

# Study on Strategic Transformation of Chain Drugstore's Business Model under New Medical Reform Policy

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**Abstract-** The sales volume of medicine retail market has been increasing since our country follows the reform and openness policy to present. The increase in quantity of drugstore also has intensified the competition for medicine retail market while promoting the development of medicine retail market. Chain drugstore is one of important subjects in medicine retail market. With the introduction and execution of new medical reform policy as well as the gradual implementation of "no price difference" and essential medicine system, the comprehensive basic-level medical service is launched, which effects the operation of chain drugstore greatly. Based on the knowledge of development situation for chain drugstore, the strategic transformation path of chain drugstore's business model under the new medical reform policy become a focus for research.

**Keywords-** New medical reform policy, Chain drugstore, Business model, Strategic transformation

## I. BASIC KNOWLEDGE ON DEVELOPMENT SITUATION OF CHINESE CHAIN DRUGSTORE

Under the guidance and driving force of national trans-regional chain policy, the chain drugstore in our country has been developed rapidly since 2000. The state-owned main medicine retail enterprises enlarge their service scope continuously throughout the country. Especially in 2001, the approval for retail drugstore became loosened gradually. The private capital was invested into the field of chain drugstore. The drugstore increased a lot. The survey shows the number of drugstore throughout the country had reached to 36.75 ten thousand in 2007 before the new medical reform policy was introduced. In 2009, the new medical reform policy and the relevant matching schemes were introduced, which affects the drug sale of chain drugstore to a certain extent. For instance, the execution of "no price difference" and essential medicine system in 2009 affects the profit of chain drugstore greatly. The implementation for overall reimbursement policy of outpatient service will redirect the customer of chain drugstore to a large extent. Compared with mono-drugstore, the cost of chain drugstore in overall operation is higher. For instance, the supervision intensity of relevant departments for chain drugstore is higher, which will result in a higher standardized cost for chain drugstore[1]. In addition, the service cost on hardware configuration will increase due to its higher standard. However, the execution of new medical reform policy also offers an opportunity for the further development of chain drugstore. In order to realize a long-term and effective development, it is must for chain

drugstore to adjust its business model and realize a strategic transformation.

## II. CONSIDERATION ON SPECIFIC PATH FOR REALIZATION OF STRATEGIC TRANSFORMATION OF CHAIN DRUGSTORE'S BUSINESS MODEL UNDER NEW MEDICAL REFORM POLICY

Under the new medical reform policy, drug distribution is opened gradually. The classified management on drug is carried out. Meanwhile, the medical distribution market is open to foreign investment etc. All of these have brought a great impact for medicine industry. The profit space of chain drugstore under the traditional business model is squeezed. Moreover, its operation is heading for dilemma gradually due to the influence from basic-level medical service. In order to realize a long-term and effective development, it is necessary for chain drugstore to transform its business model in real earnest. The sustainable development can be realized through a strategic transformation. The specific paths are in the following points.

## III. ENHANCE COOPERATION BETWEEN CHAIN DRUGSTORE AND PHARMACEUTICAL ENTERPRISE TO ACHIEVE A WIN-WIN SITUATION SO AS TO PROMOTE DEVELOPMENT.

At present, most of chain drugstores have been in a situation of price scrimmage. In order to get a higher operating profit, it is necessary for chain drugstore to definitely realize the importance of cooperation with pharmaceutical enterprise. The sustainable development of chain drugstore may be realized through a fully cooperation. The ways of cooperation are as follows. First, most of foreign-funded pharmaceutical enterprises will conduct training on knowledge of various products regularly. Chain drugstore can make use of this resource to effectively improve its staff's professional level related to medical knowledge. In domestic, there is a complex government relation in domestic pharmaceutical enterprise. If chain drugstore strengthens its cooperation with domestic pharmaceutical enterprise, its business will be expanded further. Secondly, cooperation alliance can be established between chain drugstore and pharmaceutical enterprise to promote the implementation of same brand strategy and marketing strategy as well as to present the relevant drug to consumers with a more effective method accordingly. Meanwhile, chain drugstore can share the information related to consumer group with pharmaceutical enterprise so as to provide an ancillary support for pharmaceutical enterprise's

more accurate and professional product development and marketing. The pharmaceutical enterprise also can sell drug with a lower price to chain drugstore. Thirdly, between chain drugstore and pharmaceutical enterprise, carry out a deep cooperation, optimize the resource of sales promotion, and take both parties' profit into account comprehensively as well as promote the strategic cooperation. Moreover, chain drugstore also can learn the management philosophy of pharmaceutical enterprise so as to further improve its soft power[2].

#### *A. Take Medical Distribution Enterprise As A Focus to Further Expand Rural Market.*

From the point of industrial chain, when the intermediate links in drug distribution are less, the price of drug to final consumer group will be lower, and vice versa. A higher drug price with more intermediate links must affect the long-term benefit of drug selling. However, we cannot neglect medical distribution enterprise in the industrial link. At present, most of pharmaceutical enterprises don't establish medical distribution enterprise due to the influence of their own limitations on main business. Meanwhile, the management efficiency of chain drugstore is lower relatively. They don't establish the professional medical distribution team affiliated to them, either. Consequently, it is necessary to distribute drug through medical distribution enterprise in actual operating process. The new medical reform policy in 2009 clearly pointed out that everyone should enjoy the basic medical treatment and public health guarantee to 2020. The policy shows the rural medical and health service is the priority among priorities in the future medical development. In recent years, the execution of rural cooperative medical service policy has improved the rural medical service facility and medical condition to some extent. With the continuous development of rural economy, the rural people are paying more attention to their health, which certainly will promote the growth of rural medical and health care service. Based on the above mentions, it is observed that not only national policies but also the rural economic development as well as the rural consciousness change have shown the rural drug retail market is springing up [3]. Therefore, chain drugstore should enter the rural market actively. At present, most of chain drugstores are not provided with drug circulation and distribution capacity. It is difficult for them to enter the rural market. For this purpose, chain drugstore can take advantage of medical distribution enterprise to establish chain drugstores in the rural market so as to seize the rural drug retail market. For chain drugstore, to strengthen the cooperation with medical distribution enterprise is a key point to realize the expansion of chain drugstore and online store in rural areas.

#### *B. Chain Drugstore should Unite with Various Hospitals to Realize Functional Complementation.*

With the constant depth of new medical reform policy, division of medical treatment and drug sale has become a development trend. However, hospital plays a great role in the whole drug industry and consumer group. In large hospitals, doctors deep contact with consumer group. They are familiar with the disease of consumer group relatively. Moreover, they own the prescription right. If chain drugstore

has a good cooperation relationship with large hospitals, it will timely get the information of consumer group related to their disease as well as the incidence trend so as to adjust the drug and the sales counter in chain drugstore specifically and improve the operating profit of chain drugstore [4]. In addition, the later recovery and recuperation of some patients with chronic disease after the treatment in the hospital need more time. At this time, if some free medical treatment service can be provided, such as blood glucose measuring, blood pressure measuring and drug donation etc., it contributes to the recovery of patients more and the habit formation to make re-examination in the hospital so as to provide a necessary supplementary for hospital treatment. Under the new medical reform policy, community hospital rises gradually, which has become a major competitor for chain drugstore. But from the point of drug operation, the advantage owned by community hospital is not prominent when compared with chain drugstore. Based on this, chain drugstore can make full use of its advantages to establish the trusteeship with pharmacy of community hospital and return the profit from drug sale to community hospital as per certain proportion. The competitive relation between chain drugstore and community pharmacy can be changed to the cooperative one through this method, which contributes to the long-term and effective development of chain drugstore more. Meanwhile, the advantage of community pharmacy also can be fully played.

#### *C. Chain Drugstore should Build a Professional Image and Strengthen its Own Management.*

At present, the brand of chain drugstore is more in our country. The market competition is fierce relatively. In order to increase the operating profit of chain drugstore, a diversified operation strategy should be adopted. When selecting the product variety in drugstore, make sure the drug on the shelf can attract consumers. Even multi-channel sale for daily necessities etc. can be adopted to increase customer flow and operating profit of chain drugstore etc. But a professional image of chain drugstore also should be built when following the diversified operating strategy so as to avoid the diversification weakens its professional. For building the professional image of chain drugstore, it is very important to get the trust of customers. Chain drugstore needs to guarantee the professionalization of its medical staff. The staff should be capable of providing a professional drug consulting service for customers. In addition, they also should find the most suitable drug for patients in accordance with their physical and disease condition. Moreover, they also should provide follow-up service and consultation service to relief disease etc[5].

The current development situation shows chain drugstore can choose "health and beauty" products or service as its main ones in the diversified operation, such as cosmeceutical. In the field of health and beauty, consumers trust drugstore more than supermarket and convenience store. They believe the commodity in drugstore is more secure for their health and life. Bases on this, chain drugstore can open a special counter for health and beauty and offer advice to consumers from the points of health, health maintenance and physiology etc., which not only contributes to increase the trust of customer but also improve the business benefit of chain

drugstore more. It is undeniable that cosmeceutical is a good choice in the process of diversified operation and professional image building. Of course, in order to improve the sales benefit of cosmeceutical, it also is necessary for chain drugstore to effectively improve the professional quality of its staff and strengthen their knowledge on drug, cosmetics and daily regimen etc. to ensure a more professional service can be provided to consumers and make consumer group to enjoy a more professional security service. In addition, chain drugstore also can cooperate with community medical system to give lecture on disease prevention and health maintenance in community regularly as well as provide the free service like blood pressure and blood glucose measuring etc. for the old in community so as to expand chain drugstore's own influence and popularity. In the process of diversified operation, chain drugstore also should pay sufficient attention to prevention and health care as well as the recovery filed of chronic disease. Meanwhile, the standard of chain drugstore's internal management also should be improved. Effectively improve the information management on suppliers and branch stores through the latest technology. Optimize the business model of chain drugstore and reduce the operating cost. Pay more attention to the demand of consumer group to realize the image building of chain drugstore so as to promote its long-term and effective development.

#### IV. CONCLUSION

As a business model with a high increase capacity in Chinese medical market, although medical retail chain operation and organizational form has experienced a rapid development in the fierce competition of medical commercial market in just a few decades when entering China and the new economic growth point also has been created in drug

retail industry, the profit space of chain drugstore under the new medical reform policy is squeezed. Especially, the gradual implementation of "no price different" and essential medicine system as well as the construction of basic-level medical service have brought a great effect for the operation of chain drugstore. Based on this, it is necessary for chain drugstore to transform its business model and realize strategic transformation. To strengthen the cooperation between chain drugstore and pharmaceutical enterprise is proposed to get a win-win relationship so as to promote the development. Take medical distribution enterprise as focus to further expand the rural market. Chain drugstore should unite with various hospitals, hospital system, community medical system and rural medical system in health system to realize functional complementation. Meanwhile, chain drugstore should build a professional image and strengthen its own management strategy etc. to effectively improve the professional service level of chain drugstore so as to realize its long-term and effective development.

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