing revenue by segment, 2016-2017 (\$b)



Source: IBIS 2017

What's the key to success?

✓ A skilled and experienced team

✓ Located far from other pharmacies

✓ Stock the most popular products that are in demand at the time

✓ Control stock on hand to reduce inventory costs

✓ Located in areas of higher foot traffic

What's driving industry growth?

PBS expenditure rising

Rising funding for the PBS will see consumers more likely to use to savings from PBS medicines for other retail goods. The government's contribution to PBS revenue rose a staggering 11.3% in the year to June 2017.

11.3%↑ to \$12.1 bn

Other factors driving industry growth

Australia's ageing population, a growing number of pharmaceutical retailers and greater use among Australians of online pharmacies is sustaining pharmaceutical demand in a stagnating retail market.

12.1%↑

in Australia's population aged 50 and over

9.8%↑

in online pharmacy retailing revenue

6.3%↑

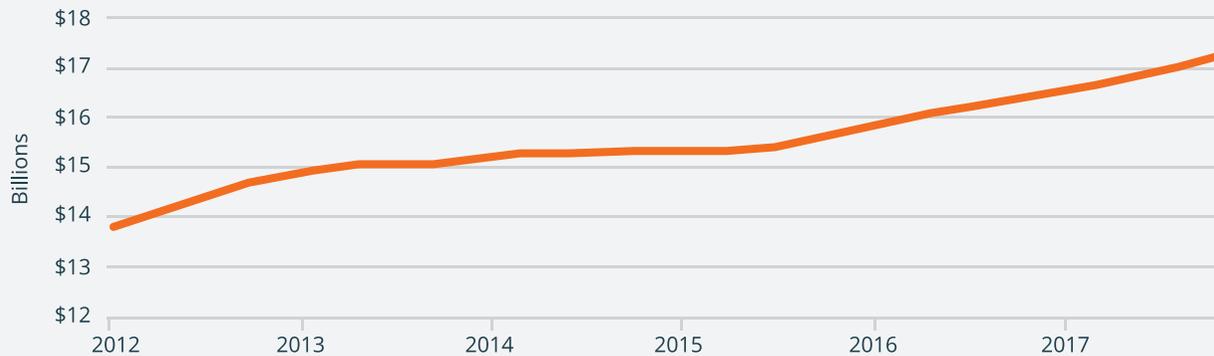
in retail pharmacy establishments

Spotlight on Australia

Increased PBS expenditure, Australia's ageing population and increased product offerings are driving growth within the pharmaceutical retailing industry.

The industry's turnover rose by 5.1% in the year to November 2017, as well as growing 16.7%⁶ in the five years to November 2017.

Pharmaceutical, cosmetic & toiletry goods turnover (\$b), Australia, 2012-2017



Source: ABS 8501

80%↑

large pharmaceutical retailers*

4.0%↓

prescription volumes in year to June 2017

0.5%↑

employment in year to June 2017

*Employing 200 or more people in the year to June 2016

Automation recommendations

The Productivity Commission released a report in 2017 making broad recommendations for the pharmaceutical retailing industry. These recommendations included:

- ✓ Promoting the automated dispensing of prescriptions
- ✓ Trialling automated technologies in rural areas where access is limited
- ✓ Moving retail pharmacy into an integrated care system

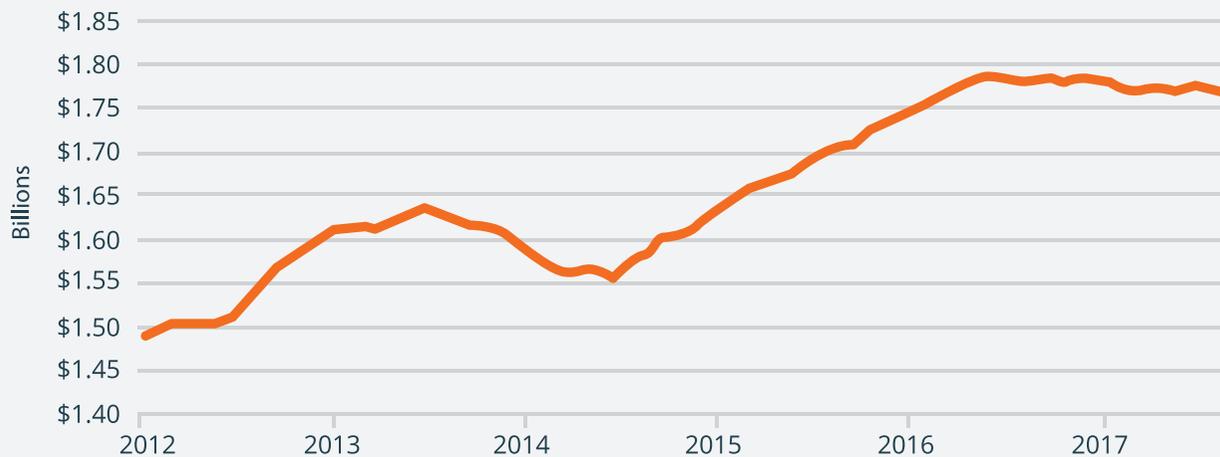
The automation of prescription dispensing is far from new, however increases in the government's health budget have called for an all-encompassing integrated approach to achieving optimum patient outcomes.

Spotlight on Western Australia

WA pharmaceutical revenue stalling

Pharmaceutical retailers in Western Australia have seen revenue stagnate in the last year, declining marginally by 0.6% in the year to November 2017. Despite the short-term decline, local retailers have enjoyed a 14.6% increase in revenue in the five years to November 2017⁷.

Pharmaceutical, cosmetic & toiletry goods turnover, Western Australia, 2012-2017



Source: ABS 8501

Western Australians purchased the lowest number of prescriptions of all Australian states in the year to June 2017⁸.

WA by the numbers

8.8% of the nation's PBS prescriptions

9.6% of the nation's patient costs for prescriptions

6.6 prescriptions per person

A Western Australian review of pharmacy ownership will be delivered in early 2018 to learn from other states and territories' experience in larger corporate retail models to ensure competition on price does not reduce quality of service.

What does the future hold?

The role for community pharmacy

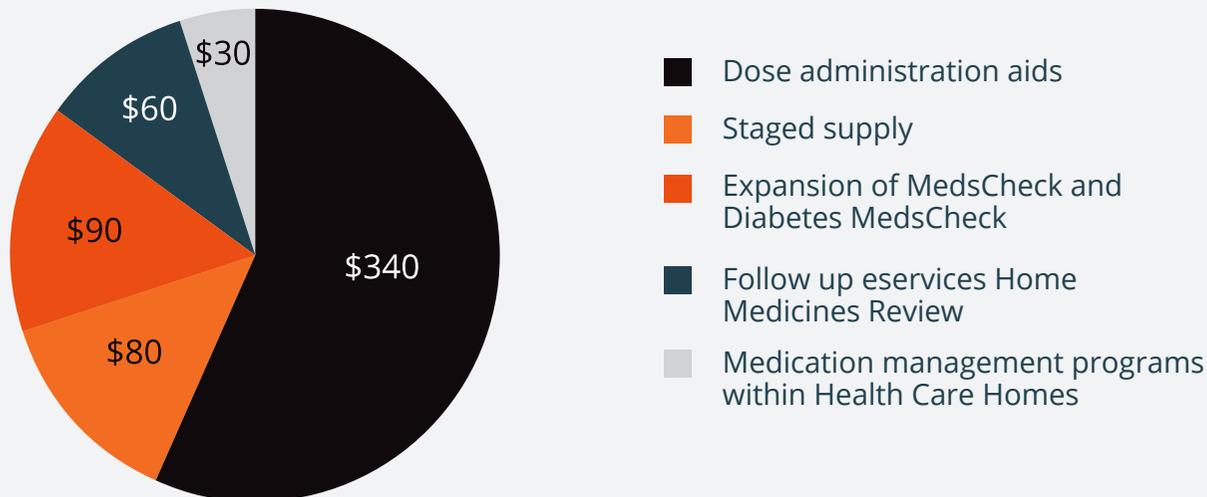
Declining script volumes despite rising PBS expenditure revenue drove a \$210 million funding allocation over three years from the government to community pharmacies as part of the sixth community pharmacy agreement (6CPA).

4.0% decline in script volume

\$210 million to support community pharmacies as part of the 6CPA

The government is working with community pharmacies to provide better primary health care and expand existing pharmacy programs. From 1 July 2017, \$600 million will be spent in the following programs until the conclusion of the agreement in 2020.

Additional funding (\$m), 2017-2020



Source: IBIS 2017

The role of technology

Other acknowledged trends within the industry include:

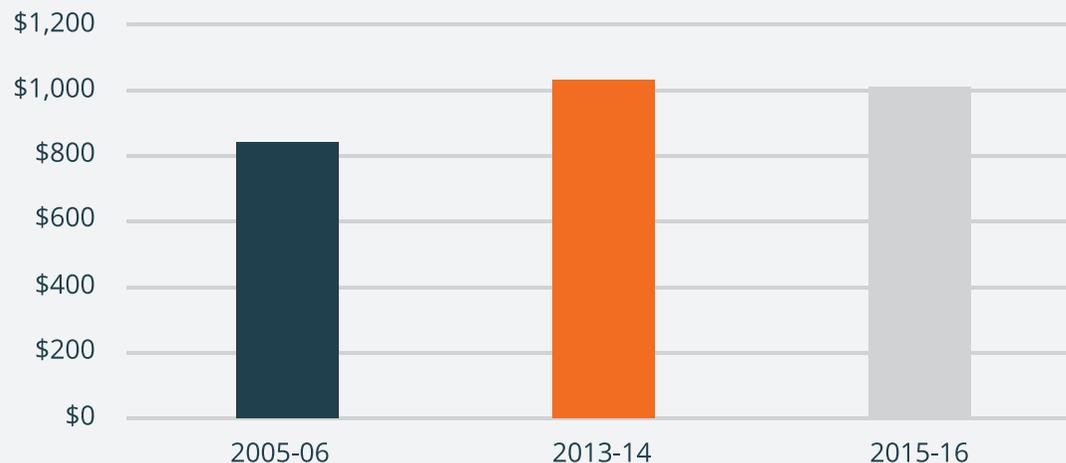
- ✓ Greater use of online prescriptions
- ✓ Increased demand for newer high-tech medicines
- ✓ Integrating pharmacies further into primary health care delivery

What challenges does the industry face?

Stagnant income growth reducing retail sales

Sluggish growth in Australian household incomes is limiting revenue growth for retail pharmacies. Household disposable income declined by 1.9% in the two years to June 2016. The modest decline in income places constraints on non-prescription medicines and other retail product revenue for pharmaceutical retailers.

Mean weekly equivalised disposable household income, 2005-2016



Source: ABS 6523

Declines in the volume of PBS prescriptions will create challenges for pharmacies and subdue foot traffic. In recognition, the government will provide \$210 million to support community pharmacies during the next few years to 2020.

Industry competition

Competition in the industry will continue to increase, with industry stakeholders highlighting a need to reduce the cost of medicine delivery. Other challenges set to confront the industry include:

- ✓ Movement towards electronic prescriptions
- ✓ High cost medicines creating cash flow issues
- ✓ Locality laws which prohibit introduction of pharmacies in areas of higher prescription use

Where do the opportunities lie?

The government has a clear goal to shift part of the health costs and resources from hospitals and into primary care and pharmacy. Pharmacy is expected to take on a growing primary care role as opposed to simply medicinal dispensing. The transition will provide opportunities to the industry such as:



Pharmacists take on a growing advisory role



Working alongside primary health care professionals



Greater role in evidence based prevention

Technology will also play a greater role in pharmaceutical retailing; complementing rather than replacing existing pharmacists. Automatic medicine dispensers and electronic management of prescriptions will increase in the next 12 months as pharmacies seek to decrease costs and increase convenience for consumers.



Customer experience

Other opportunities for Australian retail pharmacies in 2018 include:



Diversifying into preventative and well-being retail products



Building stronger relationships with customers

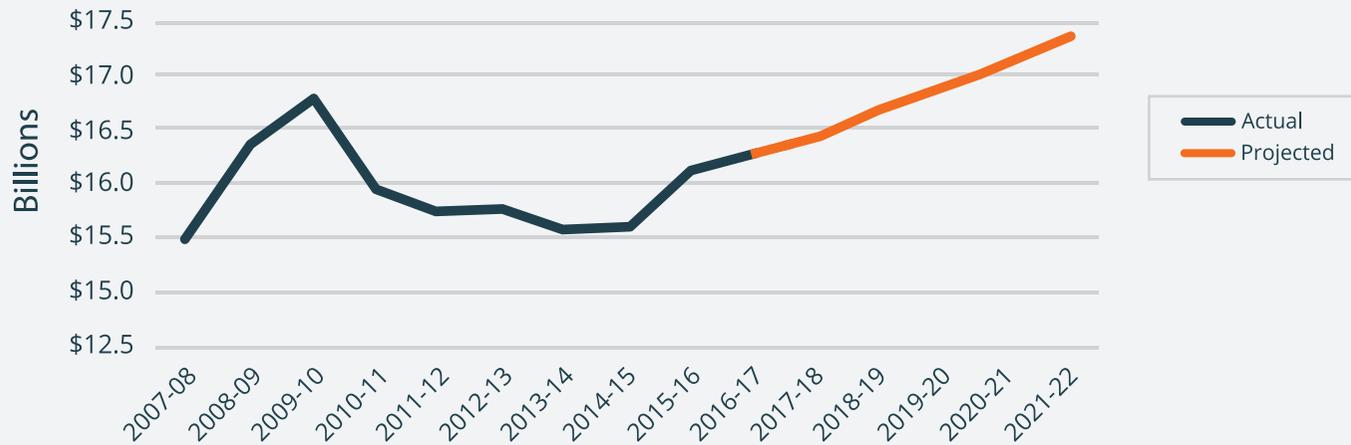


Optimising the customer experience with both technology and human interaction

Forecasted industry growth

Growth in Australia's over 50 population, increased PBS expenditure and more diversified retail offerings will see pharmaceutical retailing revenue continue its recovery and grow 6.5% in the five years to June 2022.

Actual and projected pharmaceutical retailing revenue (\$b), 2007-2022



Source: IBIS 2017

Despite increasing competition within the industry and projected increases in automation, employment per establishment is projected to remain at 11.2 in the next five years to June 2022, down marginally from 11.3 currently.

Actual and projected employment per establishment, 2013-2022

	2013	2014	2015	2016	2017
Actual	5,393	5,454	5,503	5,577	5,635
	2018	2019	2020	2021	2022
Projected	5,725	5,811	5,982	5,975	6,603

Source: IBIS 2017



Sources

Australian Bureau of Statistics 6523.0 (September 2017), Household Income and Wealth, Australia, 2015-16, available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523>

Australian Bureau of Statistics 8155.0 (November 2013), Population Projections, 2012 (base) to 2101, available at: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3222.0>

Australian Bureau of Statistics 8165.0 (February 2017), Counts of Australian Businesses, Jun 2012 to Jun 2016, Table 1, available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0>

Australian Bureau of Statistics 8501.0 (November 2017), Retail Trade, Australia, available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8501>

Australian Government, Department of Health, PBS Expenditure and Prescriptions, 2016-2017, available at: <http://www.pbs.gov.au/info/statistics/dos-and-dop/dos-and-dop>

Australian Government, Department of Health, Sixth Community Pharmacy Agreement, Canberra, May 2015

Australian Government, Productivity Commission, Shifting the Dial: 5-Year Productivity Review, Inquiry Report No 84.0, Canberra, August 2017

Richardson, A. Online Pharmaceutical Sales in Australia, IBISWorld, August 2017

Richardson, A. Pharmacies in Australia, IBISWorld, March 2017

Roy Morgan Research, It's official: Terry White tops for Pharmacy Satisfaction, media release, 19 September 2017, Roy Morgan, Melbourne



At Bankwest, we know that Business Banking is about more than just financial solutions.

We provide banking solutions to many of Australia's leading businesses, including those in pharmacy. Whether you require straightforward banking or a more customised solution, our team of experienced banking specialists can help.

Speak to one of our Business Banking Specialists today. Call us on 13 7000.

The information contained in this report is of a general nature and is not intended to be nor should be considered as professional advice. You should not act on the basis of anything contained in this report without first obtaining specific professional advice. To the extent permitted by law, Bankwest, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL/Australian credit licence 234945, its related bodies corporate, employees and contractors accepts no liability or responsibility to any persons for any loss which may be incurred or suffered as a result of acting on or refraining from acting as a result of anything contained in this report.



FOR BUSINESS