



**The Pharmacy  
Guild of Australia**

Submission in response to

**Productivity Commission- Interim Report:  
Relative Costs of Doing Business in Australia: Retail Trade Industry**

July 2014

**National Secretariat**

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## Introduction

The Pharmacy Guild of Australia (the Guild) is pleased to respond to the Productivity Commission's Interim Report *Relative Costs of Doing Business in Australia: Retail Trade Industry* (the Interim Report)

The Guild welcomes the inclusion of pharmacy in the Productivity Commission's study. The pharmacy channel is the largest single retail channel in Australia with in excess of 5300 outlets Australia-wide. In total community pharmacies make a significant contribution to the Australian economy with an annual turnover of \$15.31 billion. The inclusion of pharmacy in this study is essential in establishing a broad understanding of the costs of doing business for the Australian retail industry

## Response to Key Points

The Guild supports the Productivity Commission's key points that conclude that the costs of doing business in the retail sector are inflated by unnecessary regulations, and that government progress to addressing this problem has been slow and patchy.

The Interim Report key findings that the cost of labour and occupancy costs in terms of retail leasing contribute as the first and second highest costs to retail businesses is supported by the Guild.

### The Cost of Labour

For the community pharmacy sector labour costs are the main expense. As stated in the Interim Report, the retail sector as a whole is necessarily labour intensive. However, this is especially so in the community pharmacy sector where there is a requirement to employ qualified pharmacists and to provide service and advice with regard to most products sold. As such, the community pharmacy sector is particularly exposed to increases in labour costs.

The Guild notes in the Interim Report that other submissions also raised concerns regarding labour costs, including concerns about the general level of wages in the sector as a percentage of overall operating expenses, the growth in wages relative to output prices, penalty rates, labour on-costs, the costs of negotiating enterprise bargaining agreements, and inconsistencies in the decisions of the Fair Work Commission.

These legislative impacts are particularly influential on the retail industry due to the high degree of award reliance in the industry. Research into award reliance was recently published as part of the Annual Wage Review 2013-14 by the Workplace Research Centre, University of Sydney Business School. The research, which relied on data from the Australian Bureau of Statistics, revealed that the retail industry is the second most award-reliant industry.

For community pharmacy, the Pharmacy Industry Award 2010 is used to set pay by 11 per cent of award-reliant employing entities in the retail industry, which makes it the third most relied-upon modern award of the 34 modern awards used by non-public sector, award-reliant retail organisations. Community pharmacy reflects the overall trend of the retail industry in that it has a high level of award reliance.

The Guild confirms that these are real concerns for community pharmacy proprietors and encourages sensible policy and legislative development that supports enhanced flexibility in the workplace relations system.

### Occupancy Costs

Community pharmacy tenants represent a higher value to landlords than do other speciality retailers. Pharmacy provides an essential aspect of tenancy mix, producing higher foot traffic to the area, historically maintaining stable low risk businesses and supporting lower capitalisation rates for properties. By way of example, the table below shows the difference in valuation for the property achieved by a pharmacy tenant when compared to another speciality retailer, a newsagency.

**Table 1: Property Value by Sector**

	<b>Newsagent</b>	<b>Community Pharmacy</b>
Net Lettable Area	150m <sup>2</sup>	150m <sup>2</sup>
Rent	75,000pa	75,000pa
Capitalisation Rate for Property	10%	8%
Property Value	\$750,000	\$937,000

Source: Lease 1

Figure 3.9 in the Interim Report highlights rental expenses as a percentage of the cost of doing business. Pharmacy is listed as having the third lowest rent behind the 'tyres' and the 'supermarkets and grocery stores' sectors. The Guild disputes the figure used, believing it to be understating the impact of rental costs on the pharmacy sector. Our research indicates this figure should be closer to sixteen percent (refer Appendix 1). However we do note that there is significant variability in pharmacy occupancy costs, with pharmacies in larger supermarkets in metropolitan and larger regional cities paying much higher per metre rents than pharmacies in other locations.

The Guild continues to support the 2008 Commission recommendations for a nationally consistent retail lease framework to increase efficiency and reduce costs. The Guild notes that a number of submissions, including the Guild's, have been critical of the lack of progress in implementing the recommendations of the 2008 Report: *The Market for Retail Tenancy Leases in Australia*. In its 2011 inquiry, *The Economic Structure and Performance of the Australian Retail Industry*, the Commission found that retail tenancy legislation had not been successful in improving the adversarial nature of the relationship between landlords and tenants in shopping centres. It found the more extreme negotiating tactics could be moderated through a voluntary national code of conduct for shopping centre leases, as had been recommended by the Commission in 2008. Progress towards this has been limited and variable across jurisdictions. The Guild supports the Productivity Commission highlighting the need for Government to urgently consider recommendations from the 2008 and 2011 reports.

## Information Request 3.1

The Guild notes the Commission's request for further information on the costs of doing business across different categories of retailers in Australia.

For the average community pharmacy operating expenses take up three quarters of the gross margin. Labour costs are the main expense, reflecting as previously noted the requirement to employ qualified pharmacists and to provide service and advice with regard to most products that are sold. Rent makes up the second largest cost and has increased substantially in both dollar and percentage terms over the last decade.

Figures 3.7 and 3.9 in the Commission's report indicate that employee and occupancy expenses comprise a significant share of the costs of doing business across retail subdivisions. Data used in these figures contrast with Guild data by understating the impact of occupancy costs and overstating employee costs. Guild research<sup>1</sup> indicates Salaries and Wages make up 40.66% of operating expenses while Rent Paid forms 15.98%. (See Appendix 1)

The Commission also states in the Interim Report:

"Some stakeholders have suggested that rents have been relatively stable in recent years (Large Format Retail Association, sub. 19). Colliers International (2012, p. 3) notes that in the decade to 2012, ratios of retailers' rent costs to turnover had been largely stable." (p. 50)

Guild research<sup>2</sup> indicates this is not the case for the community pharmacy sector. As shown in Table 2, average rent paid by Community Pharmacies in Australia in 2012 was nearly three times as much as that paid in 1999.

**Table 2: Average Rent Paid by Australian Community Pharmacies 1998-2012**

	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Rent paid \$	46,169	50,075	53,838	60,566	65,566	65,427	73,183

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Rent paid \$	77,862	85,460	90,049	115,547	121,236	119,091

Source: Guild Digest 2000-2013

<sup>1</sup> *Guild Digest 2013: A survey of independent pharmacy operations in Australia financial year 2011-12*. The Pharmacy Guild of Australia. Re-released 21/01/2014.

<sup>2</sup> *Guild Digests 2000-2013*.

## Conclusion

The community pharmacy sector forms a significant and vital part of the Australian retail industry. Not only does the sector provide over \$15.31 billion dollars' worth of merchandise to its customers from over 5,300 outlets, it is also an essential, cost-effective and highly accessible health care destination.

Yet there is increasing pressure on the sector to maintain profitability and viability. This pressure has been the result of a variety of factors including the impact of government reforms to the Pharmaceutical Benefits Scheme, a rise in rental costs, and substantial labour costs. The community pharmacy sector has responded to these pressures proactively, by increasing business efficiencies and by becoming less reliant on traditional sources of revenue. However the potential for innovation by Australian community pharmacies in broader service delivery is being stifled, in part, by the ever increasing costs of doing business.

The costs of doing business in Australia are largely driven by geography, markets and commercial decisions. However some costs are also heavily influenced by government actions and regulations. The Guild supports the Productivity Commission calling for a reduction in unnecessary regulations, particularly in the workplace relations system. The Guild also supports the Productivity Commission's encouragement of a more timely and efficient implementation by Government of recommendations of their *The Market for Retail Tenancy Leases in Australia* (2008) report.

Appendix 1:

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# Guild Digest 2013

**A survey of independent pharmacy operations in Australia  
financial year 2011-12**

**Re-Released 21/01/2014**

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**2013 Guild Digest**

**1**

**AUSTRALIAN PHARMACIES - COMPARISON BETWEEN 2011 AND 2012**  
(Based on 12 Months of Trading to 30/06/12)

**Table 2**

	2011 AVERAGES		2012 AVERAGES		AMOUNT AND PERCENT OF CHANGE	
	\$	%	\$	%	\$	%
<b>SALES, EXPENSES &amp; PROFITABILITY</b>						
<b>SALES</b>	<b>2,984,920</b>		<b>2,922,245</b>		<b>-62,675</b>	<b>-2.10</b>
<b>COST OF GOODS SOLD</b>	<b>1,985,721</b>	<b>66.53</b>	<b>1,866,856</b>	<b>63.88</b>	<b>-118,865</b>	<b>-5.99</b>
<b>GROSS MARGIN</b>	<b>999,199</b>	<b>33.47</b>	<b>1,055,389</b>	<b>36.12</b>	<b>56,190</b>	<b>5.62</b>
Other Income	28,936		34,485		5,549	19.18
<b>GROSS MARGIN PLUS OTHER INCOME</b>	<b>1,028,135</b>		<b>1,089,874</b>		<b>61,739</b>	<b>6.00</b>
<b>TOTAL REVENUE</b>	<b>3,013,856</b>		<b>2,956,729</b>		<b>-57,127</b>	<b>-1.90</b>
<b>EXPENSES</b>						
Salaries and Wages	350,638	11.63	347,313	11.75	-3,325	-0.95
Rent Paid	119,091	3.95	136,499	4.62	17,408	14.62
Outgoings - Rental & Rates	4,477	0.15	10,322	0.35	5,845	130.57
Accounting	10,974	0.36	9,102	0.31	-1,872	-17.06
Advertising	31,358	1.04	36,673	1.24	5,315	16.95
Bank Charges	7,057	0.23	7,225	0.24	168	2.38
Computer Expenses	11,478	0.38	11,285	0.38	-193	-1.68
Depreciation	29,621	0.98	30,961	1.05	1,340	4.52
Electricity, Water, Heating	10,393	0.34	12,315	0.42	1,922	18.50
Insurance	9,065	0.30	8,916	0.30	-149	-1.64
Interest Paid	54,181	1.80	71,421	2.42	17,240	31.82
Leasing Expenses	9,228	0.31	5,501	0.19	-3,727	-40.38
Motor Vehicle Expenses	5,300	0.18	3,672	0.12	-1,628	-30.71
Postage, Freight, Printing	9,459	0.31	8,335	0.28	-1,124	-11.89
Repairs, Maintenance, Service	4,705	0.16	4,080	0.14	-625	-13.28
Subs and Registrations	11,519	0.38	8,072	0.27	-3,447	-29.93
Superannuation	31,830	1.06	31,097	1.05	-733	-2.30
Telephone	5,804	0.19	5,392	0.18	-412	-7.10
Training	3,849	0.13	2,745	0.09	-1,104	-28.68
Abnormal Expenses	6,002	0.20	14,953	0.51	8,951	149.14
Payroll Tax	4,963	0.16	7,847	0.27	2,884	58.12
Workers' Compensation	2,913	0.10	2,704	0.09	-209	-7.18
Other Expenses	55,921	1.86	77,702	2.63	21,781	38.95
<b>TOTAL EXPENSES</b>	<b>789,826</b>	<b>26.21</b>	<b>854,134</b>	<b>28.89</b>	<b>64,308</b>	<b>8.14</b>
<b>TOTAL INCOME</b>	<b>238,309</b>	<b>7.91</b>	<b>235,740</b>	<b>7.97</b>	<b>-2,569</b>	<b>-1.08</b>
Less Proprietors' Salary (1)	141,127	4.68	147,555	4.99	6,427	4.55
[ Full-Time-Equivalents ]	1.05		1.10		0.05	4.55
<b>NET PROFIT/LOSS</b>	<b>97,182</b>	<b>3.62</b>	<b>88,185</b>	<b>2.98</b>	<b>-8,996</b>	<b>-9.26</b>
<b>EBITDA</b>	<b>180,984</b>	<b>6.01</b>	<b>190,567</b>	<b>6.45</b>	<b>9,583</b>	<b>5.30</b>
<b>SALES ANALYSIS</b>						
Prescriptions	2,061,988	69.08	2,039,354	70.51	-22,634	-1.10
Other Sales	922,932	30.92	852,923	29.49	-70,009	-7.59
<b>INVENTORY ANALYSIS</b>						
Prescription	94,251	3.13	104,912	3.55	10,661	11.31
Other	182,648	6.06	166,449	5.63	-16,199	-8.87
STOCK CARRIED (Total)	276,898	9.19	271,361	9.18	-5,537	-2.00
STOCK TURN (On Total Inventory)	7.17		6.88		-0.29	-4.05
<b>SALES PER INVENTORY DOLLAR</b>						
Prescription	21.88		19.44		-2.44	-11.16
Other	5.05		5.12		0.07	1.47
<b>STATISTICS</b>						
PHARMACY SIZE (square metres)	168		221		53	31.34
PRESCRIPTIONS DISPENSED (Total)	54,116		54,534		418	0.77
PRESCRIPTIONS DISPENSED WEEKLY	1,038		1,049		11	1.03
TOTAL HOURS OPEN per WEEK	58.7		65.6		6.9	11.79
AV HRS WORKED BY PROPRIETORS/WEEK	39.9		41.7		1.8	4.55
<b>FUNDS RETAINED IN BUSINESS (2)</b>	<b>88,280</b>	<b>2.93</b>	<b>133,194</b>	<b>4.50</b>	<b>44,914</b>	<b>50.88</b>

(1) Notional Proprietors Salary is based on actual manager's wages and includes on-costs such as a provision for annual leave, long service leave etc.

(2) Funds Retained in Business is calculated as the difference between Total Income and Drawings by Proprietors.