1. Introduction

Brett Clark had been pondering the potential of an online pharmacy for some time now. A practising pharmacist with a business interest in three retail pharmacies in the Brisbane metropolitan area, he already thoroughly understood the retail pharmacy business, but knew little about the Internet and electronic commerce. He hired David Vandenberg from a Web development company: ‘The Lab’ to assist him in assessing the viability of an online pharmacy in the Australian market place and to develop a business plan for his proposed Internet Startup: ePharmacy.

The ePharmacy site (www.epharmacy.com.au) was launched in March 2000 with the main objective of selling pharmacy goods at very competitive prices. Brett Clark hired Sasha, a dedicated employee for order processing, fulfilment, customer relationship management and routine maintenance of the site and utilised his existing pharmacy staff in advisory capacity. Initially, ePharmacy’s market reach was expected to be limited to Australia largely due to the restrictions on the sale of certain pharmaceutical goods that require a written prescription from a medical practitioner. Brett Clark felt that there were significant business opportunities for an online pharmacy given that retail pharmacy industry in Australia was worth in excess of 10 Billion annually. Little attempt have been made to develop a serious online pharmacy presence due to the highly regulated nature of retail pharmacy in Australia. There was a reluctance on the part of pharmacists to adopt new business models when they could make a comfortable living from a traditional retail pharmacy where there were significant barriers to entry in the market place.
2. Background – Retail Pharmacy in Australia

2.1 Pharmacy regulation in Australia

The retail pharmacy industry in Australia is worth about 10 Billion Dollars annually and the industry is highly regulated. There are a number of barriers to entry. Retail Pharmacy is regulated in terms of ownership, location of pharmacies to dispense benefits of Pharmaceutical Benefits Scheme (PBS) and registration of pharmacists (National Competition Review of Pharmacy 2000).

**Pharmacy Ownership.** Allowing for some variations in each State Act, and the specified exceptions of friendly societies and some grandparented proprietors (that is, for profit non-pharmacist proprietors whose holdings predate existing restrictions), by and large only registered pharmacists may own pharmacies (National Competition Review of Pharmacy 2000). There are also a number of issues relating to the commercial operation of pharmacies which may be affected by professional regulation in State and Territory Acts. These include: how many pharmacies may a proprietor own, ownership structures for pharmacy businesses, third party pecuniary interests in pharmacy businesses and regulatory authorities registering both pharmacy premises and businesses.

**Pharmacy Location.** Under the National Health Act 1953, the Commonwealth Government of Australia imposes strict controls on approving new pharmacies and on relocating existing pharmacies for Pharmaceutical Benefits Scheme (PBS) dispensary purposes. These location-based controls help to give effect to the Australian Community Pharmacy Agreement between the Commonwealth and the Pharmacy Guild of Australia.

**Pharmacy Registration.** To obtain registration, the all jurisdictions require a pharmacist to have a recognised qualification from a tertiary institution in Australia or overseas, and to complete a period of pre-registration training. The State and Territory Pharmacy Acts reserve the privilege of practising pharmacy to registered pharmacists. The supply of drugs and poisons is only permitted by non-pharmacists in very limited circumstances. In addition, most jurisdictions protect the lawful use of the term ‘pharmacist’, pharmaceutical chemist and similar titles and descriptions by restricting these to registered pharmacists. Acts and regulations also impose restrictions on the professional conduct of pharmacists including: prescribed ethical and professional standards and related disciplinary sanctions; and limitations on advertising such as the Queensland prohibition of advertising leading to invidious comparison with other pharmacists (Queensland Pharmacy Regulations 1997). Furthermore, pharmacy has become a more difficult profession to enter. The period of university training has risen from three to four years, and the effective minimum pre-registration period (including academic study) has increased to five years.
2.2 National Health System and Pharmacy in Australia

National health system. In Australia, certain pharmaceutical goods such as prescription medicines can only be obtained from a pharmacist with a written prescription from a practising medical practitioner for several reasons. This restricts the misuse of certain drugs and also many drugs are heavily subsided by the national health system. The pharmaceutical benefits scheme (PBS) allows the pharmacists to provide certain prescribed medicines etc., at highly subsided rates.

To own and operate a retail pharmacy in Australia, you need to be a qualified pharmacist. Furthermore, a prescription from a medical practitioner is needed to purchase certain types of pharmaceutical goods from a pharmacy. Typically in Australia, a pharmacist can earn a good living from a traditional retail pharmacy business. The industry is highly regulated which has created a number of barriers to entry. Hence there has been a reluctance for pharmacists to adopt new business models.

3. Overview of Case - ePharmacy

ePharmacy is a new startup Internet company and was initiated as a business idea by one of principal directors, Brett Clark in June 1999. It was kept separate from bricks and mortar pharmacy for legal and dispensary reasons. A Web developer David Vandenberg (The Lab) was employed to assist in investigating the potential
of an online pharmacy and to develop a business plan. “We spend six months
developing the site before we went live in March 2000” (Brett Clark). ePharmacy
runs a very small operation with only three people involved in running and
maintaining the site. Brett Clark has a hands on involvement role, an employee is
responsible for order processing, fulfilment, customer relationship management and
routine maintenance (updating stock information etc). A web development
company ‘The Lab’ (David Vandenberg) built the initial web site and is responsible
for hosting, maintaining and enhancing the site.

ePharmacy was developed as a functional site designed specifically for selling
pharmaceutical and associated products. Sales have increased at a rate in excess of
20 percent per month. In the twelve months to date, the site has sold in excess of
$500,000 worth of product mainly prescriptions, the usual over the counter
analgesics and the like (Liddle 2001). Seventy percent of customers are those with
regular prescriptions who leave their repeat orders with Epharmacy. A significant
segment of product sales consist of sex related products such as virility drugs,
condoms and flavoured gels. Customers are offered significant discounts to shop
online such as: 15-20 percent on feminine hygiene products, up to 30 percent on
medication, up to 30 percent stop smoking products and 25-30 percent on baby
products.

A supplier delivers any requested stock twice a day, six days a week at no charge
from ePharmacy’s 15,000 item online catalogue. One supplier provides over 80
percent of ePharmacy’s stock and is located in close proximity. ePharmacy’s
physical store at Calamvale, Brisbane holds $300,000 worth of stock. Plans are
afoot in the near future to open a megastore in Brisbane that will sell direct to the
public and serve as a warehouse. The megastore will include Internet Kiosks to
encourage self service.

When a customer places a order online that requires a prescription, the order form is
printed out and signed by the customer, and mailed to a reply-paid address along
with the prescription. Nearly 70 percent of customers leave repeat prescriptions
with ePharmacy for convenience. The orders are printed out and entered in a
portable data entry device linked to a phone line and placed with the supplier.
Australia Post picks up the order from the Calamvale store and delivers to anywhere
in Australia. The business uses one PC in the Calamvale store, a laptop to enable
Brett Clark to work from home and owns a server hosted by a Brisbane company.

At present, there is very little serious competition to ePharmacy in the form of
online pharmacies operating in Australia. Other sites in Australia are using a
network relay where a customer places an order which is relayed to the nearest local
pharmacist. The pricing structure of this approach is too difficult for the
participating pharmacists and the consumers. Since, pharmacists can earn a good
living from a traditional pharmacy practice, there is been little pressure on
pharmacists to adopt new business models such as an online pharmacy.
Furthermore, ePharmacy has the advantage of operating in a highly regulated
industry where there are barriers to entry such as restrictions on ownership and
location of pharmacies, and the required registration of practising pharmacists.
Hence, there is a largely untapped market of online consumers for pharmaceutical goods in Australia.

4. Case Findings

4.1 Value Propositions

The value propositions that ePharmacy can provide for the customer are primarily price and convenience. “Price is driving our business” (Brett Clark), and “ePharmacy’s prices are rock bottom” (web development company). 70 percent of customer sales are repeat prescriptions. “Because 80 percent of our stock comes from one supplier in close proximity and we receive two stock deliveries per day, we can normally deliver within 48 hours of an order being placed over the Internet. Our customers are often surprised how quickly we can fulfill an order. We use Australia Post to deliver our orders” (Marketing employee). As the business grows opportunities will emerge for other value propositions such collaborative advertising with pharmaceutical suppliers to provide exposure and promotion for new and existing products.

4.2 Marketing of Site

ePharmacy had operating for less than 12 months, hence it was necessary to launch the business with advertising campaign. The advertising campaign was initiated with an article on ePharmacy in the Financial Review, Brett Clark appeared in an interview on a national television show “Good Medicine”. Banner advertising was negotiated with Australia’s premier web portal Ninemsn which registers something in the order of 16 million page impressions per day. The purpose of the advertising campaign was to generate traffic to the site and to establish credibility by building a brand name in the minds of the consumers. “After the viewing of ePharmacy’s launch on the Health and Lifestyle Television show ‘Good Medicine’ site traffic trebled” (Marketing employee). Brett Clark noted that “The more hits you get, the more business you are going to get”. After the initial branding campaign on Ninemsn, ePharmacy switched to the newer shopping portals Clickandeasy and CyberRewards in February 2001. The pricing policy of these portals is based on clickthroughs and a percentage of transactions.

A large amount of ePharmacy’s success has been due to engaging a public relations firm (Kath Rose and Associates) to conduct regular press releases in different media outlets Australia wide. “The results has been astounding, I have had over 10 newspaper stories, three TV stories, three talkback radio shows and numerous articles in different publications. I always believed that traditional pharmacy which is considered old tie coupled with dot.com would make for an interesting story” (Brett Clark).
The marketing of products, services and information needed to be integrated as the main objective of the site to sell pharmacy products at low prices. The site needed to be very functional and provide the appropriate level of information to facilitate a sale whether payment was made online or offline. There are a number of legal and ethical issues to consider when selling pharmacy products and these issues must be addressed in the online environment as well (Daniels 2000). Customers are required to register with site before they are able to order online and certain pharmacy products require a written prescription from a medical practitioner. Delivery of customer orders is by certified mail which requires a signature and is a deterrent to credit card fraud. Customer relationship management was considered a priority and all customer inquiries were answered individually within a 48 hour turnaround time. The site was focused towards providing the necessary information and functionality to meet the needs of the consumer during the pre purchase, purchase and post purchase phases of a customer transaction.

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<th>Pre purchase Phase Information and Functionality</th>
<th>Purchase Phase Information and Functionality</th>
<th>Post Purchase Phase Information and Functionality</th>
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<tr>
<td>Generate traffic to the site through advertising campaign both online and offline</td>
<td>Product catalogue</td>
<td>Customer order notification</td>
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<td>Search Facility</td>
<td>Shopping basket</td>
<td>Order tracking facility</td>
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<td>Promotional information</td>
<td>Different payment methods</td>
<td>Delivery of Order by Australia Post</td>
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<td>Product and related health and beauty information</td>
<td>Settlement of Payment</td>
<td>Customer support and service</td>
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<td>Privacy statement</td>
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<td>Register with site</td>
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Table 1: Information and functionality supporting customer transaction phases

4.3 Resources

Internally, ePharmacy has a dedicated employee whose main activities are the processing of orders, fulfilment and to provide customer support. ePharmacy also provides customers with the ability to consult a pharmacist during business hours. External partners provided some of essential services associated with the online pharmacy. Australia Post provided distribution network for the delivery of orders in the fulfilment cycle. The fulfilment of orders was enhanced by the fact that 80 percent of the orders came from one supplier located in close proximity and that ePharmacy received two deliveries from this supplier. This arrangement enhanced their ability to fulfil orders in a timely manner. A secure payment gateway ensures that the settlement of online orders over the Internet is secure. The authentication of
the site was enhanced by a third party certificate authority. The Lab (www.thelab.com.au) provided the necessary technical expertise to develop, maintain and enhance the site.

After the site initially went live, the web developer has an ongoing contract to perform 40 hours work on the site each month. Brett Clark and web developer meet on a monthly basis and discuss and prioritise enhancements and future directions for the site. It is envisaged that a major redevelopment of the site will be needed within the next six months due to the rapid growth of the site. The web developer’s approach to building web sites is to keep the technology simple on client side and to utilise the power of new web technologies such as Java and ActiveX on the backend server side. ePharmacy has been designed to be a functional site that gets the customer through the phases of a customer transaction as quickly and seamlessly as possible. But at the same the site provides enough information for the various levels of users through links to more detailed information. Brett Clark is actively involved in the development, maintenance and enhancement of ePharmacy. “At first, I didn’t know anything about the Web but I learnt by talking to everyone involved in electronic commerce that I dealt with” (Brett Clark).

4.4 Financial Models

Revenue

ePharmacy’s revenue is generated from product sales and to an lesser extent from advertising. ePharmacy is primarily concerned with selling pharmacy products online and in order to generate a volume of sales required a sufficient level of site traffic. Interestingly, 20 percent of sales are classified as mail order, in that the customer prints out the order form from the site and places the order through the mail. This has presented ePharmacy with the opportunity to diversify into the lucrative pharmacy direct mail order business. Once sufficient levels of site traffic are generated, other business opportunities such as advertising and cross selling will arise. ePharmacy is particularly interested in advertising as another means of generating revenue from the site.

Revenue Growth

The present growth rate of ePharmacy has been so rapid that it has placed a strain on the current assets and resources of the company. Floating the company will allow the business to keep growing by providing the necessary capital to diversify and expand the business activities of ePharmacy and ultimately expand its revenue streams. Plans are already underway to open a megastore in Brisbane in the near future which will serve as a warehouse and will sell direct to the public.
Shareholder Value

ePharmacy is a private company, therefore shareholder value is not presently an issue. In order to keep the company growing, the directors of the company are considering plans to float the company to raise the necessary capital. Hence, in the future shareholder value will become an issue if the company proceeds with plans to float the company on the Australian Stock market as an Initial Public Offer (IPO).

5. Discussion

ePharmacy has been successful through a combination of pharmacy experience, good business planning and marketing and web development experience. The retail pharmacy industry in Australia is highly regulated which creates significant barriers to entry. An intimate knowledge of the industry and the associated legal, ethical and political issues was necessary for an online pharmacy to succeed. Brett Clark was mindful of the fact that ePharmacy’s business activities and behaviour would be closely watched by the Pharmacy Guild of Australia (www.guild.org.au) and the Pharmaceutical Society of Australia (www.psa.org.au). These pharmacy professional organisations have significant political power to regulate the conduct of practising pharmacists. Therefore, it was important to be open and accountable to these professional organisations in the pharmacy industry. An online pharmacy in Australia is subject to the same controls as other suppliers of prescription medicines.

Brett Clark elected to initially build the business plan around existing bricks and mortar stores utilising existing staff and existing alliances with wholesalers and suppliers. “I also could not understand the amount of capital that dot.coms were outlaying for branding and advertising. There seems to be a lot of ignorance about business. They have spend millions on advertising but do not seem to understand the basic principles of retailing. I initially knew nothing about the technology but I understand retail pharmacy” (Brett Clark).

ePharmacy was designed to be a functional web site that supports the purchase of pharmacy and associated goods while at the same time providing sufficient product and associated information to attract and retain customers. Furthermore, the customer is able to talk to a qualified pharmacist or the customer relationship management employee if further information is required. ePharmacy has also achieved significant competitive advantage through its close proximity to its largest supplier which provides two deliveries per day. This coupled with the extensive distribution network of Australia Post has facilitated the prompt and efficient fulfilment of customer orders.

The potential for an online pharmacy will be greatly enhanced in the future by forthcoming legislation (July 2001) that will allow the electronic transmission of pharmaceutical prescriptions. ePharmacy also is planning to expand into the lucrative direct mail business. The market reach of ePharmacy is extensive within Australia and the overseas market is growing rapidly. In the near future, a
megastore will sell direct to the public and serve as a warehouse to support this rapid growth. Still, given the recent demise of many dot.coms with burn-rates that were not sustainable, ePharmacy cannot afford to be complacent and will face increased competition in the future.

References


Note: The teaching note for this case is available on request from the Authors