



CENTRUM Católica's Working Paper Series

No. 2015-10-0017 / October 2015

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Hypercompetitive and Hyperlocalized Market:
The Case of the Chilean Pharmacies Market**

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**Factors Influencing the Purchasing Decision within a Hypercompetitive
and Hyperlocalized Market:**

The Case of the Chilean Pharmacies Market

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Key words: store selection, hyperlocation, hypercompetitive Market, loyalty, multiple store brands.

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ABSTRACT

The study identifies the qualitative and quantitative variables that influence a consumers' pharmacy store selection within a hypercompetitive market. The market studied is also characterized by the hyperlocation of multiple store brands in a relatively close distance.

In addition, the study investigates the average distance a consumer walks from their point of origin to the store. Qualitative results indicate that emotional and rational influences differ by age group; however, all groups expect high quality service. Quantitative results indicate store selection is influenced by the perception of lowest prices, service, product assortment and frequent buyer discounts. Loyalty was found to be linked to age of the customer. Finally, consumers willing to compare prices are more likely to walk longer distances. Loyalty reduces such distances by approximately twenty percent.

INTRODUCTION

Since the mid 1980's the opening of pharmacy branches in Chile has been regulated by the Circuit Law, which established that a pharmacy must be within 400 meters of another pharmacy. Subsequently, this law has been repealed in order to give private initiatives a great role, thus leaving the regulation of the system in the hands of the market. Problems only began to appear in the mid 1990's when companies started to merge. Until that point the structure for pharmacies in Chile had worked without major problems.

The result of mergers was that they made up more than 90 % of market participation, going from being a fairly divided market (Economics Ministry, 2000) with some traditional brands to being three major chains, Farmacias Ahumada (33%), Salcobrand (29,5%) and Cruz Verde (28,5%) according to statistics published by Diario Estrategia in September 2004.

The concentration of the market and intensification of competition have forced the three main chains to constantly drive a series of strategies in search of consolidating the market. For this they have highlighted the availability of strategic locations, lengthening of opening hours, development of loyalty programmes with discounts (normally known as "Loyalty and /or Benefits Cards"), use of credit cards (their own as well as those of other companies), health information, branch modernization, the introduction of the Drugstore format and an increased range of products, developing in this case up-selling and cross-selling, capturing of consistent shoppers, business clients, etc.

According to the Francisco Aracena, Executive Director of the National Association of Chain Pharmacies (Anacaf), "The quality of pharmacies in Chile is, without doubt, amongst the best in the World. The infrastructure is far better than that in Europe and of course is the leading infrastructure in Latin America. In the United States the system is much bigger, yet if we examine the variety and

availability of products, amongst other things, Chilean pharmacies are better than US ones (Publimark, 2004).

This better evaluation, carried out by consumers of the service that administers pharmacies in Chile, has led to an increase in the participation of chain pharmacies in the retail market, going from 7% in 2001 to 12 % in 2003, according to consultants ACNielsen.

In this way the concept of the pharmacy has become a dynamic one in the eyes of the consumer. Some branches have almost turned into a convenience stores, where many impulse purchase products, or those which are not normally associated with a pharmacy, are available.

The percentage of sales of pharmaceutical products to other types of product is estimated to be 70% to 30%. This is an average, although this differs by chain depending on where their emphases lie.

The strategy followed by Farmacias Ahumada (FASA) in recent years is reflected in the mix of sales, which has seen a reduction in the importance of medical products which now represent about 60% of sales. Moreover, the company has been changing its traditional format, discarding the traditional service desk and moving towards the Drugstore model and self-service shopping, a format that now makes up more than 65% of FASA outlets in Chile. FASA's own brand product lines constitute around 12% of sales. With respect to trade agreements, FASA Chile has had an agreement in place with Falabella since 1999 allowing the use of Falabella's credit card in FASA branches. Sales made with the CMR card represent around 10% of FASA's revenue in Chile. Similarly, following the agreement between FASA and Lider over the management of its 68 branches, sales made with Presto cards in the pharmacies started to make inroads into the company's credit card sales. In contrast to the strategies pursued by FASA, Cruz Verde is the pharmacy that has continued on with the more original concept of a pharmacy, with additional stocks of beauty products that are associated with a higher commercial margin. Its emphasis has been to project itself as a "True Pharmacy" with clear mention to the strategies followed by their competitors. In its bigger branches Cruz Verde has introduced a Self Service format, normally with

products that are more suited to a pharmacy as well as personal care products which can be displayed on shelves.

In this sense the differential factor for Cruz Verde is the service, which is seen as a combination of factors such as the branch location, comfort of the branch, range of products, presence and availability of the pharmacist, knowledge and helpfulness of the assistants, a good price to quality ratio and in general everything that adds value to the physical product that the client is looking for. However, one of the main factors associated with Cruz Verde becoming market leaders is their aggressive branch opening plan in a market that has an important correlation between the share of locations and market share. This is principally done by the growing number of franchised branches, which allows the brand to reach places where the sales levels do not justify the investment in their own pharmacy.

It must not be forgotten that current market participation is proportionate to the number of branches each brand has in the national market. If we focus in particular on Santiago, Viña del Mar and Valparaiso, one can see Cruz Verde are the market leaders, followed by FASA and Salcobrand.

Following on with the analysis of the strategies undertaken by the three main brands, Salcobrand developed a new concept in supermarkets under the name OK market, which corresponds to an Express supermarket with long opening hours, located together with a pharmacy. As of January 2008, OKmarket had 14 branches, 10 in the Metropolitan Region of Santiago, 3 in the V Region and 1 in the XIV Region.

Salcobrand has been one of the companies pioneering the use of customer relationship management allowing them to create more personalized offers, points programmes that lead to free purchases, product vouchers, dental and health services as well as innumerable programmes which aim to encourage and maintain longer term loyalty from customers.

In short, the three main pharmacy chains have followed different strategies in order to position themselves in a highly competitive market where the promotional strategies followed by the brands

have looked to find differences between them and their competition, especially in the case of Cruz Verde and FASA. In this context, Salcobrand has been the brand that has followed a less aggressive strategy, basically promoting its products and benefits without paying much attention to the competition.

The aggressive advertising battle between Cruz Verde and FASA has given rise to the phrase “the war of the pharmacies”. Thus it is not surprising that on 29 October 2007, FASA filed a lawsuit against Cruz Verde for unfair competition for US\$15 million demanding the suspension of the “Cruz Verde Challenge: low prices with no competition” “Desafío Cruz Verde Precios bajos sin Competencia” campaign which has been widely publicized (www.lun.com-2007).

According to FASA this campaign belongs to the recently introduced Unfair Competition Law 20.169, which penalizes this type of conduct. The judicial presentation is a new step that brings together all the accusations against such a company and they are presented over a few days to the Conar (Board of Self-Regulation and Ethical Publicity/Consejo de Autorregulación y Ética Publicitaria). FASA will demand for the third time that Cruz Verde removes its campaign due to an “absence of publicity ethics”.

Thus our investigation looks to identify what criteria and factors are involved in the choice of a store in a highly competitive market, where hyper location is a widely followed strategy by the three chains given the relationship between this and market participation.

PROBLEM INVESTIGATED

The relevance of the project's research is based in the need to clarify whether a choice of pharmacy still exists, an aspect that has not been researched in a Hypercompetitive or Hyper location context, such as those existing in the Paseo Ahumada and Calle Valparaíso, in Santiago and Viña del Mar, respectively.

The technical difficulty in carrying out this research is in finding the variables and constructing the indicators that are used in the selection process. One can presume a priori that the variables that influence a decision to make a purchase will concern different sex and age groups, which will present differing trends and therefore influence with varying magnitudes the final decision to purchase. The surveys were carried out at random with clients from pharmacies in the Paseo Ahumada and Calle Valparaiso after determining the size of sample needed and when the busy period were during opening hours in the week. In this way one seeks to extract and show the proportion of sex, ages and socioeconomic group that make up the pharmacies' clients.

Another challenge of this research is to define hyper competition given its frequent use in economic vocabulary; nevertheless it lacks an exact interdisciplinary definition.

Moreover it is of greater importance to the researchers to find a definition for "Hyper location" in the context of the competitiveness described between the chain pharmacies in Chile, and in particular the cases of the Paseo Ahumada in Santiago and Calle Valparaíso in Viña del Mar.

The objective of this study is to rationally and fundamentally determine:

What are the variables that influence the choice of a pharmacy in a hypercompetitive and hyper localized market?

METHODOLOGY

For the purposes of this investigation market research was simultaneously carried out in the Paseo Ahumada in Santiago and in Calle Valparaíso in Viña del Mar in the week 22-26 October, 2007. These areas were chosen for research due to the high concentration of pharmacies within the space of a few city blocks and moreover to take advantage of the high level of foot traffic from different social backgrounds and age groups.

The main objective of the investigation was to understand the factors that influence the choice of pharmacy in a Hypercompetitive market. Additionally there is a high importance placed of the behaviour of Hyper location consumers, a concept conceived by the authors that refers to a high concentration of sales points of the same business in a relatively reduced physical space and with a high level of competition between them. Undoubtedly these factors are generally important with the pharmacy chains in Chile; in particular those in Paseo Ahumada in Santiago and Calle Valparaíso in Viña del Mar, whose analysis and results will follow.

As for the design of the survey we have revised a version used by the same authors in a previous study carried out in December 2004 in Calle Valparaíso in Viña del Mar, incorporating some variations which allow us to compare and contrast the results from both cities.

QUANTATIVE STUDY

Once completed, the survey results were put into tables and charts in order to process the information obtained and gain basic descriptive statistics from the study. Subsequently relevant information was cross referenced, grouped in the majority of cases by the ages or sex of the respondents in order to identify the perceptions of different groups with respect to the service offered by the pharmacy chains.

1 Composition of the study:

A total of 171 surveys were completed by customers of Farmacias SalcoBrand, Cruz Verde and Farmacias Ahumada in Santiago and Viña del Mar respectively. The quantity of surveys made for each pharmacy corresponds to the proportion of local branches present in the Paseo Ahumada (Cruz Verde 46%, SalcoBrand 27% and FASA 27%) and Calle Valparaíso (Cruz Verde 40%, SalcoBrand 40% and FASA 20%).

In both locations there is a predominance of branches for Cruz Verde, followed by SalcoBrand and finally Farmacias Ahumada, which is proportionally consistent with the market share mentioned in the background section.

In order to carry out the surveys at times when the pharmacies were busiest information was sought from pharmacy assistants and staff from the different chains in the Paseo Ahumada as to when demand was highest.

The pharmacy assistants and staff identified Monday, Wednesday and Friday as the busiest days during a normal week when promotions and day-associated-discounts were taken out of consideration. As for the busiest hours during the day, two time periods were identified, the first in

the morning and afternoon between 11.00 and 16.00 and the second in the evening from 18.00 to 20.00.

Taking this information into consideration it was decided to carry out the survey on the Monday, Wednesday and Friday of the week commencing 22 October 2007 between 11.00 and 16.00 and 18.00 and 20.00.

As for the methodology considered, it was decided to maintain the proportions of surveys carried out to the number of pharmacies per brand in both the Paseo Ahumada and Calle Valparaíso, setting free the characteristics of sex and age in order to get the most representative study possible. This consisted of randomly surveying customers leaving the stores who may have made a purchase, regardless of their sex or age, in order to approximate the proportion of shoppers in the general population.

In both Santiago and Viña del Mar one can observe a higher proportion of women than men shopping at pharmacies for personal use as well as for family products. In both locations they were 61% and 71% respectively.

In terms of age groups there were a higher proportion of people surveyed in the 30 to 45 age group, which represents 55% and 45% respectively of the results obtained in Santiago and Viña del Mar. The 18 to 29 age group shares 25% and 35% of the study respectively and the 55+ age group have a 20% share in both.

2 Price perception:

The interviewees were then asked if the pharmacy they had just shopped in was good value for money. This was asked in order to find out what perception of price consumers have in relation to the pharmacy brands they choose to shop at.

The results showed that 56.7% of those surveyed in Santiago thought that the pharmacy they had just purchased from was good value for money. In Viña del Mar only 48.5% thought they were getting good value for money. However, if we analyse the results per brand it becomes clear that this percentage is not evenly distributed between the different brands. In particular, customers of

Cruz Verde were those who found their pharmacy to be the best value for money. In Santiago 64.9% and in Viña del Mar 51.5% of those questioned shared this opinion. For FASA and Salcobrand the number is significantly lower, oscillating between 45.7% and 51%.

A question related to the above was to ask the customer if they thought that all the pharmacies had the same prices, which produced consistent answers for both cities with 70.7% and 81.9% replying “No” in Santiago and Viña del Mar respectively.

To contrast the previous results the consumers were asked to say whether they compared or checked prices when shopping at pharmacies, choosing from “always”, “sometimes” and “No”. The respective results were 27%, 41% and 32% (“Always”, “Sometimes”, “No”) for Santiago and 36%, 35% and 29% for Viña del Mar.

On contrasting the price comparison results with the question of whether a consumer received better value for money in the pharmacy they had just shopped in, one observes that in the case of customers in Santiago who said that they “always” check prices 76.1% of them thought they had got the best value for money in the pharmacy where they had made their purchases. Another relevant result is that of those customers who declared that they “sometimes” check prices, 62.9% stated that they had got best value for money. This allows us to assume that the perception of having got best value for money in the pharmacy of their choice is more related to deeply-rooted subjective facts in the mind of the consumer, rather than the comparison of prices that allows a rational reinforcement of their perceptions.

In Viña del Mar 64.9% of the consumers who declared that they “always” check prices thought they had got best value for money in their pharmacy of choice while only 34.7% of those who “sometimes” check prices thought they had got best value for money, which is significantly lower than the 62.9% obtained in Santiago.

3 Pharmacy Choice Evaluation:

Those surveyed were asked to pick a number from 1 to 7 to describe why they picked the pharmacy they had just visited to make a purchase. The results were as follows.

Speed of service: Both Salcobrand (Santiago) and FASA (Viña del Mar) scored an average of 6.3 leading the way with speed of service compared to 5.8 and 6.0 for Cruz Verde in Santiago and Viña del Mar respectively.

Quality of service: The highest average mark was obtained by Salcobrand in Santiago with 6.6 and the lowest by Cruz Verde, also in Santiago, of 6.1. The marks for quality of service are similarly high between the chains thus showing that these companies place an emphasis on providing a good level of service to their customers.

Confidence in finding what you are looking for: The best mark was achieved by Salcobrand in Viña del Mar with 6.4 whilst FASA, also in Viña del Mar, had the lowest mark at 6.0. This factor is related to the consumer finding the optimum range of products in a pharmacy at the time of purchase; therefore, generally, the marks awarded were high and similar between brands.

Confidence in pharmacy staff: The highest average was in Viña del Mar for Salcobrand and FASA with marks of 6.4 and 6.3 respectively. For both Santiago and Viña del Mar Cruz Verde found itself in third place with respective averages of 6.1 and 6.2. These results show a significant difference between the chains and thus prove that this is an attribute given high importance by consumers across the board.

Medicine and product prices: The best averages were shared in Viña del Mar between Cruz Verde and Salcobrand both with marks of 5.9. The worst average was also obtained in Viña del Mar by FASA with 5.5. This test shows where the brands can make the most improvement given the distance of the marks from the ideal average. The best evaluation for Cruz Verde, without being significantly better, was the high proportion of clients (64.9% in Santiago, 51.5% in Viña del Mar)

who believed they had got the best value for money from the pharmacy they had just purchased from.

4 Prioritization of attributes:

As well as evaluating their choice of pharmacy on the attributes set out above, customers were asked if they could assess on a scale from 1 to 6 (1 being the highest, 6 being the lowest) the factors they saw as most and least important at the point of purchase.

The results indicated that it is evident that the “Price” factor (low prices or offers) is in both cases the main factor that influences the choice of store with 28% of those surveyed scoring it with 1.

In second place is “Speed” (speed of service), followed closely by “Quality” (quality of service) in the case of Santiago, albeit less important in the case of Viña del Mar. In Viña del Mar “quality” is replaced by “confidence” (confidence in finding what you are looking for) which is in fourth place in Santiago.

Finally, the “Confidence” and “Security” factors occupy positions 5 and 6 depending on the city.

5 Shopping “On the way” (Making a purchase at a pharmacy located “on the way” to where the customer is going):

The responses to this question have shed light on the importance of store location in a hypercompetitive context. 54% of those surveyed in Santiago said that they had purchased in that store because it was “on the way”, with 44% of people in Viña del Mar adopting the same position. For the sake of interpretation one can point out that the difference here between the consumers in Santiago and those in Viña del Mar, is that those of the former go directly to their pharmacy of choice in the Paseo Ahumada. This is backed up by statistics mentioned earlier stating that only 27% of consumers in Santiago “always” check prices before shopping compared to the higher percentage of 36% in Viña del Mar.

On the other hand 46% and 56% of those surveyed in Santiago and Viña del Mar stated that they “did not” shop at that pharmacy for the reason that it was “on the way”. This could provide clues to certain chain or branch loyalty which will be analyzed further on.

6 Prioritization of attributes:

One of the aspects looked into was to identify whether there existed a significant difference in the reason and occasion of purchase depending on the gender of the customer. In other words, whether the purchase they were making was made for personal consumption or for a third party (family member, friend, etc.) varied with the gender of the person.

For this, a large percentage (ranging between 65.3% and 70.5%) stated that the purchase was made for personal consumption. In general, there were no major differences in the results obtained between Santiago and Viña del Mar.

7 Brand loyalty:

Understanding a consumer's loyalty to a brand and a particular branch shop is one of the key criteria in a hyper competitive market, where the consumer is confronted with a number of alternatives which could potentially satisfy their shopping needs within a relatively small physical space, such as a couple of blocks in a city.

Consequently it was investigated whether loyalty is influenced by consumer characteristics such as gender or age to test whether these findings could be useful to a pharmaceutical company at the time of planning commercial strategies.

The results showed that even in this highly competitive market, the consumer still tends to "always" shop in the same pharmacy chain, with an average of 49.7% doing so in Santiago and 51.5% in Viña del Mar. Secondly, there is a notable difference in the composition of the percentages when divided by gender, with 54% and 55% of women stating that they "always" shop with the same chain compared to only 44% and 43% of men.

Furthermore, on examining the relationship with age groups one can consistently observe that as age increases, so does loyalty to the same pharmacy chain. The 18 to 29 age range is the group with

the least loyalty to a particular chain at 40%; this contrasts markedly with the over 55s in Santiago where 65.7% declared that they “always” shop at the same chain.

On analysing whether there were differences in loyalty to particular chains we found an important result in that 55.8% of Cruz Verde customers in Santiago stated that they “always” shop with the same brand with this figure being 58.8% in Viña del Mar. In contrast, Salcobrand and FASA maintain loyalty levels ranging from 40% to 50% in both cities.

From the previous results the question arises of whether the loyalty of those surveyed was influenced by possessing a discount or loyalty card for their preferred pharmacy chain.

It was found that 73% of Cruz Verde customers in the Paseo Ahumada had a Cruz Verde loyalty card and 69% in Viña del Mar. These findings are consistent with the loyalty expressed by customers to this pharmacy chain.

Salcobrand comes in second place with 57% of its clients in Santiago and 50% in Viña del Mar claiming to have its loyalty or discount card. FASA lies clearly in third place with only 30% and 26% of its customers having its loyalty or discount card in Santiago and Viña del Mar respectively.

Moreover, a second analysis was done to evaluate the loyalty to a particular chain, differentiating the clients according to whether they have a discount or loyalty card for their pharmacy of choice.

One should hope to see a priori that the individuals in possession of a card would tend to show more loyalty than those without a card. On the other hand, one must take into account that consumers do not necessarily have just 1 card, but can have 2, 3 or even no cards at all for the different chains.

The comparison of results from the data obtained in Santiago and Viña del Mar showed the following.

Cruz Verde: It is worth highlighting that 74.4% of clients in Santiago and 82.5% in Viña del Mar stated that they have a Cruz Verde discount or loyalty card and that they “always” use it when shopping in one of its stores.

Salcobrand: For this pharmacy chain 84.2% of its clients in Santiago declared that they “always” used their loyalty card, with 71.9% of clients in Viña del Mar stating the same.

FASA: The Farmacias Ahumada loyalty card is the one with the least penetration amongst its clients. Only 37.5% of clients in Santiago claim to own their loyalty card with this level reducing significantly to 25% in Viña del Mar.

In summary, on the basis of the evidence above, one can state that the use of loyalty or discount cards to encourage loyalty to a brand has been proven correct. Cruz Verde and Salcobrand lead the way with a higher proportion of loyal clients with Farmacias Ahumada being left behind as the company with the lowest proportion of clients possessing a card.

8 Consistent Shoppers:

One of the questions that the survey looked into was whether a consumer had to buy any form of medication on a consistent basis (e.g. for hypertension, diabetes, heart problems, etc.). The object of this question was to identify whether or not the need to be a recurring shopper was likely to influence the loyalty to a particular brand of pharmacy

The first thing to understand was the proportion of purchasers who belong to the category of a consistent shopper.

The percentages of consistent shoppers were relatively similar for the two cities at 58.5% and 60.8% for Santiago and Viña del Mar respectively.

Later on it will be interesting to see whether this proportion differs with respect to chain loyalty, in other words whether the proportion of consistent shoppers is different between the categories declaring that they “Always” shop in the same pharmacy chain, with respect to those who “Sometimes” or “Never” do.

In relation to previous results it appears that a large the proportion of consistent shoppers are generally more loyal to a brand, with levels reaching 73.3% in Santiago and 72.7% in Viña del Mar. These consistent results suggest that companies in this sector concentrate on this type of client who usually maintains their loyalty to a chain over time.

9 Branch Loyalty:

Having evaluated loyalty to chains it is now time to examine loyalty to branches. For this similar pieces of information mentioned earlier have been cross-tested in order to find any regular patterns.

In particular it was considered whether the gender of the client surveyed influenced a greater or lesser loyalty to a particular branch. In general there are not many differences, except in the case of Viña del Mar where women showed a greater tendency to regularly prefer the same branch. However in Santiago the percentages of men and women are about equal in this regard.

Additionally, when contrasting these results with those obtained on loyalty to chains by gender, it can be noted that loyalty to the chain (54% to 55%) is significantly higher than loyalty to a particular branch, which conforms to our point of view on this hyper competitive context, where the consumer can access various branches from their favoured brand in a confined shopping area.

When comparing loyalty to the branch with the age of the client, one can clearly observe an increase in branch loyalty the older the person is. In this respect 22.9% of over 55's surveyed in Santiago stated that they "always" shop in the same branch, with this figure rising to 32.4% in Viña del Mar.

This finding is highly relevant in the sense that it confirms what has been obtained concerning loyalty to a chain according to age and it allows the different chains to adapt their commercial strategy in order to gain loyalty from this age range, given its higher tendency to have consistent shoppers using the same chains and branch.

These results confirm that for older people the decision to purchase influenced strongly by emotional elements, a fact that agrees with the findings of the December 2004 study. In this category one should consider the importance of personal service, staff product knowledge and helpfulness and identification with the staff of the branch etc. all of which are very important factors for this age segment of the population.

As for branch loyalty for each chain, in Santiago 19.1% of Salcobrand clients said that they "always" shop in the same branch, with this figure lowering to 17% and 13% respectively for

FASA and Cruz Verde. This contrasts with the results obtained on chain loyalty where Cruz Verde was a clear leader. An explanation for this could be that at the time of carrying out this survey, of the 11 pharmacies located in the Paseo Ahumada, 5 were owned by Cruz Verde, thus the consumer has various alternatives available to reach the pharmacy of their choice without having to necessarily go to the same branch.

On the other hand, the results for Viña del Mar follow the same trend, highlighted by 34.3% of FASA clients saying they “always” shop in the same branch. It is worth mentioning that of the 10 pharmacies in the Calle Valparaíso, only 2 belong to FASA.

10 Pharmacy Proximity:

In the context of a hyper competitive market, with a high density of stores from different chains available to satisfy the needs of consumers, it is necessary to evaluate the influence that location has on the decision to purchase in a particular pharmacy.

Primarily the client was asked whether the store they had just shopped in was the one that was nearest where they live.

According to the results, one can identify that in the case of Santiago 59.6% of those surveyed said that the pharmacy was the one nearest to their home, with this level being significantly lower in Viña del Mar at 40.9%.

It was then evaluated whether this percentage was proportionally distributed according to the main reason for visiting that area; in essence, one looked to identify if consumers make a longer trip to the pharmacy of their choice depending on why they are in the area.

The first evaluation to do was to obtain the reasons for consumers visiting the sector, where the “yes” option carries greater relative importance. In the case of Santiago “work” (80.3%), “other reasons” (54.5%) and “errands” (52.5%) were the main reasons for visiting the area. In Viña del Mar the main reasons for visiting the area were “shopping in the pharmacy” (57.1%) and “work” (46.2%).

The previous results allow one to infer that the major relative importance of proximity is for people in Santiago in comparison with those from Viña del Mar which one can attribute to the greater speed of life in the capital, where the Paseo Ahumada is a fast-moving shopping area whereas the Calle Valparaiso which is a quieter pedestrian street. It would be worth developing an additional study in order to properly identify the intrinsic reasons for these differences.

11 Main reason for Purchase:

One of the main objectives of the investigation was to identify the factors and criteria that affect a consumer's selection of a pharmacy in a hyper competitive marketplace, with hyper location of branches.

Consequently one of the first questions asked was what the Main Reason was that the person went shopping in the pharmacy they chose, in comparison to other pharmacies, taking into consideration the number of shops and branches available nearby that cater to the same needs.

The question was asked openly whereby the interviewee mentioned their main reason(s) for the choice of pharmacy, which have been summarized below by the interviewer.

In compiling the data 8 main reasons emerged which are listed below:

- **Good service:** Referring to the friendliness of the staff, speed of service, knowledge of pharmaceuticals and availability to answer questions, etc.
- **Proximity:** Of the pharmacy in respect to where the customer has started his/her journey.
- **Loyalty card or benefits:** Includes bonuses for being a client of Isapre, Caja de Compensación, Institución, among others. This also includes benefits associated with point accumulation on loyalty cards and alternative payment methods.
- **Availability of products:** Mainly medication and products that are generally associated with pharmacies (e.g. beauty products).
- **Branch not busy:** If the pharmacy at the time of purchase was empty or only had a few customers, thereby reducing waiting time to get served.

- **Loyalty:** Mainly to the brand, but also branch and personal service. This concept contains aspects of identification with the brand, and the habitual nature of shopping in the same place. It is worth mentioning that this factor is more than just a reason but a calculated preference made by the consumer after having analysed several factors and experiences.
- **Others:** Corresponds to criteria mentioned by consumers that could not be classified due to lack of data.
- **Low Prices and Discounts:** Refers to the prices of the branch and discounts associated to specific days and product lines for example, discount items, on buying a second product, buying on a specific day, catalogue offers, etc.

One can observe a consistency between the results obtained in Santiago and Viña del Mar in the relative importance of the reasons to go to the chosen pharmacy. In both cities the 5 main reasons in order of importance were: low prices and discounts, proximity, loyalty cards or benefits, loyalty and availability of products which made up 91.8% and 89.5% of all answers in Santiago and Viña del Mar respectively.

The “low prices and discounts” factor is the most relevant at the time of purchase for those surveyed however, according to the previous research this is not always accompanied by the comparing and checking of prices which should allow the consumer to objectively evaluate which pharmacy is the best value for money. As a result, stating that one chooses a pharmacy because of “the lowest prices” has an important subjective component, associated to a perception and position of the brand in the mind of the consumer which is generated by advertising, among other things.

These general findings make it necessary to carry out a differential evaluation of answers by gender to see if the responses of consumers are proportional to the composition of the study and to see whether any differences exist between the sexes. It was therefore necessary to consider again the proportion of women and men represented in the study (information in the paragraph: Composition of the study).

In this context the surveys in the Paseo Ahumada were made up of **61%** women and **39%** men and in Calle Valparaíso **71%** women and **29%** men.

The “low prices and discounts” factor is valued more by women both in Santiago and Viña del Mar with levels of 67% and 76% respectively, superseding in both cases the proportion of women in the study (61% and 71%). Therefore one can speculate as to why women are more concerned with price, a factor that can be attributed to their traditional role as the supposed family administrator.

For the “proximity” factor the proportions are relatively balanced; however, in both cities men have a higher proportion of preference for this factor than their participation in the study. In Santiago 43% of men surveyed said that proximity was the main reason for their purchase, which is large percentage than their composition in the study of 39%. There is a greater tendency for in Viña del Mar where 40% of those surveyed declared this out of only a 29% composition of the study. As a result one can say that men see proximity as a bigger factor than women in convenience and comfort of shopping.

In third place “loyalty cards and benefits” show different results between the cities. In Santiago 54% of men gave this as their main reason of purchase, compared to only a 39% representation in the study. In contrast in Viña del Mar 82% of women see this as the most important reason for purchase, a number greatly superior to their 71% representation in the study. These incongruous results make it difficult to pinpoint an exact explanation for this phenomenon.

In terms of “loyalty” 67% women in Santiago placed this as their reason for purchase compared to their composition in the study (61%). In Viña del Mar, unlike Santiago, the proportions are in line with their composition in the study. As a result there is a slight tendency to suggest that women are more loyal clients to a particular chain or branch. This analysis is consistent with the previous results in the loyalty section according to the gender of the consumer.

Finally for “product availability”, the fifth attribute in order of relevance, the proportions are equal to the composition of the study with a slight swing towards men placing more value on this aspect,

which could be related to convenience at the time of purchase and not needing to go to more than one branch to purchase the products desired.

Along with this we can also carry out a similar analysis of factors affecting the selection of a pharmacy at the time of purchase by age group. For this we shall consider the proportion of ages for both Santiago and Viña del Mar, 25% and 35% respectively for the 18 to 29 age group; 55% and 45% for the 30 to 54 age group and 20% and 20% for the 55 and over age group.

In considering the “low prices and discounts” data, one can see that the 30 to 54 age group place more importance on this which is a proportion slightly above their composition of the study whereas for those aged 55 and over the importance of is significantly lower than their composition in the study (20%). The 18 to 29 age group maintains a proportion more relative to the make-up of the study with a slight tendency to value this factor more.

Secondly, in terms of “proximity” we can see that in Santiago the proportions are relatively equal to those of the study, with a small tendency for the 18 to 29 age group to place a greater value on this attribute, which is highlighted further in Viña del Mar (44% over a 35% study composition). Taking these results into consideration one can identify younger men as seeing this attribute as being more relevant when choosing a pharmacy.

It was harder to identify trends upon analysing “loyalty cards and benefits”, largely because this aspect is strictly related to prices.

As for “loyalty” to a pharmacy chain or brand, there is a clear tendency for older people to show more loyalty. It is worth mentioning that in Viña del Mar, where the over 55s made up 20% of the study, 40% of the age group said they were loyal to a chain or brand. These results are consistent with those in the previous research.

Finally the “availability of products” factor was given heavy preference by the 30 to 54 age group, especially in Santiago where 75% of respondents stated this as their most important factor from a group that composed only 55% of the study.

12 Opinion on hyper location:

Along with the analysis of identifying factors and criteria for the selection of stores in a highly competitive market, it was important to obtain views from consumers about the hyper location of stores, questioning them about their views on the existence of several pharmacies in the same location or street. The question was asked openly and the interviewer summarized the opinion of the respondent.

The following is an extract of comments received:

Positives:

- “Good. There is more competition and better prices”
- “Good. Greater variety”
- “More places to check prices”
- “Good. If I don’t find what I want in one pharmacy I can go to another one”
- “Good. If there were less there wouldn’t be so many options for shopping”

Negatives:

- “It’s an exaggeration”
- “Bad. There are only branches here and not where I live”
- “Bad. It represents consumerism ”
- “Illogical. It’s expensive for the companies themselves”
- “There are too many hypochondriacs in Chile”

On a general level the existence of several pharmacies in the same place is well perceived by consumers, because it leads inter alia to better prices, a greater variety of products and branches and easier price checking.

CONCLUSIONS

The methodology used in both the design and fieldwork as well as the presentation of results of the study in the field looked to minimise non sampling errors in every aspect of the study overseen by the authors.

The main results of the study can be summarised as follows:

Price perception:

56.7 % of those surveyed in Santiago and 48.5% in Viña del Mar believed that the pharmacy they had just been shopping in had the lowest prices and best value for money; however, this perception is not supported overall by the greater availability of price comparison. It is important to highlight that this perception is not reflected to the same degree for each of the pharmacy chains. Cruz Verde, in particular, has the best evaluation over both cities, where 64.9% of its clients in Santiago stated that this pharmacy chain was the best value for money.

Price checking:

Only 27% of consumers in Santiago and 36% in Viña del Mar admitted that they “always” checked prices when they go shopping in pharmacies. These percentages are significantly lower than the proportion of consumers who declared that the pharmacy they had just shopped in was the best value for money. This shows that best value for money is a factor with an important emotional component rather than being based solely on facts and price checking.

Evaluation of pharmacy choice:

In general, high marks of 6 and over were awarded to factors such as speed and quality of service, confidence in finding what you are looking for as well as confidence in the staff.

The factor with the lowest average mark is “Price” which fluctuated between 5.5 and 5.9. In general, consumers have a good opinion of the service provided by pharmacies without major differences between the evolution of marks for the different brands but with a slight leadership overall for Cruz Verde in relation to “prices”, the most important factor.

Prioritizing Attributes:

The “prices” factor (low prices or offers) is, in both cities, the most important factor that determines the selection of the pharmacy with 28% of consumers stating it as the main consideration.

In second place is “speed” (speed of service), followed closely by “friendliness” (friendliness of service) in the case of Santiago and more distantly in the case of Viña del Mar. In effect “friendliness” is replaced in Viña del Mar by “confidence” (confidence in finding what you are looking for) which is in fourth place in Santiago.

Shopping “On the way” (Making a purchase at a pharmacy located “on the way” to where the customer is going)

In Santiago 54% of people surveyed stated that they had just shopped in a pharmacy because it was “on the way”, with 44% stating this in Viña del Mar.

On the other hand 46% and 56% of those surveyed in Santiago and Viña del Mar stated that they “did not” shop at that pharmacy for the reason that it was “on the way”. This could provide clues to certain chain or branch loyalty which one can analyse later on.

In a hyper competitive context with a high density of shops, the consumer tends to look for a pharmacy “on the way” to where they are going that is owned by their chain of preference.

Loyalty to the Brand:

Discounts stands out as the main strategy used to encourage customer loyalty in the midst of an extremely competitive industry where price wars seriously threaten the industry’s profit margins.

The results are very telling and show a significant impact on consumers. In Santiago 55.8% of Cruz Verde’s clients state that they always shop with the chain and 73% have a loyalty or discount card.

(In Viña del Mar these figures are 58.8% and 69% respectively). Salcobrand are in second place with 57% of their clients in Santiago having a loyalty card and only 50% in Viña del Mar (In

Santiago 40.4% of Salcobrand customers said that they always shop with Salcobrand, a level that reaches 51.1% in Viña del Mar). Finally, FASA lies in third place with only 30% and 26% of their

customers having discount or loyalty cards in Santiago and Viña del Mar respectively (In Santiago 51.1% of FASA customers say they always shop with the chain and in Viña del Mar this number is 45.7%).

Loyalty to a specific brand is also obtained via the use of loyalty cards giving discounts and benefits to customers from their pharmacy of choice. A priori one could expect that individuals who have a pharmacy loyalty card would tend to be more loyal than those who do not. On the other hand it is necessary to take into consideration that a consumer may possess loyalty cards for a number of different chains.

- **Cruz Verde:** 74.4% of clients in Santiago and 82.5% in Viña del Mar stated that they had the loyalty card for this pharmacy as well as declaring that they “always” used it when shopping there.
- **Salcobrand:** For this pharmacy 84.2% of clients in Santiago claimed that they “always” used their discount or benefit card, with this percentage being 71.9% in Viña del Mar.
- **FASA:** The Farmacias Ahumada loyalty card stood out as having the lowest penetration amongst consumers. Only 37.5% of clients in Santiago and 35% in Viña del Mar claimed to have the loyalty card for this pharmacy.

Moreover the study looked into whether there were any significant differences in loyalty to the different brands depending on a customer’s sex. In Santiago 54% of women always shopped with the same brand and 44% sometimes shopped with the same brand (For men these statistics are 44% and 53%). In Viña del Mar 55% of women always shopped with the same brand and 43% sometimes shopped with the same brand (The male percentages are 45% and 49% respectively). The results from both cities are consistent and show that women tend to be significantly more loyal than men towards pharmacy brands.

When analyzed in terms of age groups it is clear that there is more loyalty from the older age groups than the younger ones. For the 18 to 29 age group there is an average loyalty level of 40%

compared to the over 55 age group in Santiago, from which 65.7% stated that they “always” shopped in the same pharmacy chain.

Consistent shopper:

The proportion of shoppers who are usually more loyal to their pharmacy of choice (in respect to those who are not) is 73.3% in Santiago and 72.7% in Viña del Mar. These findings are consistent and suggest that pharmacy companies should concentrate on this type of client who normally maintains their loyalty to their preferred pharmacy chain.

Branch loyalty:

On evaluating the loyalty of customers to branches it was observed that the survey showed there is more branch loyalty amongst the older age groups. In effect 22.9% of over 55’s surveyed in Santiago said that they “always” shop in the same branch, with this number rising to 32.4% in Viña del Mar.

It was also analysed whether a customer’s sex influenced their loyalty to a particular branch. In general there were no significant differences with the exception of Viña del Mar where women showed a greater tendency to shop consistently at the same branch.

Proximity of the pharmacy:

In Santiago 59.6% of those surveyed stated that they had just shopped in the pharmacy that was closest to where they live, a number that is much higher than the 40.9% of those surveyed in Viña del Mar. These results obviously show the importance of hyper location in this highly competitive market.

Main reason for purchase:

The results were consistent between the cities. The 5 main reasons in order of importance are: low prices and discounts, proximity, benefits and loyalty cards, loyalty, and availability of products, which make up 91.7% and 89.5% of the responses from Santiago and Viña del Mar respectively.

The “low prices and discounts” factor is the most relevant at the time of purchase for those surveyed however, according to the previous research this is not always accompanied by the

comparison and checking of prices which would allow the consumer to objectively evaluate which pharmacy is the best value for money. As a result, stating that one chooses a pharmacy due to “the lowest prices” has an important subjective component, associated to a perception and position of the brand in the mind of the consumer which is generated by advertising, among other things.

The attribute of “low prices and discounts” in both Santiago and Viña del Mar is valued more by women, 67% and 76% respectively, which in both cases supersedes the proportion of women in the study (61% and 71%). It is the 30 to 54 age group that awarded this factor the greatest relative importance. Furthermore it strongly stands out that for the 55 or over age group the importance of low prices and discounts is significantly lower than their proportion in the survey (20%). Finally the 18 to 29 age group maintains a proportion more in line with its composition in the study with a slight tendency towards valuing this attribute more.

As for the “proximity” factor the proportions are relatively balanced. However one can observe that in both cities men have a higher proportion of responses than the level of their participation in the study. To illustrate this 43% of those surveyed in Santiago stated proximity was the main reason for making a purchase in their choice of pharmacy, with men only made up 39% of the people surveyed in the capital. In relation to age one can see that in Santiago the proportions are relatively equal to the make up of the study with a subtle tendency for the 18 to 29 age group to value this factor more with strongest results obtained in Viña de Mar (44% out of 35% that make up the study from that age group). As a result one can identify a sector of young men for whom proximity is the main factor when choosing which pharmacy to shop at.

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