IBM Global Business Services

IBM Institute for Business Value

Retail

Why advocacy matters to drugstores and pharmacies

Customer focus for the health and wellness of your brand

Price, convenience and scale are traditional drivers of drugstore sales.[1] But, as pharmaceutical sales expand into a broader retail arena, such as mass merchants, supercenters and online/mail-order outlets, knowing how to develop customer Advocates can help make the difference between winning and losing in this intensely competitive retail market.

Changing landscape for drugstores

The way consumers shop for prescription drugs, over-the-counter medications and health and beauty care products has fundamentally changed with consumers turning to national drugstore chains, pharmacy counters in supermarkets and supercenters, and online or mail-order outlets.

Research by the IBM Institute for Business Value of more than 4,000 pharmacy customers reveals that this competitive market is also plagued by negative attitudes consumers have toward their primary pharmacies, in which only 20 percent of customers are Advocates.

Consumers defined as "Advocates," recommend their primary pharmacy to others, buy more from that pharmacy as new products become available and stay with that pharmacy even when new competitors appear. The two other consumer attitude segments are Antagonists, those customers who actively dislike their primary retailer, and Apathetics, those that are indifferent.

Advocacy varies by sub-segment. Independent drugstores have the strongest share, with 37 percent while national drugstore chains and supercenters have the lowest, with 20 and 18 percent, respectively.

Advocates are not only more loyal customers; they are, in general, more valuable. Our study shows that:

- Basket size, or dollars spent per visit, for Advocates is 28 percent more than Antagonists.
- Share of wallet – the percentage of total dollars customers spend with their primary pharmacy – is 20 percent higher for Advocates.
- Spend over time is higher for Advocates; – 33 percent of Advocates increased spending at their primary pharmacy over a two-year period, while twice as many Antagonists decreased their spending.

Creating more Advocates

While only 20 percent of pharmacy customers are Advocates, our survey shows that 81 percent of customers say their primary pharmacy meets their expectations. Hence, building customer advocacy is much more difficult than simply meeting customer expectations.

To understand what features are most important to Advocates, we surveyed customers about how they felt about their primary pharmacy across a number of performance attributes (see Figure).

The top three attributes were: "My drugstore makes it easy to shop," "Pleasant and enjoyable to shop at drugstore" and "Happy with service from store employees." These attributes tell us that convenience, the instore experience and customer service are three of the critical factors in building advocacy.

By using the top-ranked attributes to create an operational, cross-discipline strategy, pharmacies can work on those capabilities that enable them to provide superior focus on their customers. The effort to transform shoppers into Advocates can be a winning proposition, potentially driving significant financial benefits to the retailer and enhanced experience to the consumer.

FIGURE 1.
Attributes of the shopping experience.

	Advocates % strongly agree	Attributes		Apathetics/Antagonists % strongly agree
Convenience	91	My drugstore makes it easy to shop	48	45
Store experience	89	Pleasant and enjoyable to shop at drugstore	40	38
Customer service	88	Happy with service from store employees	46	39
	81	Store employees knowledgeable and attentive	40	32
	76	Employees go out of their way	33	27
Assortment	81	Product selection is fresh and new	35	34
Product availability	79	Products I want are always available	39	36
Multichannel	73	Products easy to return – online/in store	36	38
Promotions	65	Promotions and offers reflect my purchases	24	26
	59	Appreciates my business and rewards me	25	24
Multichannel	47	Website is easy to shop	17	19

Note: Percent responses represent those that "strongly agree" with attributes of their primary drugstore.
Source: 2008 IBM CFE Drugstore and Pharmacy Study.

How can IBM help?

- ***Strategy and Change –*** Help to address changing customer buying behaviors, organization and customer-centric processes.
- ***Retail Industry Solutions –*** Solutions to address multi-channel retailing, merchandising and supply chain, total store, and retail performance analytics.
- ***Retail Industry Offerings –*** Innovative and market-leading offerings to support the retail industry, including but not exclusive to Merchandise Operations Strategy, Next Gen e-commerce and Customer Analytics.

Key contacts:

IBM Institute for Business Value: Maureen Stancik Boyce, *staboyce@us.ibm.com*

Retail Sector:

Global Fred Balboni, *fbalboni@us.ibm.com*

Americas Kelly Chambliss, *kelly.chambliss@us.ibm.com*

Northern Europe Dirk Michael Niederhaeuser, *dirk.m.niederhaeuser@de.ibm.com*

Southern Europe Stephane Dubois, *stephane.dubois@fr.ibm.com*

Japan Ken Mori, *KENMO@jp.ibm.com*

Asia Pacific (excluding Japan) Susan De Jonge, *sdejonge@cn.ibm.com*

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
January 2009

To request a full version of this paper, e-mail us at iibv@us.ibm.com

Reference

1 We use the terms "pharmacies" and "drugstore industry/segment" to describe the combination of all retailers that sell prescription drugs: national chain drugstores, local and independent drugstores, supermarkets and super-centers with pharmacy counters, as well as online and mail-order prescription drug retailers; "drugstore" refers specifically to national drugstore chains and independently owned drugstores.

GBE03159-USEN-00