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'The corner pharmacy is dead'

*Marc Ashton

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Johannesburg - Branded goods distribution businesses, specifically in the healthcare sector, must learn to compete against the giant retailers such as Dischem and Clicks to survive, said Mike Allan, CEO of AltX-listed branded goods company Bioscience Brands. Bioscience - an AltX-listed business created from the shell of the failed Wellco - distributes a number of health and wellness brands including Bioharmony, Muscle Science and the KGB hangover cure. "The reality is that the corner pharmacy is dead," said Allan. Many of the big retailers, including Clicks and Shoprite, have developed in-house pharmaceutical dispensary operations for retail purposes which have taken business away from smaller pharmacy operations.

This shift in the retail market has meant that many branded goods manufacturers and distributors have needed to review how they get their products to market. The terms commanded by these retailers can place cash flow pressures on smaller businesses. Stringent terms and a slowing economic environment have meant that many of the smaller bit-players and their suppliers need to cooperate closely to keep an adequate supply of product and cash moving through the supply chain. These cash flow pressures were one of the factors that counted against the old Wellco business when it was listed. Despite securing sizeable contracts with retailer Woolworths, the group faced increasing cash flow pressure when it was held to long-dated payment terms. Allan said that in nine months, Bioscience has gone to two consistent suppliers of its products from seven.

"It is at the point where suppliers are having to pick up the phone and say they can't make salaries this month and can we help them out," said Allan. "Cash is tight for everyone." Asked what trends would emerge in the branded goods industry, Allan said consolidation was likely. The larger listed players such as AVI and Tiger Brands would become more acquisitive as the smaller players weakened. Consequently, it would become more difficult for established businesses such as Bioscience to make acquisitions because they could not compete with the multiples being offered. Until suitable and sizeable acquisitions presented themselves, Allan would develop Bioscience brands such that they remained segregated in the market. It would be 18 to 24 months before the share price reflected the turnaround in the business, said Allan.

*The author holds shares in Bioscience Brands.