

Pharmacy Consolidated Interview Notes

Tuesday, 16 February 2021 22:00

Trading Entity Overview

Business Overview

- **Medirite (MR)** is a pharmacy chain (with 146 stores within Checkers & Shoprite stores) which has a mobile self-service B2C offering for prescriptions
- **Transpharm (TP)** is a Wholesale/Distribution company supplying B2B customers. It has its own Buyers and its own Product Catalogue, separate from the rest of the Group. It also has its own specialised DCs and fleet.
- **NewCo / B2CCo** is a proposed new, separate legal entity that will extend TP's offering to B2C, leveraging buying power and logistics excellence to sell GM direct to consumers. (A detailed BRD has been created for this.)

TP was initially set up to procure, store and distribute pharmaceutical products for MR. Regulations mean that scheduled pharma products cannot be stored and distributed through standard DCs. MR still procures 99% of its product through TP, but MR is only 28% of TP's business, as they expanded to supply pharma products on a wholesale basis to other customers, such as independent pharmacies, hospitals and doctors' practices.

When margins on scheduled products were regulated by government several years ago, the margin on pharma products were negatively impacted. TP responded by introducing a wider range of products with better margins, including Coke, chips, small appliances, baby formula, deodorants, picture frames, etc. They also expanded their customer base to include general merchants, pet shops, hair salons, cafes. This range of their business now make up 17%-25% of TP's sales, with the remaining ~80% scheduled & regulated.

Aspirations

Transpharm

Transpharm's vision is to be a one-stop shop for its target market B2B customers, including pharmacies, Doctors rooms, Clinics, Hospitals and more recently general merchants, cafes, hair salons, pet shops.

Transpharm growth opportunities are linked to "low hanging fruit" opportunities in extending B2C e-commerce in non-medical categories. The industry is moving to higher margin general merchandise ranges.

TP intends to extend its offering to B2C by establishing NewCo as a new, stand-alone brand and legal entity and leveraging the existing e-commerce and logistics platform to sell to cash customers online. Jaco believes that the existing systems TP e-commerce platform can support this and that systems and logistics capabilities are scalable to double the current turnover without significant need for investment.

His view is that the current high delivery service levels and streamlined processes can be tailored for the B2C channel.

Fulfillment to B2C could be via 60:60 or could utilise the MR courier network and dark stores.

Medirite

Currently, the Medirite-branded (attached) pharmacies only stock scheduled medicine, as their non-scheduled items are stocked in the Shoprite/Checkers stores. There are plans to establish free-standing MR Pharmacies with extended ranges as soon as October 2021.

B2C E-Commerce for non-scheduled goods.

Pharmacy section within sixty:60 app for both Health items and prescription medicines

Constraints

Potential Delays from a Standardised approach to E-Commerce

Jaco is concerned that his business should not be held back in pursuing new E-Commerce opportunities because the Group is adopting a more standardised approach. He believes that the platforms needed for NewCo are in place and would not want to see delays in going ahead with this.

Regulatory Constraints

Transpharm understands the regulatory requirements relating to the sale of scheduled items on a B2C basis. These will need to be considered in organisational and systems design. In SA patients are required to have a direct interaction with a pharmacist before scheduled items can be sold.

Functional Area Analysis

Merchandising

Transpharm (TP)

- Catalogue grew to 31,000 lines of which 26,000 are active lines and the remainder are “buy-outs” – for example large equipment.
- Demand tracking: Customers can search on TP site, which is tracked. Also get comments / requests from customers

Medirite (MR)

- Pharmacy (in own stores) + Health isles in Shoprite/Checkers
-

NewCo

- Sourcing, inventory and distribution will be from TP
- The initial focus will be on a full, extended Baby category, possibly extending to other niche categories.

Marketing

- TP runs its own promotions. TP buyers negotiate markdowns/support from suppliers. They also sometimes use Shoprite marketing team, +99c, but these are separate promotions
- Some promos are time-dependent (e.g. back to school, Christmas) and some are also supplier driven.
- Marketing via leaflets, electronic booklets, platform advertising (i.e. Orderwise), mailers, medical magazines. May consider TV once B2C starts.
- No loyalty programme or Xtra savings

Digital Content

N/a

Channels

Transpharm (TP)

- Initially only **call center** sales to registered customers
- There are 3 main 3rd-party **electronic platforms** servicing the wholesale pharmaceutical industry: **Orderwise**, Xprocure, Order Logistics
 - Orderwise is the biggest, 80-90% of the pharma industry is using this for procurement.
 - Wholesalers like TP, UPD and Imperial submit their stock to this master DB, and they can advertise promotions
 - Orderwise charges a flat license fee (not commission)
 - TP has invested in specific customisations on Orderwise and in tight integration to back-office systems
- As non-regulated items grew, TP created own **online** platform

(<https://www.transpharm.co.za/>)

- Over R25M/month after 6 months, targeting TP's traditional B2B customer base. Has been very successful with 25% GM sales being placed online
- TP is encouraging customers to use this channel rather Orderwise through better UI and web only promotional offers. Starting to see a move of GM customers to the online platform.
- Medirite orders through orderwise and a specific TP platform - not via the online store.
- Development by a joint internal team and MIFS (external developer). Herman Pretorius is the technical architect.
- On the transpharm.co.za site customers can:-
 - Check availability/prices, Order (create cart, checkout), view statements & sales history.
 - Scheduled medicine ranges are only visible to Doctors, Pharmacists
 - Cart capability built by MIFS / Positill by MIFS
- 60% of turnover through Orderwise (weighted heavily to Pharma (80%) rather than GM), 20-25% via online platform, rest call centre (15-20%)
- Customers decide who to buy from based on Price (though Scheduled items are not price sensitive (regulated)) and Quality of Service Delivery (how quickly and seamlessly it can be ordered and received).

Medirite (MR)

- Mainly **Bricks & Mortar**
 - sales through MR-branded Pharmacies adjacent to Shoprite & Checkers stores.
 - Also responsible for health category (e.g. Vitamins, First-Aid) in Shoprite / checkers.
 - Only contributes to trading rebates, not revenues. Where there are pharmacies in-store, 90% of the profit of this category gets allocated to pharma
 - The intention is to open larger, free-standing MediRite stores in strip-malls rather than covered malls, which will stock a wide range of Health & Beauty, Baby and other Homeware categories. (Similar to Clicks/Dis-Chem). This is partially driven by the fact that some of the smaller Checkers-X stores will not stock the full Health & Beauty, Toiletries, Baby ranges.
- The **online site does not support ordering**.
 - There has been discussion about a MediRite B2C channel but no action yet.
 - Legislative restrictions on B2C – can only sell up to schedule 2 online
 - 60:60 already caters for Health category in stores
 - When Free-standing pharmacies are opened then MR will need a separate B2C channel for these
- Prep my script - only for chronic prescriptions. Loaded on system (within 50 minutes), phone, e-mail, electronic scripts (e-scripts) integrated
- MR initiatives: Prep my script campaign, central patient profile, courier from pharmacy, sixty60, quick collect
 - Prep my script - only for chronic prescriptions. Physical scripts can be loaded as repeat on MR's Unisolv dispensary system, or digitally from doctor to MR pharmacy via phone, mail, e-script electronic platform. Can pay by Peach payments. Prescription can then be delivered via courier or Mr Delivery. There is a repeat reminder feature with a link that the customer can click to choose delivery or Quick Collect.
 - e-script caters for all customer types (see customer below)
 - Central patient profile - overlap holiday house deliveries, direct the delivery from the closest store.

NewCo

- B2C e-commerce via online shop

Customer

- TP:
 - B2B: Pharmacy, doctor, hospital. 17,000 customers
 - some very large (eg Clicks & DisChem each represented as one customer)

- NewCo:
 - Reasons for chasing B2C (for TP) -> low hanging fruit
 - Surveys on uptake - massive response
 - Already have logistics in place (doctors receptionists, etc)
- MR:
 - Customer types:
 - everyday cash customers,
 - acute prescriptions (To treat a current condition, e.g. colds & flu)
 - Chronic prescription (repeat medication at defined intervals on a single prescription)
 - Central Patient Profile allows patient records to be shared from one store to multiple, eg if patient is staying at holiday home can pick up script at local MR pharmacy or have delivered to alternative address.

Cart & Checkout

Payments & Financial

Transpharm (TP)

- Credit / terms

Medirite (MR)

- Payment via various methods – including Peach Payments electronic link (manual, no integration). Also supports co-payments where medical aid part pays. Payments are managed on SAP system (ERP?).
- Shared shoprite gateway ecentric

NewCo

- "Cash", i.e. not on account, via credit card, etc

Orders

Fulfilment

Transpharm (TP)

- Because Pharma product prices are regulated, TP has competed on quality of service delivery. 99% on-time / full-order deliveries from own 3 DCs (Gauteng, WCape, KZN) using own fleet.
- 2,000 to 11,000 deliveries per day. Customers in Gauteng, Western Cape, KZN can get 2 deliveries per day. In other regions customers get overnight delivery.
 - Orderwise does not specifically show delivery SLA – this is agreed separately between customers and TP.
- 80% of sales are for regulated pharma products, 20% GM. The same supply chain is used for both product types which means that the GM logistics chain is highly over-engineered for GM lines (eg temperature controlled trucks.)
- Only service South Africa - export too costly.
- 80% of sales are for regulated pharma products, 20% GM. The same supply chain is used for both product types which means that the GM logistics chain is highly over-engineered for GM lines (eg temperature controlled trucks.)
- Jacques is confident that they would be able to double the volumes (3Bn annual) without investing in labour or DC capacity
- Free delivery (even for single products)

Medirite (MR)

- Medicines can be collected in store or delivered to home by Mr D or via courier if no Mr D service. See Prep-my script in MR Initiatives under Channels above.
- Courier deliveries are picked out of a MR dark store rather than from pharmacies
- Health category (non-scheduled) items in stores may be available for sixty:60 delivery

NewCo

- Where there are existing B2B customers and delivery routes, the delivery can be via TP fleet. Where the destination falls outside of coverage, fulfilment will be via courier.

- Consider address validation - where a consumer address matches a B2B address, combine the delivery

B2B

No specific requirements discussed.

Marketplace

Not discussed.

Recommendations / Take-outs

- TransPharm has a well-established B2B online platform co-developed with a partner. This is servicing a growing portion of their business with particularly GM customers moving from Orderwise because of better UI and web-only promotions. Jaco believes this same platform can be leveraged for the new B2C business – it will need to be validated whether the current platform is suitable as a tactical and a long-term solution.
 - Does it support the high touch CX that a B2C Baby channel will require.
 - If the aim is to test the business model will it be fit for purpose or will it undermine the NewCo brand reputation?
- MediRite does not have a transactional B2C e-commerce presence. This has been less urgent because of the alignment of Pharmacies with Shoprite and Checkers stores and the ability to sell non-scheduled Health lines through 60:60. As Medirite establishes more free-standing Pharmacies in competition with Clicks and Dis-Chem there will be a greater need for a full B2C offering. It sounds like scheduled items could not be sold B2C on-line because of the requirement for Pharmacist involvement – unless the Pharmacist could somehow be inserted into the loop.
- From a B2B fulfilment perspective there is a highly sophisticated supply chain in Transpharm. However since the same logistics are used for scheduled and GM products there may be unnecessary costs for GM.
 - Potentially establish a GM specific logistics chain or leverage CFS?
 - Extend MR & TP reach to rural areas
- Medirite offers a variety of fulfilment mechanisms and has dark store picking for courier deliveries. These can be leveraged for both Transpharm B2C and MediRite B2C.