



## Optimizing Profits by Utilizing Strategic Decision Making: The Exertions and Struggles of a Retail Pharmacy Chain

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### Abstract

*Due to economic hardship, lack of newer amenities and a seasonal customer base, a retail pharmacy chain in a small suburb of South Florida begins to experience loss of prescription sales. Management quickly decides to relocate the store to its own new building that is in a more metropolitan neighborhood close enough to retain the current customer base, and also attract newer ones with modern amenities this building would offer. However, they're unable to initially retain their established customer base and attract new customers as they hoped for. This case examines the poor marketing decisions made by management prior to the move and those made afterwards to rectify and increase profits. Case questions and discussion questions are also included for academics and practitioners to use during lectures or trainings.*

**Keywords:** Decision-making, marketing, pharmacy, damage control, management, and profits.

### Introduction

Drugmart store #256, in District A of the Southeastern Region, is one of the very few pharmacies located in a small neighborhood in south Florida. The store is an old standing Pills-R-Us store, an independent pharmacy, which was acquired by Drugmart in July, 2004.

It's a smaller store of 500sq feet, lacks a drive-thru window and was originally built in 1977. They fill 400 prescriptions a week, a low volume for a retail chain, but marginal for an independent pharmacy. It's been the only pharmacy within a 3-mile radius, other than a newly opened supermarket pharmacy, thus allowing it to retain steady growth in the last 10 years. Its customer base consists mainly of elderly patients who regularly visit the pharmacy, especially in the winter months. They enjoy the convenience of being able to walk down the street from their homes to the pharmacy.

They also loved Bobby Jones., the pharmacy manager. He owned and operated Pills-R-Us with his now retired father, Kevin Jones, who opened the pharmacy after returning from the

Vietnam War. Bobby is an older pharmacist with a B.S. in Pharmacy from Florida College of Pharmacy and has been in the profession for over 30 years. He has a caring approach that makes customers really comfortable to open up and ask him questions about their prescriptions. He's also a very efficient pharmacist, who is well organized and works quickly. The rest of the pharmacy team consists of 3 other full-time employees, Belinda, Sal, and Sanaz.

Belinda is the fulltime staff pharmacist. She has been with Drugmart for the last 3 years at this location. Though she's not as experienced as Bobby is, she really connects with customers. Salvador, or "Sal" as he likes to be called, is the lead technician of Samoan background. He's Bobby's right-hand man and has been working with Bobby since Nov. 2002. He loves working in the pharmacy but since the birth of his first son 6 years ago, he doubts he'll ever continue his education and become a pharmacist. Sanaz is the other fulltime technician that works at the pharmacy. She's a young student from Iran who is completing her pharmacy prerequisites at Boca Community College. She began working at this Drugmart location in 2005, shortly after the acquisition.

Drugmart decided to purchase Pills-R-Us in 2004. Drugmart Regional Supervisor Leslie Conkling really pushed for the idea to company CEO John Simon, claiming that it would be a sound idea to expand into this area, being that no other retail pharmacy was present. Plus at the continued growth rate of this South Florida city with a population of over 37,000 in that zip code alone, it would net the company an estimated \$2.3 million in profit over the next decade (City-Data: 33428 Profile). Leslie enthusiastically campaigned in favor of purchasing Pills-R-Us despite its overall low volume, small size, and seasonal decline in sales.

Bobby's store like most other Drugmart stores made the majority of their profit from the pharmacy. A majority of the customers were older, on Medicare and they were taking more than three prescription medications. On a regular day, Bobby and the team filled an average of 60 prescriptions. Though the pharmacy is open 8:00A.M. – 10:00P.M. daily, because of the makeup of their customers, they saw business die down towards the evening, as very few customers came in after 6:00P.M.

### ***Decline in Script Count***

But since 2006, especially during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters, their script counts have declined and the main store has experienced a loss in margins as well. One of the causes of the decline in prescription sales during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters could be attributed to the snowbird effect. A Snowbird is an individual from the Northeastern parts of the country who spends the winter months in Florida and the rest of the year in the Northeast. This community receives quite a number of "snowbirds" seasonally. This results in a boost in the economy for the city during the winter months, and a decline as the summer begins and the return.

As a result of this and the economic hardship amongst other reasons, several nearby businesses closed their doors. The Home Foods grocery store within the plaza also closed down in the summer. Home Foods was a major anchor point, as it brought in a lot of customers to the store who would drop their prescriptions off at Drugmart and then go shop at the Home Foods. The Drugmart store also saw a few customers switch to the pharmacy that opened up in a supermarket in an adjacent plaza.

### ***Relocating***

All these problems with the store and the declining sales caused Leslie to decide it was time to relocate the store, especially after Home Foods closed down. Brian Small, the district manager, reported to Leslie that the store was ranked last in the district for 5 consecutive months

not only in prescription count, but also in wait time. The decrease in sales forced the store to cut hours, and Sanaz went from 40 hours a week to less than 20. Sal was also only afforded to work 30 hours a week. Consequently, it was now mainly 1 pharmacist and 1 technician instead of the usual 2 technicians during a normal shift. Sal and Sanaz only overlapped in the afternoon for a couple of hours, so every other time during the day when customers were coming in, there weren't enough staff there to attend to them.

Leslie's main focus on relocating the store was finding a location that didn't have the aforementioned disadvantages. She was looking at both demographic and geographic market segmentation. Middle-aged people, homeowners and rural populations tend to be more loyal to a company. And as reflected in the store because of the snowbirds, highly mobile populations tend to be far less loyal because of the interrupted business dealings whenever they move (Reichheld 1993, p.66). Her goal was to keep the elderly customers from the current location, but wanted a place with a younger population, less snowbirds and more 30-40 year olds with small children. She also wanted a location that didn't have many major competitors in site. A suitable site was found in February 2008 that is 3 miles away from the previous location, and plans for relocating began.

Construction began and the building was complete in a year and a half. It was complete with a drive thru window and space for a minute-clinic that Leslie really wanted to include. Three months to the move, Bobby began telling customers they'd be moving, but not far away. A poster was placed in the pharmacy announcing the move. He also told them the new location would include a minute-clinic, which they all seemed to like.

While ringing up a customer's prescriptions for example, a conversation similar to the following could be heard in the pharmacy:

Bobby: Alright Mr. Willis you're all set. It'd be best to take this prescription on an empty stomach. Do you have any questions about it?

Mr. Willis: No Bobby, thank you.

Bobby: Now we'll be moving in a couple of months to Parkland. You may have seen the poster.

Mr. Willis: Oh really, I didn't see the poster. Where in Parkland?

Bobby: Really just about 3 minutes away. We're on 21<sup>st</sup> street now, take it to Speedway and head west, and the it'll be before the next light. We all will still be the pharmacy team at the new location. It'll have a drive thru window, a Quikclinic.

Mr. Willis: Ok, well, thanks for telling me.

Bobby: Take care, Mr. Willis.

Apart from that, no other marketing was done to promote the new location.

### ***Parkland Challenges***

On August 7<sup>th</sup> 2010, PharmsRUs officially opened up in Parkland, FL. This opening was to serve as a new beginning for the store. It was meant to solve all their problems of the old location, and give Bobby and the team a chance to maximize profits by expanding their customer base. The new location however, brought about new challenges and issues.

City ordinances prevented much advertising to be done for the grand opening of the store. Corporate policies prevented them from using means such as billboards, television, radio and print advertisements months before the opening to inform residents of the new opening. The Parklander, the official magazine of the city, that serves as a great way to inform the public of ongoing events was not an option because of specific contracts between certain mainstream newspapers and PharmsRUs. The store also failed to participate at a local fair that would have

served as a platform for publicity. City of Parkland codes also prevented them from using promotional items such as banner signs, snipe signs, and off-premise signs and inflatable balloons marking a grand opening (Municipal Code of Parkland: Section 15-5).

Apart from the inability to sufficiently advertise to the community, the new location itself proved to be problematic, not only for PharmsRUs but also for the neighboring businesses. According to municipal codes of the city, special emphasis is placed on landscaping (trees, and bushes) at entrance and exit points to project an aesthetically beautiful environment from the adjacent roadways. The code, though meant to enhance the public's view, in the same vein, obstructed their view of the businesses behind the landscaping. (Municipal Code of Parkland: Sec 9-3 (4)). The logo of the company, PharmsRUs, in bright red letters is a type of branding, "the act of getting customers to attach some symbolic meaning to a brand" (Holdford, 2007, p.167). However, the city prohibited the use of such (fluorescent) colors in the signs; therefore customers were unable to relate with the uncharacteristic brown lettering that matched the building. City codes also required all the stores in the plaza to blend into each other by being color-coordinated. (Municipal Code of Parkland: Section 13-79.4). All these restrictions made it extremely difficult for customers, especially commuters, to locate the store as it didn't stand out without its characteristic red lettering.

### ***Marketing Challenges***

Customer loyalty, as defined by Jones and Sasser, "is the feeling of attachment to or affection for a company's people, products, or services" (Jones & Sasser, 1995, p. 92). The company believed it would be able to capitalize on the provider/patient relationship Bobby had built over the years with his customers at the previous location. A relationship developed through customer satisfaction that was provided, as indicated by customer surveys. Due to the proximity of the new location and the old location being only 3 miles, but in a different county, they assumed they would be able to retain their loyal customers. However, many established customers took their business to a nearby pharmacy instead.

Within the last 5 years, walk in clinics have emerged all over the country that allow patients the freedom and convenience to see healthcare providers such as nurse practitioners for basic medical care. Without the need for appointments and a short wait time, this has become a popular alternative to a traditional doctor's office. It has also become apparent that the operation of walk-in clinics by retail pharmacy chains has increased profit margins by boosting prescription sales and front store sales. The convenience of it allows patients to quickly see a nurse practitioner and have their prescriptions filled immediately at the pharmacy to begin their drug therapy.

PharmsRUs has capitalized on this opportunity by introducing their QuikClinics to customers all around the country. When a company consistently delivers superior value and thereby wins customer loyalty, market share and revenues increase, while the cost of acquiring and serving new customers decrease (Reichheld, 1993, p.64). With this knowledge in mind, Leslie planned to open a QuikClinic, at the new location in order to deliver more value while expanding the customer base. It was anticipated that the QuikClinic would open shortly after the opening of the new store. So it was heavily emphasized at the old location to the current customers and advertised on the PharmsRUs website as being open. The new building was therefore built with enough space to hold the QuikClinic, and a sign was installed inside the store. However, when the official move took place, the presence of a walk-in clinic in the same shopping plaza prevented them from opening a QuikClinic. Numerous customers arrived to the store seeking this service but were disappointed and took their business to a competitor.

A few months after the new store opened, a delivery program was enacted. The program would provide prescription delivery to customers at their homes at no cost. The purpose was to attract new customers and regain the old customers not retained due to the distance. Even though this service was offered free of charge, unfortunately the previous customers had already established a relationship with a closer competitor in the meantime. There was little to no demand for this program by the younger population in Parkland since transportation was not an issue for them.

### ***Marketing Strategies***

Both front store and prescription sales did not increase as anticipated after the move due to the previously stated challenges. New strategies were therefore implemented in an attempt to increase sales. To attract more customers within the surrounding neighborhoods, coupons for (2) \$25 gift cards were mailed to every resident within a 5-mile radius. The coupons were redeemable with a new or transferred prescription. This served the purposes of not only informing the nearby communities of the new store, but it also encouraged customers of competitors to bring in their prescriptions.

Still unwilling to lose the old customers that chose a closer competitor, Leslie decided on a more personal approach to regain their business. Statistical analysis was done to determine which customers from the old location had not filled their prescriptions within the last 6 months. This showed which customers had been lost specifically due to the move. Leslie's new goal was to target these customers with special offers. The pharmacist was to call each customer and make the offer, asking them to return. She trained the pharmacist on how to make the calls, using the following sample dialogue:

Bobby: Hi Mr. Smith this is Bobby from XYZ.

Mr. Smith: Hi

Bobby: How are you doing today?

Mr. Smith: I'm fine, thanks for asking.

Bobby: We've noticed you haven't filled your usual prescriptions at our pharmacy within the last 6 months.

Mr. Smith: Yea, I get them now at The Supermarket around the corner.

Bobby: I understand that it's a closer pharmacy to you. But we're located just 3 miles away from our previous location. I would also like to inform you of the new delivery service we just started.

Mr. Smith: Oh, how does it work?

Bobby: You inform us what prescriptions need to be filled and our driver will bring your prescriptions to you free of charge.

Mr. Smith: That's sounds like a great program.

Bobby: We will also offer you a \$25 gift card for every prescription transferred to our store.

This approach resulted in some old customers being recovered. The younger demographic and higher income of the newer customers from the area caused Bobby to stock a greater volume and wider range of medications not previously necessary. Among the new additions, for the younger population were a larger variety of antibiotics, attention-deficit-disorder medications and oral contraceptives to name a few. This also helped in gaining new customers from local competitors that did not normally carry their medications.

Case Questions:

- Was there a proper marketing plan in place?
  - Was it adequate for their current customers?
  - What were the shortcomings of the plan that was in place, where did it fail?
  - Were they able to retain their customers? Explain why or why not.
  - Given the demographic, what should the marketing plan have been?
  - Was promotional advertising sufficient? Explain why or why not.

Discussion Questions:

1. *Was the marketing plan employed by DrugsRUs extensive enough to keep their loyal customers? What about the demographic of their customers made marketing the move difficult? What if any, were the reasons the customers deflected if they were once loyal? Could anything have been done to better retain the previously established customers at the old location?*

- A. The marketing plan DrugsRUs engaged in to their previous customers was neither efficient nor sufficient in retaining the customers. The marketing consisted mainly of casually telling the customers they were moving and placing a poster in the pharmacy. While in some instances this may be efficient, it proved not to be in this case. When talking to the customers, Bobby just told them they were moving to Parkland, and the customers were expected to accept that. He told them about the Quikclinic, bigger space and other perks of the new location, which are advantageous in marketing; however, he failed to address what was most important to this group of customers, the convenience.
- B. PharmsRUs misunderstood their customer base. The elderly customers made up a demographic that is primarily localized, pedal, and does not commute far, even if the distance is only perceived. They underestimated the value of proximity and convenience for this specific demographic. Though the perks a new location may bring, like a drive-thru, may be sufficient in marketing to a younger, busier demographic, it didn't carry the same value to an older populace who walked to the old store for many years. This is a group that doesn't necessarily accept change, if it doesn't directly benefit them. They value tradition, and do things primarily the way they're used to doing them. For example, in this neighborhood, Yamato and 441 is one of the biggest intersections, and the old store was located there. 441 heading west has been undeveloped and thus no one heads west. The residents have always gone east for their shopping, their commute, to get to the interstate, etc.
- C. Though the store did a good job of letting the customers know about the move, they could have done a better job informing them on the new location. Making sure they're aware that though it's a new city, it's still really close. PharmsRUs should have de-emphasized the fact that the move is to a new city to their customers, and instead focus on the short distance. The mention of a different city immediately brought about the connotation of a long commute. This should have been addressed right away. While the pharmacists or technicians were telling the customers about the move, the focus should have been on letting them know it's just 3 minutes away. Taking

441 east, the new store is located there before the light. This should have been conveyed also in pamphlets and posters, visually mapped out so the customers are re-affirmed. More aggressive marketing should have also been done. Phone calls should have been made to every single customer that has filled a prescription within the last year. Pamphlets also should have been sent out in the mail to them, conveying the message that the move is occurring on this particular day, to this particular place that's close by. And that a delivery program is available for those customers free of charge, for those customers who still express dissatisfaction with the location.

D. The enactment of the delivery program was an attempt to undo the damage that had already been done. It was a reactive move that should have been foreseen and implemented beforehand. The delivery program should have been included in the marketing done with previous customers. While customers were being told about the move, all the customers should be informed, especially those who expressed dissatisfaction about the distance. Customers should have also known that it's a service that would be implemented immediately the move occurred so there'd be no breach in the relationship and no reason for them to go to a closer pharmacy.

2. *Was there proper analysis by the company conducted pertaining to the ordinances of the city of Parkland?*

Proper investigation and analysis of the city of Parkland's rules and regulations would have revealed the many obstacles that the company would have to overcome. Some of these obstacles include the ban of using "red fluorescent signs" representing the XYZ logo on the store. Since the lettering is a nationally recognized symbol of the company, it has made recognition of the store extremely difficult and challenging for people driving on the roads adjacent to the property. It would have been also important to analyze the mandatory landscaping laws on all of the commercial properties in the city. The planting of trees and bushes on the property bordering the store also obstructed the view of drivers and people traveling on the road.

3. *What marketing tools should have been utilized in marketing to the residents of Parkland? How could the company attract customers that have established relationships at other pharmacies? Was the company able to efficiently use all of the resources available to market the new store to the city of Parkland?*

A. PharmsRUs did not fully market to the residents of the city of Parkland. In reaching out to the new population, a different type of marketing plan should have been utilized, than what was used for their already established customers. The new region consisted of younger families who would appreciate the resources the new store brought. The nature of this customer base would make features such as drive thru, Quikclinic, bigger space attractive and advantageous to the company. So the marketing done to them should have emphasized this. Since this was the first pharmacy to open in the city of Parkland, marketing should not have been difficult. Especially since the residents had to commute before the opening to find the nearest pharmacy.

B. Attracting customers of these pharmacies even if they were satisfied should be accomplished with the features the store provided. Mailings sent out to these

- customers with not only \$25 gift cards, but also an additional gift card for every transferred prescription, and a free checkup at QuikClinic would have greatly increased the number of customers coming in.
- C. The city of Parkland prevented the company from having the grand opening that is a normal occurrence for the company when a brand new store officially opens. The company would inform the public about the grand opening with an inflatable balloon. It should have been made a priority for the company to determine other methods of advertising the opening of the new store. Since this was the only pharmacy located in the city, the company could have advertised the opening in the newsletters of the communities of the city. The Parklander magazine would have been a great alternative to advertise the new store. The store also needed to participate in the new community events which did not occur. There were countless opportunities for free advertising by the company, but the proper decisions were not made by the company.
  - D. *What are some of the important steps that the store has to do now to continue to improve the overall sales and profitability of the store?*

Since a medical practice has opened in the plaza, there is an anticipated further increase in overall sales in not only the pharmacy but also in front store sales. It is important to retain the certified and well experienced technicians. The company needs to offer the current employees a salary that is competitive with other retail pharmacies in the area. This will result in a higher probability of the employees to continue working for XYZ, especially that specific store. It is necessary that the new customers from not only the medical practice but also from the city of Parkland to establish a long term relationship with the current employees. The increase in salary of the employees will be compensated with a greater increase in sales and profits. The company also needs to examine and determine other avenues of advertising that will expose the store to the community. Even though the store has been established at the new location, there are constantly new residents moving into the city of Parkland. Having an advertisement in the Parklander will allow the pharmacy to advertise to these new residents of the city.

Did proper planning occur?

1. *Was the location ideal to create a successful and profitable business?*

The location did not provide the company the proper tools to expand the business and make it more profitable. The city restrictions prevented the company to efficiently advertise the store to the public. There was no anchor store such as a large produce store that would bring customers into the complex to shop. This limited the exposure of the pharmacy store to the public.

Even though the new location was only two miles from the previous location, being located in a different city and a county had a psychological effect on the elderly population. They perceived the distance to be too long of a distance to commute to. The customers made a right turn after exiting from their community instead of a left which would have led them to the new location.

2. *Did the company fully research the regulations and the ordinances of the city?*

The company needed to investigate the ordinances of the specific city that they were planning on relocating to. Not being allowed to have a sign on the main roadway prevented the community from recognizing the presence of the store.

The required landscaping and the lack of red lighting of the company logo that was on the building also contributed to the challenges of having a profitable business.

It was critical that a store of this magnitude have a grand opening, especially since it was the only pharmacy in this city. The inability to have a grand opening due to the city restrictions once again limited the exposure of this store to the community.

3. *Did the company investigate the possibility of future competitors in the area?*

Since this was an up and coming area, a lot of businesses were opening up around that specific location. Not necessarily in the same complex but within a one mile radius. A major competitor had opened a month prior to the relocation being complete. They were located only a half mile down the road in a different city. With minimal restrictions they were able to attain many customers that the pharmacy store also wanted. The competitor was able to hold a grand opening, did not have landscape obstructing the view of commuters, and was able to have numerous signs adjacent to the road advertising their store.

4. *Was accurate information provided to the customers at the new location?*

Once the new store opened, there were some technological issues that had to be fixed. The receipts at the new location were printing the old phone number and address of the previous location. The website was advertising the opening of a minute clinic when it had not opened yet. This provided inaccurate information to the customer and as a result some of the customers went to competitors in the area. There were also problems with the phone lines. Many times, the phones calls made to the old number did not convert the phone call to the new location. Customers were getting a busy signal or were unable to contact the store.

5. *Did the company investigate all contracts that the city of Parkland had with other businesses in the complex?*

The company needed to make sure that the future plans of the company were not going to be jeopardized by the contracts that the city of parkland signed with certain businesses. The pharmacy wanted to open a minute clinic to be able to provide additional services to the customers. They advertised this in the store and on the company website, and even constructed the proper offices to provide these services. Unfortunately all of this was unnecessary. The city of Parkland had an exclusive contract with the Express clinic which prevented from any business in the same complex providing any medical services. The proper research was not completed. If the research had been completed then all of this confusion and false advertising could have been avoided.

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