

# Table of Contents

<b>1.0</b>	<b>Executive Summary</b> .....	<b>1</b>
<b>2.0</b>	<b>Situation Analysis</b> .....	<b>1</b>
2.1	Market Summary .....	1
2.1.1	Market Needs .....	2
2.1.2	Market Trends .....	2
2.1.3	Market Growth .....	3
2.2	SWOT Analysis .....	4
2.2.1	Strengths .....	4
2.2.2	Weaknesses .....	4
2.2.3	Opportunities .....	5
2.2.4	Threats .....	5
2.3	Competition .....	5
2.4	Product Offering .....	5
2.5	Keys to Success .....	6
2.6	Critical Issues .....	6
<b>3.0</b>	<b>Marketing Strategy</b> .....	<b>6</b>
3.1	Mission .....	7
3.2	Marketing Objectives .....	7
3.3	Financial Objectives .....	7
3.4	Target Markets .....	7
3.5	Positioning .....	7
3.6	Strategies .....	8
3.7	Marketing Mix .....	8
3.8	Marketing Research .....	9
<b>4.0</b>	<b>Financials</b> .....	<b>9</b>
4.1	Break-even Analysis .....	9
4.2	Sales Forecast .....	10
4.3	Expense Forecast .....	11
<b>5.0</b>	<b>Controls</b> .....	<b>11</b>
5.1	Implementation .....	12
5.2	Contingency Planning .....	12
	<b>Appendix</b> .....	<b>13</b>

# The Discount Pharmacy

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## 1.0 Executive Summary

The Discount Pharmacy is a brick and mortar and mail order pharmacy that sells prescription medication at lower prices than other pharmacies. The Discount Pharmacy is able to sell at reduced prices through the use of operating efficiencies and the elimination of unnecessary services for customers that self pay their drugs. The Discount Pharmacy does not accept insurance payments which disrupt the cash flow.

By having a larger percentage of their business serviced by their mail order arm, The Discount Pharmacy is able to gain economies of scale by selling larger quantities of drugs with less labor required per order. As more and more Americans are on a continuous prescription to medicine, this trend will lend itself to rapid growth as customers can mail order larger quantities of drugs that they will need over time. Additionally, many insurance companies offer an economic incentive for medicine to be purchased mail order in quantity, saving the insurance company money. This factor will also help boost The Discount Pharmacy to profitability.

The Pharmacy will increase its market share through targeted advertising to increase the number customers who are looking to save money on a pricey, necessary expense.

## 2.0 Situation Analysis

The Discount Pharmacy is in the first year of business as a start-up operation. The Pharmacy believes that the market demand for their services will be great and are convinced that a cohesive marketing strategy is required for The Pharmacy. The Pharmacy offers a wide range of prescription medicine for pick up at their store front or it can be distributed by mail order. The Pharmacy's prices are far better than most pharmacies so their services will be attractive for people that just need to buy their medicine at good prices and do not need their hands held during the process.

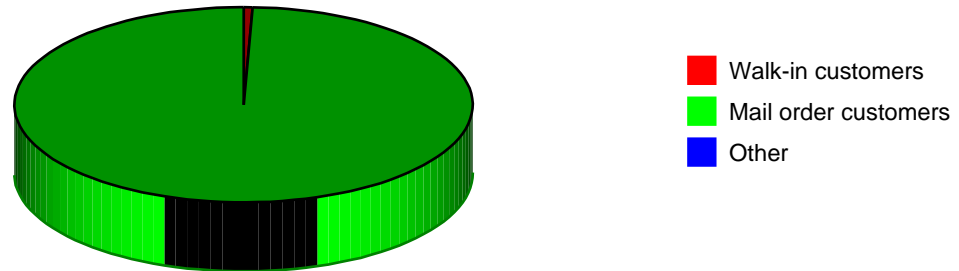
## 2.1 Market Summary

The Discount Pharmacy possesses good information regarding their market and the target segments that they wish to serve. The Pharmacy will leverage this information to better understand who is served, their specific needs, and how The Pharmacy can better serve them.

# The Discount Pharmacy

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## Target Markets



### 2.1.1 Market Needs

The Discount Pharmacy is providing the market with a source of discounted drugs. This market need is important as many Americans are faced with the dilemma of using their limited income on food or meds. The Discount Pharmacy seeks to fulfill the following benefits that are important to their customers.

- **Selection:** The Pharmacy offers a wide range of medication, both originals as well as generic alternatives.
- **Accessibility:** Products are distributed through their conveniently-located store front, or can be shipped within the U.S.
- **Customer service:** The Pharmacy recognizes the value of having outstanding customer service. By exceeding all of the customer's expectations, they are ensuring repeat customers and many referrals.
- **Pricing:** The Discount Pharmacy's prices will be noticeably better than local pharmacies.

### 2.1.2 Market Trends

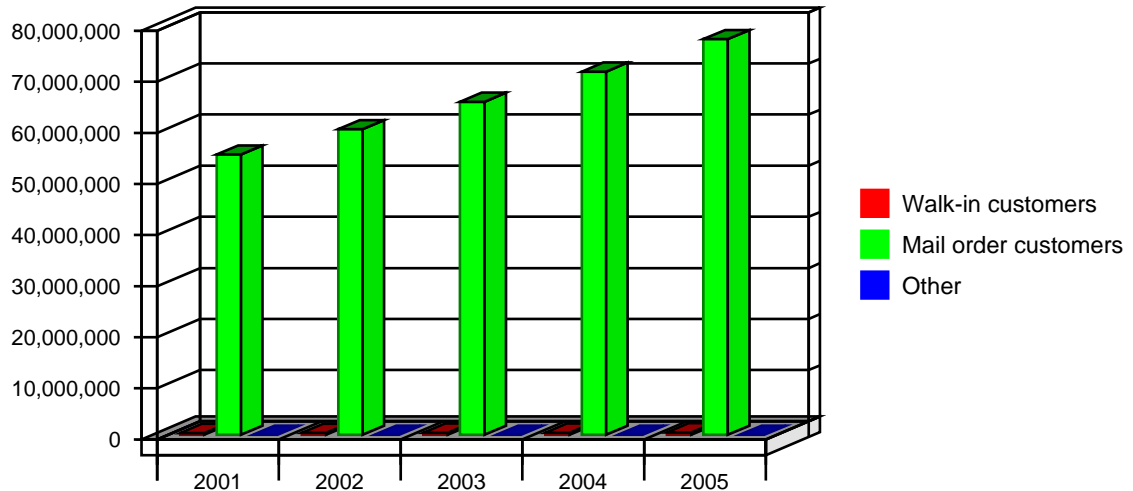
The market trend for pharmacies reinforces consolidation. The whole medical industry (including doctors, pharmaceutical companies) has pressure being applied to them from different sides to achieve cost efficiencies and to decrease the cost of the various products/services. Looking specifically at pharmacies, over the last eight years, there has been widespread consolidation, done to a large degree to achieve costs efficiencies.

Now insurance companies are adding pressure to decrease costs since they are a main party in the payment for meds. The Discount Pharmacy is able to coexist in this consolidation environment by achieving cost efficiencies through their unique business model of mail order service and a decrease in the normal pharmacist offered services.

# The Discount Pharmacy

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Market Forecast



## 2.1.3 Market Growth

In 2000, the global pharmaceutical industry as a whole was a \$897 billion dollar industry. The industry is forecasted to continue its record growth. This growth can be attributed to several factors, the underling driver is scientific progress. As our scientific community continues to make breakthroughs in medical applications, people become more and more reliant on medication to lengthen and improve their quality of life.

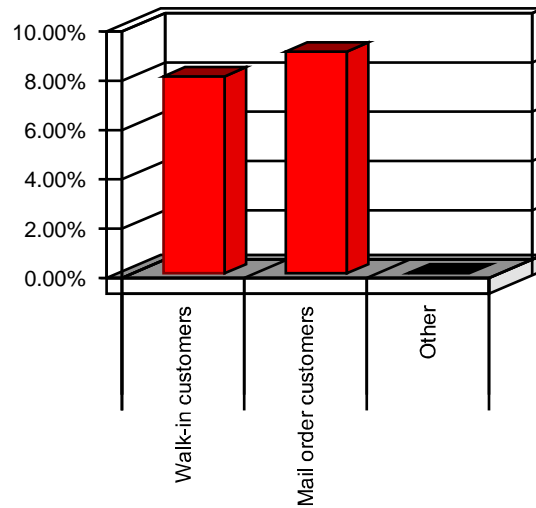
American society in particular has become increasingly reliant on medication. This conclusion seems to be fairly intuitive as many individuals have a vested interest in living longer and more comfortably. This demand applies pressure to the scientists and pharmaceutical companies who are always on the lookout for the next big blockbuster drug which will ensure profitable returns.

While America remains as the largest consumer of medication in the world, to a large degree based on the simple quantitative measurement of GNP, it is reasonable to expect that the retail distribution of these drugs will achieve extraordinary growth rates if they are employing creative business models or if they are one of the "giants."

# The Discount Pharmacy

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Target Market Growth



## 2.2 SWOT Analysis

The following SWOT analysis captures the key strength and weaknesses within the company, and describes the opportunities and threats facing The Discount Pharmacy.

### 2.2.1 Strengths

- A unique, current business-environment-appropriate business model.
- Excellent staff who are highly trained and very customer attentive.
- Great prices.
- The ability to scale rapidly for the mail order side of the business.

### 2.2.2 Weaknesses

- The lack of visibility and brand equity of a start-up business.
- Lack of true experience running a mail order outfit.
- Government intervention/regulation into medicine is possible.

# The Discount Pharmacy

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## 2.2.3 Opportunities

- Outside pressure on consumers to purchase meds mail order.
- The constant growth of the number of people taking medication.
- Newly formed alliances of insurance companies and mail order pharmacies.

## 2.2.4 Threats

- The entry into the mail order market by an established company.
- Regulatory legislation that curtails the mail order medicine industry.
- Some event that cripples interstate commerce in regards to shipping.

## 2.3 Competition

Competition takes many different forms in the pharmacy industry.

- **Chain pharmacies:** These are state or national chains such as Rite-Aid. The advantage to these chains are better prices through economies of scale as well as personalized service. The personalized service takes the form of the chain having a record of your medication purchases as well as any allergies that you have disclosed to them.
- **Local pharmacies:** These are the pharmacies where you typically know the pharmacists and they know your medical history. This option is high in personalized service and convenience, and high in price.
- **Mail order and Internet pharmacies:** These are similar to The Discount Pharmacy.
- **Canadian pharmacies:** These pharmacies are located in Canada where the cost of drugs is lower than in the U.S. These pharmacies can be accessed through mail order, the Internet, or via travel. Recently there has been the trend for trips arranged for senior citizens in northern states to travel up to Canada for the day to pick up their meds.

## 2.4 Product Offering

The Discount Pharmacy offers a wide range of prescription drugs to patients based in Oregon and nationally. Both generics and name brands are offered. The customer needs to either mail in the prescription, fax it, or email it. Once it is received and payment arrangements are complete, the meds will be sent out to the customer via U.S.P.S. or U.P.S.

Local customers may stop by the store front to pick up the medications contemporaneously. The Discount Pharmacy will only service customers who self pay. The self pay customers will be attracted to The Discount Pharmacy because of their superior prices. For many Americans that do not have drug plans, including the vast majority of Americans over 65, a discount on drugs is very welcome on today's increasingly tight monthly budgets. The Discount Pharmacy will be able to survive on lower margins due to operating efficiencies gained through mail order and not accepting insurance policy drug plans.

With each order a printout will accompany the medications that will provide directions on how to take the medications, other drug that should be avoided concurrently, and other useful

# The Discount Pharmacy

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information. Often times this information is communicated personally by the pharmaceutical technician. The Discount Pharmacy will be using computer printouts from industry software to reduce the cost of providing this information.

**Note:** While the term "self pay" is typically associated with the notion that the customer is paying for the medication out of pocket without insurance, it is used in this context as the customer paying for the medications upfront by themselves regardless if they have insurance. They may be paying for the drugs out of pocket, or they may be paying for the medications upfront and then requesting their insurance companies drug plan to reimburse them later.

## 2.5 Keys to Success

The keys to success are:

- Repeat customers.
- Low overhead and operating costs.
- Superior prices and service.

## 2.6 Critical Issues

The Discount Pharmacy is still in the speculative stages as a start-up business. Its critical issues are to continue to take a modest fiscal approach, expanding at a reasonable rate, not for the sake of expansion in itself, but because prudent economic analysis dictates to.

## 3.0 Marketing Strategy

The Discount Pharmacy will have different marketing strategies for the two different segmented groups that they wish to reach.

The walk-in customers will be targeted through advertisements in the local paper, "The Oregonian." The advertisements will raise visibility for The Discount Pharmacy and their discounted prices. As the price of medication continues to skyrocket, The Discount Pharmacy will appeal to local people as a way to try to contain these rising costs.

The mail order customers will be targeted through an advertising campaign in magazines and newsletters that have an older (over 55) crowd that regularly needs medication and knows in advance what their needs are. One of the main newsletters that The Discount Pharmacy will be visible in is the American Association of Retired Persons (A.A.R.P) monthly newsletter.

# The Discount Pharmacy

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## 3.1 Mission

The Discount Pharmacy's mission is to provide the customer with the best prices and service for prescription medication. We exist to attract and maintain customers. When we adhere to this maxim, everything else will fall into place. Our services will exceed the expectations of our customers.

## 3.2 Marketing Objectives

- Increase repeat customers by 7% each quarter.
- Decrease customer acquisition costs by 8% per year.
- Increase customer awareness of The Discount Pharmacy as evidenced by an increase in product requests solely generated by knowledge of The Pharmacy's name.

## 3.3 Financial Objectives

- A double digit growth rate for the first three years.
- Reduce the variable costs associated with servicing each individual order by 4% a year.
- Profitability by the end of year three.

## 3.4 Target Markets

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The mail order customers will be targeted through an advertising campaign in magazines and newsletters that have an older (over 55) crowd that regularly needs medication and knows in advance what their needs are. One of the main newsletters that The Discount Pharmacy will be visible in is the A.A.R.P monthly newsletter.

## 3.5 Positioning

The Discount Pharmacy will position themselves as the premier, customer-service-orientated mail order pharmacy in the U.S. The Discount Pharmacy will offer a good selection, great service, and better prices than traditional pharmacies. The Discount Pharmacy will leverage their competitive edge to achieve this positioning.

The Discount Pharmacy's competitive edge is superior pricing. Generally, it is not a sustainable practice to compete on price. This is the case because it is based on the assumption that the competition has the same cost structure, so in order to compete on price you have to accept smaller margins which over time will erode the business model and profitability.

# The Discount Pharmacy

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This reasoning does not apply to The Discount Pharmacy's situation because they are able to maintain similar margins through cost-cutting measures and operating efficiencies.

The Discount Pharmacy is able to decrease operating costs by not offering all of the typical services traditionally offered by pharmacies. The first cost measure is only employing a single pharmacist, in compliance with Federal regulations, and using pharmaceutical technicians whenever possible. As long as a pharmacist is on-site during the hours of operation, The Pharmacy can use the pharmaceutical techs in all other capacities that most pharmacies use pharmacists for.

The Discount Pharmacy is able to maintain industry margins through the use of other operating efficiencies. By only having a small store front and doing the bulk of business through mail order, operating costs are significantly reduced.

Lastly, although there is a pharmacist on hand, The Discount Pharmacy is not designed to hold the patients hands when they purchase their medications. The vast majority of The Discount Pharmacy customers are veteran drug takers and are already aware of how to take the medication and any side effects or drug interactions that should be avoided. Regardless, The Discount Pharmacy will provide each patient with a print out of all the information they need for the consumption of the drugs.

## 3.6 Strategies

The single objective of The Discount Pharmacy is to establish themselves as the mail order pharmacy serving the U.S. The Discount Pharmacy will aim to achieve a 30% market penetration within five years. The marketing strategy will seek to first create customer awareness regarding the products/services offered, develop the customer base, and work toward building customer loyalty and referrals.

The Pharmacy will use advertisements to communicate the message. Advertisements will be placed in different venues depending on the target segment that is trying to be reached. To reach the walk-in customers, advertisements will be run in The Oregonian. To reach the mail order target segment advertisements will be placed in A.A.R.P's newsletter.

## 3.7 Marketing Mix

The Discount Pharmacy marketing mix is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- **Pricing:** The Pharmacy's prices will be better than traditional pharmacies.
- **Distribution:** The products will be distributed throughout the U.S.
- **Advertising and Promotion:** The most successful advertising campaigns will be targeted advertisements.
- **Customer Service:** Obsessive customer service is the norm. All employees have been trained to ensure that all customer's expectations are exceeded. This will occur at any short-term expense, realizing that this is needed to build a successful business.

# The Discount Pharmacy

## 3.8 Marketing Research

During the initial phases of the marketing plan completion, several focus groups were held to gain insight into the targeted customer's mind and the processes of their decision making. These focus groups provided the Pharmacy with a wealth of information.

Additionally, survey were handed out and completed by people that use traditional pharmacies to purchase their medications. The surveys were developed by The Discount Pharmacy's owner himself, leveraging his statistic skills that he mastered while pursuing his MBA. Having a carefully designed survey is paramount to ensuring that the data collected is accurate and applicable. The surveys provided insight into the barriers that people face when moving from using a brick and mortar pharmacy to a mail order pharmacy.

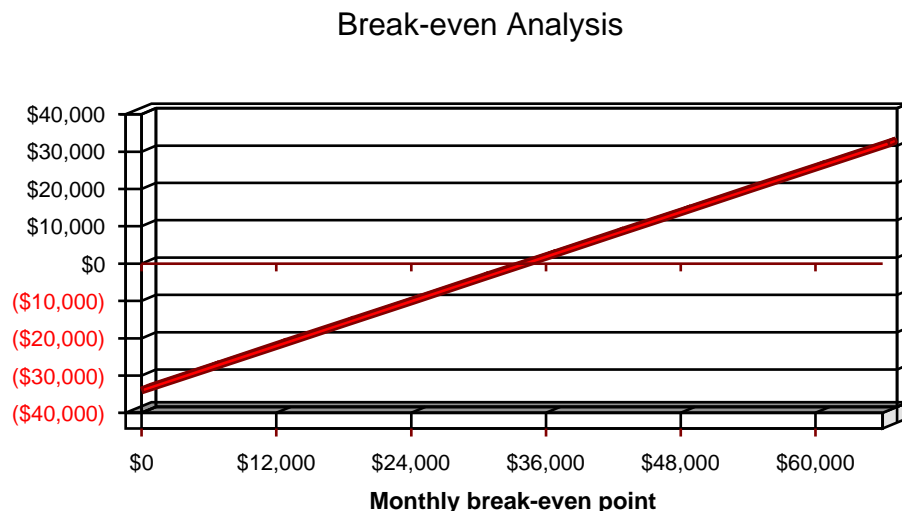
The last source of marketing research is an in-depth analysis of the pharmacy industry, focusing on consumer decision models within the industry. Cumulatively, all of this market research provided the owner with the necessary "kick in the pants" to move forward with his idea.

## 4.0 Financials

This section will offer a financial overview of The Discount Pharmacy as it relates to the marketing activities. The Pharmacy will address break-even analysis, sales forecasts, expense forecasts, and how they link to the marketing strategy.

### 4.1 Break-even Analysis

The break-even analysis indicates that \$72,494 will be needed in monthly revenue to reach the break-even point.



Break-even point = where line intersects with 0

# The Discount Pharmacy

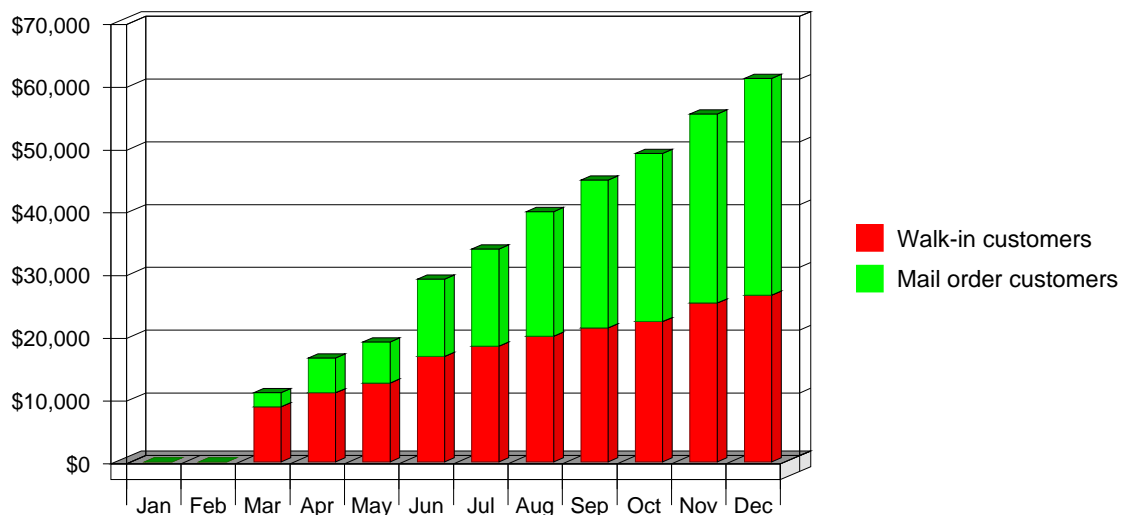
**Table: Break-even Analysis**

Break-even Analysis	
Monthly Revenue Break-even	\$34,254
<b>Assumptions:</b>	
Average Percent Variable Cost	53%
Estimated Monthly Fixed Cost	\$34,072

## 4.2 Sales Forecast

The first two months will be used to set up the store front and generate both local and national visibility. Month three will be the first month with sales activity. During month three through five there will be only a small amount of mail order business. The reason for this is that it will take time to sufficiently develop visibility regarding the mail order operation. Month six will see a jump in sales activity for mail order and there will be steady growth in sales activity from month six on.

**Sales Monthly**



**Table: Sales Forecast**

Sales Forecast	2001	2002	2003
<b>Sales</b>			
Walk-in customers	\$183,056	\$743,778	\$843,540
Mail order customers	\$176,994	\$976,543	\$1,234,654
<b>Total Sales</b>	<b>\$360,050</b>	<b>\$1,720,321</b>	<b>\$2,078,194</b>
<b>Direct Cost of Sales</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Walk-in customers	\$111,664	\$453,705	\$514,559
Mail order customers	\$79,647	\$439,444	\$555,594
<b>Subtotal Direct Cost of Sales</b>	<b>\$191,311</b>	<b>\$893,149</b>	<b>\$1,070,154</b>

# The Discount Pharmacy

## 4.3 Expense Forecast

Marketing expenses are to be budgeted so they ramp up quarterly. These intervals are chosen because they are the common intervals that people who are buying several months of medication at once use.

Monthly Expense Budget

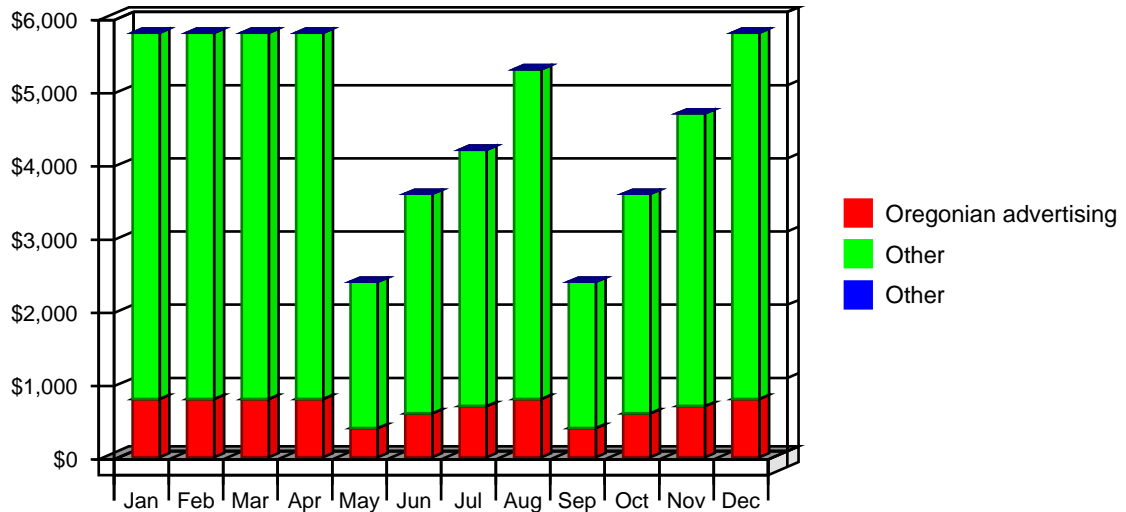


Table: Marketing Expense Budget

Marketing Expense Budget	2001	2002	2003
Oregonian advertising	\$8,200	\$20,000	\$30,000
Other	\$47,000	\$55,000	\$65,000
Other	\$0	\$0	\$0
<b>Total Sales and Marketing Expenses</b>	<b>\$55,200</b>	<b>\$75,000</b>	<b>\$95,000</b>
Percent of Sales	15.33%	4.36%	4.57%

## 5.0 Controls

The purpose of the marketing plan is to serve as a guide to the organization. The following areas will be monitored to gauge performance:

- Revenue: monthly and annual.
- Expenses: monthly and annual.
- Repeat business.
- Customer satisfaction.

# The Discount Pharmacy

## 5.1 Implementation

The following milestones identify the key marketing programs. It is important to accomplish each one on time and on budget.

**Table: Milestones**

Milestones					
Advertising	Start Date	End Date	Budget	Manager	Department
Marketing plan completion	1/1/2001	2/1/2001	\$0	John	Department
Bi-annual Oregonian campaign	1/1/2001	6/31/01	\$4,200	John	Department
Bi-annual AARP campaign	1/1/2001	6/31/01	\$4,200	John	Department
Bi-annual Oregonian campaign	7/1/2001	12/31/2001	\$4,000	John	Department
Bi-annual AARP campaign	7/1/2001	12/31/2001	\$4,000	John	Department
Name me	1/1/2003	1/15/2003	\$0	ABC	Department
Name me	1/1/2003	1/15/2003	\$0	ABC	Department
Name me	1/1/2003	1/15/2003	\$0	ABC	Department
Name me	1/1/2003	1/15/2003	\$0	ABC	Department
Other	1/1/2003	1/15/2003	\$0	ABC	Department
Total Advertising Budget			\$16,400		
PR	Start Date	End Date	Budget	Manager	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Other	1/1/2006	1/15/2006	\$0	ABC	Department
Total PR Budget			\$0		
Direct Marketing	Start Date	End Date	Budget	Manager	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Other	1/1/2006	1/15/2006	\$0	ABC	Department
Total Direct Marketing Budget			\$0		
Web Development	Start Date	End Date	Budget	Manager	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Other	1/1/2006	1/15/2006	\$0	ABC	Department
Total Web Development Budget			\$0		
Other	Start Date	End Date	Budget	Manager	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Name me	1/1/2006	1/15/2006	\$0	ABC	Department
Other	1/1/2006	1/15/2006	\$0	ABC	Department
Total Other Budget			\$0		
Totals			\$16,400		

## 5.2 Contingency Planning

### Difficulties and risks:

- Problems generating visibility.
- Difficulty developing sufficient demand.
- An entry into the mail order market from an already established, larger pharmacy.

### Worst case risks include:

- Determining that the business cannot support itself.
- Having to liquidate equipment to cover liabilities.

## Appendix

**Appendix Table: Sales Forecast**

Sales Forecast		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Sales</b>													
Walk-in customers	0%	\$0	\$0	\$8,765	\$10,987	\$12,554	\$16,776	\$18,443	\$20,001	\$21,332	\$22,343	\$25,311	\$26,544
Mail order customers	0%	\$0	\$0	\$2,245	\$5,543	\$6,543	\$12,334	\$15,454	\$19,877	\$23,556	\$26,776	\$30,112	\$34,554
<b>Total Sales</b>		<b>\$0</b>	<b>\$0</b>	<b>\$11,010</b>	<b>\$16,530</b>	<b>\$19,097</b>	<b>\$29,110</b>	<b>\$33,897</b>	<b>\$39,878</b>	<b>\$44,888</b>	<b>\$49,119</b>	<b>\$55,423</b>	<b>\$61,098</b>
<b>Direct Cost of Sales</b>													
Walk-in customers		\$0	\$0	\$5,347	\$6,702	\$7,658	\$10,233	\$11,250	\$12,201	\$13,013	\$13,629	\$15,440	\$16,192
Mail order customers		\$0	\$0	\$1,010	\$2,494	\$2,944	\$5,550	\$6,954	\$8,945	\$10,600	\$12,049	\$13,550	\$15,549
<b>Subtotal Direct Cost of Sales</b>		<b>\$0</b>	<b>\$0</b>	<b>\$6,357</b>	<b>\$9,196</b>	<b>\$10,602</b>	<b>\$15,784</b>	<b>\$18,205</b>	<b>\$21,145</b>	<b>\$23,613</b>	<b>\$25,678</b>	<b>\$28,990</b>	<b>\$31,741</b>

## Appendix

**Appendix Table: Contribution Margin**

Contribution Margin	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	\$0	\$0	\$11,010	\$16,530	\$19,097	\$29,110	\$33,897	\$39,878	\$44,888	\$49,119	\$55,423	\$61,098
Direct Costs of Goods	\$0	\$0	\$6,357	\$9,196	\$10,602	\$15,784	\$18,205	\$21,145	\$23,613	\$25,678	\$28,990	\$31,741
Other Variable Costs of Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Goods Sold	\$0	\$0	\$6,357	\$9,196	\$10,602	\$15,784	\$18,205	\$21,145	\$23,613	\$25,678	\$28,990	\$31,741
Gross Margin	\$0	\$0	\$4,653	\$7,334	\$8,495	\$13,326	\$15,692	\$18,733	\$21,275	\$23,441	\$26,433	\$29,357
Gross Margin %	0.00%	0.00%	42.26%	44.37%	44.48%	45.78%	46.29%	46.98%	47.40%	47.72%	47.69%	48.05%
Marketing Expense Budget	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Oregonian advertising	\$800	\$800	\$800	\$800	\$400	\$600	\$700	\$800	\$400	\$600	\$700	\$800
Other	\$5,000	\$5,000	\$5,000	\$5,000	\$2,000	\$3,000	\$3,500	\$4,500	\$2,000	\$3,000	\$4,000	\$5,000
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Sales and Marketing Expenses	\$5,800	\$5,800	\$5,800	\$5,800	\$2,400	\$3,600	\$4,200	\$5,300	\$2,400	\$3,600	\$4,700	\$5,800
Percent of Sales	0.00%	0.00%	52.68%	35.09%	12.57%	12.37%	12.39%	13.29%	5.35%	7.33%	8.48%	9.49%
Contribution Margin	(\$5,800)	(\$5,800)	(\$1,147)	\$1,534	\$6,095	\$9,726	\$11,492	\$13,433	\$18,875	\$19,841	\$21,733	\$23,557
Contribution Margin / Sales	0.00%	0.00%	-10.42%	9.28%	31.91%	33.41%	33.90%	33.68%	42.05%	40.39%	39.21%	38.56%