OPINION: Pharma retailers buck tough-times trend

Sifiso Skenjana: Business Day, 23 October 2019

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THE general sentiment in the retail market is that the consumer is under never-ending pressure from rising unemployment, higher food inflation, lower salary increases, no inflation adjustments to tax brackets, and lower economic growth. As such, revenues and profit margins have been squeezed. What makes pharmaceutical retailers different, given they have managed to grow revenues and margins in such a climate? In 2018, Clicks Group reported 11.7 percent growth in beauty sales, an operating profit increase of 12.6 percent, an operating margin increase of 20 basis points and total income growth of 10.5 percent. More recently it released a trading statement for the year ended August 31 that revised earnings expectations upwards. The group advised that the headline earnings numbers were likely to increase by 15 percent-18 percent, compared with an initial target increase range of 10 percent-15 percent in April. Clicks has attributed its better-than-expected revenue performance to new distribution contracts, further improvements in working capital management and better cost management.

Dis-Chem recently released a trading update for the five months ended July 31 and reported group, retail and wholesale revenue growth of 13.5%, 12% and 15.3%, respectively. It attributed the growth to optimal site selection, technology investments to drive volume growth, working capital management improvements and higher wholesale sales to independent pharmacies. In what has generally been experienced as a tough economic climate, particularly for consumer facing companies, Clicks and Dis-Chem seem to have bucked the trend. Pharmaceutical retailing in SA is estimated to be a R68-bn industry based on retail sales, of which 69% is attributable to the private sector and 31% to the public sector. SA ranks 46th globally in terms of pharmaceutical exports. The mid-year population estimate from Stats SA reported that life expectancy in SA has increased to 61.5 years for men and 67.7 years for women, from as low as 52.3 and 56.6, respectively, in 2007.

This means the demand for pharmaceuticals will continue to increase as people live longer.

Preventative healthcare

The SA consumer has started migrating towards preventive healthcare consumption, compared with a largely reactive general consumer market. As a result, we observe increases in the sales of vitamins, immune boosters and other largely marketed supplements. Euromonitor International research forecasts that with the type of digital investment going into the retail pharma market, online sales will grow 19 percent over the next three years, almost three times the forecast rate of growth for in-store sales.

The competitive landscape in SA seems to be shifting further in favour of the two large pharma retailers, which appear to have been grabbing market share from the smaller independent pharmacies. National Health Insurance may also tighten the competitive space in the industry when the proposed state-owned pharmaceutical retailer enters the market. For now, though, despite selling goods and services that may in many instances be deemed “nice to have” rather than essentials, pharma retailers are doing something the broader retail participants seem to be struggling to get right: withstanding a tough economic and competitive environment.