Section 4: Chapter 5

5 Innovation in pharmacy

Innovation in pharmacy has become increasingly important in the light of the current changes to the Australian health system. The traditional role of pharmacy as the supplier of medicines and pharmacy’s reliance on PBS margins is being challenged. This has encouraged innovation within the pharmacy profession to provide new ways of implementing services and sustaining a viable business in a changing environment.

Innovation, however, is a term with a variety of meanings. This has been discussed in previous pharmacy research (White 2003; Tann and Blenkinsopp 2004) and this report will draw the pre-existing research in this area. Our research draws on the works of Schumpeter (1968) and Rogers (1995). Schumpeter (1968 p.65) defines innovation as:

- The introduction of a new good or type of good in the market
- The introduction in an industry of a new method of production
- The opening of a new market in a country
- The attainment of new sources of raw materials
- The opening of a new market
- The creation of a new organisational structure in industry

Rogers (1995, p. 11) simply states that “an innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption”. He adds that the action need only be considered new by the adopter to constitute innovation. This “newness” may be “expressed in terms of knowledge, persuasion, or a decision to adopt” (Rogers 1995, p. 11). The categories of innovators, early adopters, early majority, late majority and laggards define the stages of the innovation’s diffusion within the environment. An analysis of Home Medicine Reviews (HMRs) and Residential Medication Management Reviews (RMMRs) was conducted using these categories to assess the rate of adoption in Australian community pharmacies (see Roberts et al. 2003).

Our analysis of innovation here will be limited to three types of innovation: service, product and business model innovation; and four characteristics of innovation: radical vs. incremental and compatible vs. incompatible. These will be discussed below.
5.1 Types of Innovation

Three types of innovation are considered most applicable to the case studies of innovative pharmacies in this study: product innovation, service innovation and business model innovation. These forms highlight different manifestations of innovation that can take place in pharmacy. Product innovation is based on the renewal of “established offers in established markets” (Moore 2004, p. 88). Service innovations are when products previously used are substituted for services, that is, a new way of accessing customers is adopted by the organisation (Sundbo 1999). Business model innovation has two forms. Firstly, it re-establishes how the organisation offers its products and/or service to the consumers (Treacy 2004), that is, it “reframes an established value proposition” (Moore 2004, p. 88). By changing the pharmacist would appeal to the consumer’s needs for health care related products and/or services. Secondly, it adds value to the products and/or services during their delivery cycle to the customer, it reframes “a company’s established role in the value chain” (Moore 2004, p. 88). The progression of product innovation and business model innovation relative to risk in the marketplace and technology risk is shown in the figure below.

Figure 4.36: Product vs Business Model Innovation Chart

Source: Treacy (2004, p. 30)
Figure 4.36 shows how the level of innovation in an organisation can be developed through various stages depending on consumer demand (marketplace risk) and the capacity of the organisation to provide the new product or service (technology risk). The example case studies in section 5.3 show how product and business model innovation can be applied to pharmacy.

5.2 Characteristics of Innovation

5.2.1 Incremental vs Radical

Innovation can be categorised as either incremental or radical. Incremental innovation is when steady improvements are used to make changes within an organisation and create a new product, service, or any other form of innovation. It is based on, but extends, standard practice in the industry and can have immediate financial gains. It also develops customer loyalty. On the other hand, radical innovation is based on experimentation and requires a fundamental rethinking of the way an industry is structured. Often radical innovation creates new markets for its products or services and needs to be developed over a longer period of time. Financial returns are not always immediate (Schaper and Volery 2004).

5.2.2 Compatible vs Incompatible Innovation

Sheremata (2004) further developed one of Rogers’ (1995) five characteristics of innovation through his typology of innovation, which has been adapted in figure 4.37. He utilised the radical/ incremental classifications and incorporated a compatible to incompatible continuum as shown in the matrix (figure 4.37). Innovation can be a scale of the product or service’s “newness” for the consumer and the level of compatibility, or the ability that the product or service has to work well with others (Sheremata 2004). The classifications were chosen to typify consumers’ values rather than internal capabilities of the business but it is nonetheless interesting to apply this model to the innovative case studies conducted for this project as the ultimate goal is to address consumer needs.
5.3 Stories of Innovation

Following are four case studies that have been adapted to highlight their innovative characteristics. They illustrate how community pharmacies can use innovative changes in either radical or incremental ways to maintain their viability.

5.3.1 “Tailor-made for You”

Case study 11 is a Focused Specialty pharmacy. It is summarised below as an example of radical and incompatible product innovation.

Compounding is a revitalised area of pharmacy and this case study pharmacy has decided to harness this area by focusing solely on compounding medicines. They have rethought the way pharmacies operate and made the decision not to dispense PBS medicines. Their product range includes:

- Combining multiple medications into a single convenient dosage,
- Adding flavours to medicines for children or delivering them through alternate forms such as lollipops,
- Providing alternate medicine forms such as lozenges or creams depending on the patient preference and needs,
- "Our whole operation is based largely around breaking all the rules as far as regular pharmacy is concerned."
Providing customised medications for pain management. By providing renewed products to established markets (product innovation) this pharmacy bases its financial performance on non-PBS products. The pharmacy sells to an unusual niche market consisting of 100 prescribers, GPs and specialists Australia-wide, who send in the prescription by mail or telephone their request when the prescription is on file. The compounded products the pharmacy offers are not readily available elsewhere and are not compatible with other products on the market. They are alternatives to mainstream, conventional products that are offered in pharmacy.

5.3.2 “The Integrated Pharmacy Clinic”

Case study 15 is a Focused Specialty pharmacy. It is summarised below as an example of radical and compatible product/service innovation.

Like the previous example, this pharmacy has taken on complementary medicines and compounding in a non-PBS product focused model. The pharmacy applied for a non-NHS approval number and employs only a compounding pharmacist. It provides a specialised range of complementary medicines and practitioner-only herbal products and a customised compounding service to an extended customer base.

The pharmacy operates within an integrated clinic setting. The clinic includes other health care practitioners - two GPs with a specialty practice in women’s health, a naturopath/herbalist and an orthomolecular medicine specialist. An important feature of this pharmacy is the innovative and unique clinic structure and the innovative products and services it offers to the customers. This creates a team-based, co-operative approach and the ability to offer customers different, compatible treatment options.

The pharmacy is pursuing a strong holistic and complementary clinical practice that has appealed to customers who have rethought conventional health care options. While the driving force for the development of the clinic and pharmacy was a keen desire to provide an alternative model of preventative health care, the pharmacist acknowledges that it also provides a business that is entirely non-PBS dependent. If in the future PBS margins are reduced, this business will be largely unaffected.

5.3.3 “Multi-specialist Aged Care Provider”

Case study 16 is a Multi Specialty pharmacy. It is summarised below as an example of incremental and compatible product/service innovation.

By slowly changing and evolving their product and service offering to meet the needs of their community, this pharmacy made steady improvements to their business and expanded the area it covers. The pharmacy has focused on supplying services to aged-care facilities and has built up its capabilities servicing this area of the market.

The pharmacy staff have also taken their skills in servicing the aged care facilities and applied these skills to other institutions where they supply palliative care services. The delivery of medications, home health care equipment, oxygen and unit dose dispensing packs to facilities across the pharmacy’s catchment area is also important and for this

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25 This pharmacy was not classified as an innovative pharmacy because of the late completion of the interview with respect to the project deadline
reason they have a fleet of five delivery vans to service these areas. This strategy has created logistic synergies for the pharmacy. The fleet of five delivery vehicles is able to fulfil several supply functions in the one run. Having an integrated suite of products and services creates a sustainable competitive advantage for the pharmacy particularly when these contracts are due for renewal.

For the consumer, the variety of aged care products and services that are provided build on each other, that is, they are compatible products and services. By slowly changing and responding to its market, this pharmacy has developed new ways of accessing customers through incremental product and service innovation.

5.3.4 “90% Loyal Customers”

Case study 10 is an Extended Pharmacy. It is summarised below as an example of incremental and incompatible business model innovation.

If a pharmacy can improve the products and services that it offers customers by adding value and appealing to their health care needs, it has recreated the value proposition for the customers. This pharmacy uses basic but effective means of adding value to their product and service offering and this, in turn, has improved the internal efficiencies of the pharmacy.

According to the owner, the pharmacy’s competitive advantage lies in “the pursuit of the pure business of pharmacy…the pursuit of excellence”. The pharmacy owner ensures the necessary staff are onsite to meet the needs of their customers and to successfully run any new programs. One example of adding value to the supply of a prescription at this pharmacy is when a follow-up phone call is made to the customer 2-3 days after the prescription has been filled to monitor their medication usage. Additionally, a branch of a neighbourhood bank was established in the pharmacy. The attraction of the banking service for customers is convenience, not compatibility with other pharmacy products; this service is adding value to their shopping experience. The bank has also provided the pharmacy with useful retailing knowledge and an additional source of customers.

This pharmacy has slowly developed its business model to best service its customers. By diversifying outside the conventional pharmacy products and services this pharmacy has incorporated new business developments and offers customers a larger variety of options.
5.3.5 Innovations in Pharmacy

From the eight innovative case studies that were identified in this research the following innovative practices or innovative services were identified:

- Working closely with the community to create community spirit and community aid projects (Case Study 7)
- Using structured daily meetings to address targeted aspects of the business e.g. finance, merchandising etc. (Case Study 7)
- Encouraging staff to visit other pharmacies out of the local area to see how others are practicing and find new ways of doing things for their pharmacy (Case Study 7)
- Using clear and achievable business indicators to motivate staff and rewarding staff for meeting these objectives (Case Study 10)
- Communicating business goals and pharmacy performance to the staff (Case Study 10)
- Establishing mentoring programs within the pharmacy to support the career development of pharmacy staff (Case Study 10)
- Focusing completely on a niche market and catering solely to that market through education programs and specialised products and services (Case Study 11, 12 & 15)
- Grouping services for a particular niche market e.g. aged care and sharing resources within the pharmacy to implement those services (Case Study 16)
- Diversifying into new areas that are not generally catered for by mainstream community pharmacies e.g. outsourced hospital pharmacy role (Case Study 19)

5.3.6 Observation of Innovative Pharmacies

The following are general characteristics of innovative pharmacies interviewed in this project:

- The pharmacy owner(s) is generally opportunistic and looks beyond the traditional view of community pharmacy
- Innovative pharmacies do not have static business practices but are constantly changing as new opportunities arise in their internal or external environment
- Innovative pharmacies not bounded by walls
- The pharmacy owner(s) are able to clearly articulate their business vision and are forward thinking
- Generally these pharmacy owners have experience in pharmacy-related areas and have superior marketing skills compared to industry average
5.4 Financial Analysis of Innovation

5.4.1 Results for Case Studies of Innovative Pharmacies

The pharmacies classified by the core research team as “innovative” achieve better financial results than all other case study pharmacies (regardless of strategy type). On financial performance, they do more than twice as well as the Australian average and almost twice as well as the mail survey sample average.

They achieve these results with marginally lower relative risk and moderately lower cost structures (based on median scores) with a resultant higher value relative to turnover (indicative value).

Innovative pharmacies are larger and more viable on most measures used in the Medici Capital study. They underperform on expected sales given resources as did all other pharmacies in the study. (This may be due to differences in the sample characteristics for the research and Medici Capital data bases).

Table 4.23 shows the relative performance of innovative pharmacies compared to all others, the overall sample, and Australian averages.

Table 4.23: Innovative Pharmacies

<table>
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<th>Innovative</th>
<th>All others</th>
<th>Overall Sample (20 Cases) Average</th>
<th>Australian Average</th>
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Note: Case Scores are indexed to the sample average where the Sample = 100
5.5 Conclusion

This section began by analysing the current and future services offered in community pharmacies. The analyses have also addressed the following questions:

- What services are currently being offered by pharmacies, their perceived profitability and level of satisfaction?
- What services are planned for the future?
- What factors influence the ability to deliver?

The results of the analyses identify potential issues that community pharmacies face when implementing new services and the implications for change management programs.

The section also described the Pharmacy Viability Matrix which was developed specifically for this project. The PVM identifies four key business strategies which can be pursued by pharmacies. Using data from the mail survey and the 24 qualitative case studies, we identified typical characteristics of pharmacies pursuing each of these strategies and examined the financial implications of these strategic choices. The PVM is a useful strategic tool pharmacists can use to position their pharmacies in the industry and, as such, an important foundation for the design of any change program at the pharmacy level.

The following section outlines this change management plan on three levels:

1. for the Guild: PharmInd Wheel
2. for the pharmacist when preparing for change: Pharmacy Change Readiness Wheel
3. for the pharmacist when implementing change: Pharmacy Change Implementation Wheel.