

## **CHAPTER ONE**

### **INTRODUCTION**

Customer behavior is an important part of marketing activity. Retail buying decisions begin when a shopper becomes aware of a need and end when the shopper either buys a product or rejects it. The purchase of a simple product such as aspirin requires a number of decisions, often made almost simultaneously. The shopper must decide on the quantity to be purchased, the brand, and the store in which to make the purchase.

#### **1.1 THE HEALTH CARE SYSTEM IN MALAYSIA**

The health care system in Malaysia is said to be one of the most comprehensive in the world in terms of primary healthcare for its citizens. This system consists of Government hospitals and healthcare centres and private clinics and hospitals. The key health care providers in the country consists of the general practitioners (which provide diagnosis, prescribe and dispense drugs). There are approximately 5000 general practitioners (in 1995) currently operating in the country with the major number in the urban areas. These general practitioners practice either as a sole or group practice manner and charges about \$15 to \$30 per consultation including medicine.

The government hospital system (General and District Hospitals) provide a alternative health care system especially for the lower income population and the rural areas. There are a total of 101 of these hospitals in 1993. The increasing number of private hospitals (180 in 1993) also indicates the increasing affluence of the population who seeks better services despite the much higher costs.

There are also some 600 retail and wholesale pharmacies holding poison licenses that allow them to dispense prescription drugs. These retail and wholesale pharmacies have become a major force in the country's healthcare with the trend towards greater reliance on self-medication . The normal pharmacies stock a wide range of products. Some of the products sold in a pharmacy may resemble those that are sold in minimarkets and grocery stores. However, some of the products sold would identify the distinctive difference of a pharmacy. A pharmacy is allowed by law (Poison Ordinance 1952) to deal in products that are listed as poisons under the Poison Act. These products include the commonly prescribe antibiotics, antihistamines, anti-hypertensive drugs, analgesics, cough and cold preparations and steroid creams. The majority of these products will need a doctors' prescription to be dispensed by the pharmacist. Other

products commonly sold are over-the-counter medications, toiletries, household products, cosmetics, baby products, diagnostic kits and medical equipment.

## **1.2 THE PHARMACEUTICAL INDUSTRY**

The retail sales of pharmaceutical was estimated to be at RM700 million for the year 1995. This figure is based on estimates provided by the Malaysian Pharmaceutical Trade and Manufacturers Association (MPTMA). This value represents the sale of western-type medicines and does not include sales of traditional medicines. In terms of value, the prescription or ethical drugs represent about 60% of the total (or RM420 million) with the over-the-counter medicines being the balance of the business (RM380 million). The market for pharmaceuticals in Malaysia has an annual growth at about 12% due to the growing and increasingly affluent population.

Most of the pharmaceutical products used in Malaysia are imported as final products with only a small portion that is locally manufactured. Importation is done mostly by distribution houses like Diethelm, F.E. Zuellig, Summit and Antah Pharma, which markets these products to the

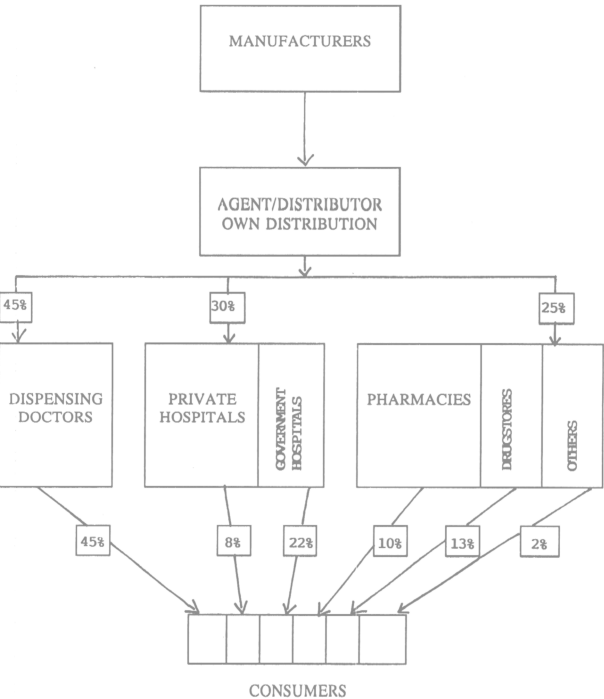
various hospitals, clinics and pharmacies. These large distribution houses (distributors) account for the major portion of the total pharmaceutical sales (about 70%). The profit margin by the distributors are normally in the 10% to 20% region of sales and the hospitals, clinics and pharmacies may get a 20% to 30% margin from sales to the end consumers. At present the distributors sell about 45% to dispensing doctors (clinics), 30% to hospitals (private and government) and 25% to pharmacies and druggists (as shown in Figure 1). These distributors usually import the finished product from various principals or manufacturers located overseas.

### **1.3 HISTORY OF PHARMACIES IN MALAYSIA**

The history of the retail pharmacy trade in this country dates back to the early part of this century where family concerns like Naina Mohammed & Sons, M.S. Ally, Salim and Kuala Lumpur Pharmacy were set up to cater for the supply of western-type medicines to the local population and doctors. These older pharmacies usually have only one or two outlets in the main capital and are run in the traditional way with heavy stress on racial or ethnic background.

Figure 1

MAIN CHANNELS OF PHARMACEUTICAL DISTRIBUTION  
IN MALAYSIA



Source: Malaysian Pharmaceutical Trade and Manufacturers Association (1994)

Later chain drugstores were set up by corporations like Apex, Guardian and Georgetown. These represent the modern corporate pharmacies and they have expanded greatly in recent years with numerous branches in the country. Most of these are run by large public listed companies that have sufficient financial and management resources to expand the business. These chain stores represent a fairly recent phenomenon in the pharmacy retailing business and they are normally controlled by a central head office.

Although the dispensing of prescription drugs is the main feature that distinguishes a pharmacy from a Chinese druggist or grocery store, the prescription drugs usually represent a small portion of the total pharmacy turnover. Therefore the pharmacy has to depend largely on sales of toiletries, cosmetics and other household items to supplement its income. This situation is mainly due to the fact that dispensing rights in this country are given to both pharmacists and doctors. Therefore doctors' clinics are allowed to dispense most medication directly to patients instead of the patient purchasing from a pharmacy.

## **1.4 SET-UP OF A RETAIL PHARMACY**

### **1.4.1 SOLE-PROPRIETOR PHARMACIES**

The typical set-up of a retail pharmacy in Malaysia depends on whether it is a sole proprietor or part of a chain. For a sole proprietor or a single owner pharmacy the setup is relatively simple. Usually the owner is a pharmacist and he or she will run the store with the help of a few pharmacy assistants and one or two cashiers. The management set-up is also simple with the owner/pharmacist in charge of nearly all aspects of the operation of the pharmacy. The owner will be involved in dispensing of all medications for customers, patient counseling on drugs, purchasing, inventory control and all financial controls related to the pharmacy. The premises occupied by sole proprietor pharmacies are usually shoplots in residential areas close to other retail shops.

The opening hours are usually from 9.00 a.m. to 8.00 p.m. with Sundays as a rest day.

The major expenditure incurred by a sole proprietor pharmacy is usually the rental of the shoplot (if not owned personally) and salaries for the staff in the pharmacy. The normal rental costs of a shoplot (ground floor) in the

K. Lumpur/Petaling Jaya area would be in the RM2000 to RM3000 per month. The number of store assistants and cashiers employed may vary from one store to another but usually at least two are needed (at a total cost of about \$1200 per month). If other costs (electricity and water bills) are included the monthly costs of running this pharmacy will be approximately RM4500. This will imply that based on a normal profit margin of 25% of sales, the total turnover of the pharmacy will have to be at least RM18,000 a month for all the costs to be covered.

#### **1.4.2 CHAIN PHARMACIES**

These pharmacies are usually part of a big corporation such as the Cold Storage group, and the Johor State Economic Development Corporation (which set up the Medicine Shoppe Group). These retail chains will have between 30 to 60 retail outlets located in the major towns in Malaysia. Examples of these retail chains are Guardian Pharmacy, Georgetown Chemists and Medicine Shoppe. These retail chains are usually run by corporate managers with the individual stores being managed by a manager or pharmacist. The set-up of chain pharmacies are usually more expensive due to the higher cost of the premises and decor chosen and larger staff number employed. Most of the chain pharmacy outlets are located in busy shopping complexes and key shopping areas. Most are

open for longer hours and up to seven days a week. Franchising of retail pharmacies have been started by the Medicine Shoppe Group.

The initial set-up costs of a retail pharmacy would be higher due to the much higher costs of renovation and furnishing needed (approximately RM 150,000 to RM 300,000 for an average outlet). The staff needed to run the pharmacy will usually be at least 2 pharmacist or managers and 5 to 10 retail assistants and cashiers per shop. Since most of these chain pharmacies are located in bigger shopping complexes or busy shopping areas the rental costs will be expected to be much higher than single shoplots.

The purchase of goods for the chain may be done by a central purchasing department located in the corporate headquarters in order to obtain quantity discounts and better bonuses. The opening hours are usually longer (from 10.00 a.m. to 10.00 p.m.) which results in two shifts of staff needed.

## 1.5 OBJECTIVES OF THE STUDY

The main purpose of this study is to obtain the profile of a typical pharmacy customer and his/her preferences in terms of patronage. This study will highlight the most important factors that will motivate a typical urban customer to visit a pharmacy and help to identify the product categories most often purchased by a typical customer.

The objectives of this study are as follows:

- a) To examine pharmacy customers' preferences in terms of service, location, prices and advertisements for patronage.
- b) To present the typical pharmacy customers profile in terms of age, sex, ethnic groups and socio-economic levels.