

Chain Drug Review

By Andrew Mantis

Owners of chain drug stores may be forgiven for feeling as though they're under siege. On the one hand, the rise of internet pharmacies threatens to permanently alter the prescription drug business, as economic forces become stronger than customer ties to their neighborhood pharmacy. At the same time, they're being battered by the same forces affecting all brick and mortar retailers, with changes in both the business landscape and the customer base: tight money, wary consumers, and the disappearance of brand and store loyalty. The massive shifts in the retail landscape are squeezing the chain drug merchant from multiple directions.

There is one shift, though, that may actually help chain drug stores prosper in the new landscape – if they're prepared. It's a shift that has been going on quietly, incrementally. In fact, every time a purchase is made it adds to an accumulation of transaction data that is orders of magnitude beyond anything retailers have known so far, and it is that accumulation that will really transform retail.

Where is this transformation coming from, and what does it look like? It's coming from the 300 million people moving into the middle and upper classes over the next ten years. It's coming from the 3 billion people who will be able to use mobile phones and other tools for electronic payments by 2014.¹ The increased use of credit and debit cards, as well as electronic payments, means that state of the art data warehouses are currently managing over 100 terabytes of information, a figure that's growing by some 20 billion transactions a year.

In the hands of the right analysts, real-time transaction data of this magnitude can reveal insights of previously-unimagined accuracy and timeliness at both granular and macroeconomic levels, from modeling the spending patterns of various customer segments to analyses of sectors and geographic regions. These, in turn, can form the basis of the kinds of tools retailers have only been able to dream of. These include:

- Sector-specific calendars that provide merchants with a month-by-month projection of spending trends for that industry, an invaluable guide to a merchant's strategic decisions,
- Marketing tools customized to a specific customer profile, combining the ability to locate the consumer most likely to shop at a particular store, with the offer that is most likely to be attractive to that prospect;
- Big-picture economic analyses that can signal coming changes well before anything currently available.

For the owners of drug store chains, this new generation of analytics can provide the key to thriving as a brick-and-mortar business in the age of the internet, helping stores to reach their customer base early on, present the right value proposition, while increasing their own economies.

Because transaction data can reveal how much consumers spent, on what, and where, retail analytics can help drive decisions about existing and prospective store locations, providing a detailed profile of the population in a particular area as well as a granular picture of current sales there. This information is invaluable in identifying the current market for a store, as well as the potential for growth, or lack of same. State-of-the-art analytics can estimate demand for a store at the ZIP code level. More: by examining a chain's own results, it is possible to come up with a model of the most profitable customers, and then find those locations – again, at ZIP code level – where shoppers matching that model can be found.

Having a store in the right location is just the beginning. By providing insights into customer spending habits practically in real time, virtually anticipating consumer demand based on past behavior, retail analytics can help drive effective stocking and marketing decisions. This serves the merchant at both ends of the store. At the front, it helps cement the customer's relationship to the store: if she knows she'll find exactly what she wants at a good price with a minimum of confusion, she'll come back. At the back of the store, it saves the retailer time and money by simplifying stocking and ordering decisions.

Because retail is anything but a static business, chain store owners need to be constantly testing new strategies, examining their results, and then revising their strategies as needed. To do that, though, requires more than one's own sales results. Is a 2% increase in sales good? Is a 5% drop bad? Particularly in a volatile environment those numbers are meaningless on their own. Performance evaluation demands accurate benchmarks. Retail analytics can provide an accurate and timely picture of sales results in your sector, both in your region and nationally, as well as results for internet sales.

In the past, merchants would analyze their own sales data to better understand their customers. It took a while, and it was only moderately accurate, but it was good enough for the time. But good enough is no longer good enough. The current mountain of transaction data, while far, far bigger than any retailer is used to, has already begun to change the competitive landscape, and success will depend on those who can find ways of turning that data to their own advantage.

Chain drug store owners may feel like they are under siege, in part from the host of new technologies that are changing the nature of the marketplace. But sophisticated retail analytics can take the huge sets of data that exist, and turn them into the tools that will help them not just survive, but thrive.

About Andrew Mantis

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