



BUSINESS MODEL INNOVATION IN PHARMACY

By Dr Monique Beedles.

Separation of remuneration from supply

Since the early 1500s, when apothecaries began petitioning to separate themselves from grocers, there has been a business model battle in the world of pharmacy. Finally, in 1617, a charter granted by King Charles I established the Worshipful Society of Apothecaries of London, recognising the skill of apothecaries in preparing medicines, as distinct from common items of trade.

An article on the history of this time published in the *British Medical Journal* in 1967 notes that, “This, however, greatly displeased the powerful city fathers and the College of Physicians, so in conjunction they placed every obstacle in the path of the new company.” This included petitioning for the requirement that medicines be supplied only on the prescription of a physician.

At this time, the Thames River was the main highway in London, and William Shakespeare was the chief playwright.

The same BMJ article observes that, “It seems inevitable that apothecaries should have often included a little free advice with the package of drugs” and “they recognised that they had no right to claim a fee for such advice, but found adequate remuneration through their charges for dispensing the remedies.”

The challenge of separating the remuneration of supply from the remuneration for advice, is therefore not a new one, but it has been highlighted by the controversy over 60-day dispensing. Most people outside pharmacy won’t recognise that the dispensing fee funds other services, despite this being a centuries old business model. This is fundamentally a question of separating the tangible from the intangible, where the relative value of these has shifted significantly over recent decades.

In the 1970s, more than 80% of the value of the world’s largest companies was vested in their tangible assets. By 2020 this ratio had completely

flipped, with the most highly capitalised businesses in the world now holding more than 90% of their value in intangible assets. Accounting standards have largely not kept up with this shift, but nevertheless, business models still based primarily in tangible goods have limited scope for growth.

The monopsony threat

The bargaining power of customers is one of Michael Porter’s five forces, part of his renowned business strategy model. This bargaining power of customers is at its most powerful, and its most dangerous, in a monopsony situation – that is, where there is a single buyer. While a true monopsony, like a true monopoly (a single seller), is rare, one of the prime examples is the purchase of PBS medicines in Australia, where the Australian Government is the single buyer.

Over reliance on a single customer is an obvious business threat, where the classic strategic response is to diversify income streams by expanding



the customer base. It's no surprise then, that those pharmacies that have successfully diversified their revenue sources will be best placed to weather the storm of changing government policies.

Alternative models

The popular 'Business Model Canvas' is one tool that can be used both to map a current business model and to innovate new models. It considers a range of factors, including activities, resources, customer relationships and channels. However, at its centre, and at the centre of any business model, is the value proposition.

Value takes many forms and can be tangible or intangible, financial or non-financial. Pharmacists are excellent at delivering value, particularly of the intangible and non-financial kind, but

have historically been less successful at articulating that value to a wider audience. It's challenging when the value model is inconsistent with other health professions and indeed with professions in general. The deeply rooted cultural barrier to charging for advice remains embedded and becomes a self-perpetuating problem when we consider the fundamental truth that people largely don't value what they don't pay for.

While as a profession we are trained to rely on evidence-based decision making when it comes to clinical matters, the perpetuation of a product-based business model in contemporary pharmacy in Australia largely ignores the evidence base of well-established business research. The challenge now is to move beyond the limitations of this model, and more than 500 years of history, to create a future where

pharmacists are remunerated fairly for their knowledge and advice. This will require courage, and more than a little imagination.

Further Reading

Competitive Strategy by Michael E. Porter, Free Press, New York, 1980.

Business Model Generation by Alexander Osterwalder & Yves Pigneur, Wiley, New Jersey, 2010.



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