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## PHARMED FIRST INC. (A)

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*David Shaw and Elizabeth M.A. Grasby revised this case (originally titled Family Drug Mart (A), written by Kevin R. Higgins under the supervision of Professor Richard Mimick) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Late in the afternoon of May 10, 2012, George Brenner, regional manager for Pharmed First Inc., expected he would have a difficult decision to make. Brenner's boss, Frank Chan, had received a letter of complaint from a customer and he had directed Brenner to "deal with it." Brenner and Angela MacFee, manager for the company's store in Dartmouth, Nova Scotia, had just completed a heated telephone conversation on how best to handle the customer complaint. Brenner would be meeting the next morning with MacFee to discuss matters further. During their telephone conversation, MacFee had challenged Brenner's authority by blatantly questioning the decisions he had made. He was considering what he should say and what action he might have to take at the meeting. He also wondered whether MacFee would continue to exhibit what he viewed as insubordination and not attend the meeting he had requested, as she had threatened to do. Brenner knew he had to deal with this matter effectively and he planned to exert his power as her supervisor.

### PHARMED FIRST INC.

Pharmed First Inc. (Pharmed) operated a chain of 85 drugstores in Canada's Atlantic provinces. The executive committee included Chan, the president, and the vice-presidents of sales and marketing, operations and finance. The retail sales management team consisted of six regional managers with three in Nova Scotia, two in New Brunswick — one of whom included Prince Edward Island in his territory — and one in Newfoundland and Labrador. The company operated under a functional organizational structure, which meant that the business was divided into departments that performed specific functions.

Each store was managed by a pharmacist who had been promoted from head of the pharmacy department to store manager. Store managers rarely moved from one store to another because, previously as pharmacists, they had performed their tasks well and had generated a lot of loyal customer business. Customers still approached them for advice about their drug needs, having previously developed a special confidence with the them when they were head of the pharmacy department. Generally speaking, store managers tended to have a solid understanding of their local customers' needs.

Pharmed promoted a very strong "customer first" philosophy to its customers and its employees. All employees received extensive training in customer relations, including how a loyal customer was Pharmed's most valuable asset and that each successful customer transaction with Pharmed was a further step in developing and realizing the benefits of customer loyalty. Rewards to employees who provided special service to customers were regular features of the Pharmed monthly employee newsletter. Pharmed

used this type of reward power to motivate its employees effectively under the premise of the expectancy theory, in which employees knew that their positive efforts would lead to a strong performance that would result in a reward. This was how employees were motivated. Employee evaluations were another effective tool used by Pharmed to assess employee performance. As an organization, Pharmed believed in developing strong employer/employee relations within a non-union environment.

Pharmed promised its customers the “best price”: if any other store offered a lower price on the same merchandise, Pharmed matched it. Pharmed also advertised a full refund on returned merchandise provided it had not been opened, or in any way altered, or the packaging was torn, or the look of the product and its packaging adversely affected, or the product was especially prescribed for that customer or the “best before date” had expired.

### **GEORGE BRENNER**

George Brenner celebrated his fifteenth anniversary with Pharmed in February 2012. He had been promoted from head of the pharmacy department to store manager in Kentville, Nova Scotia. In 2009, he was promoted to regional manager for the Pharmed stores in Dartmouth and eastern Nova Scotia through Cape Breton. He was a graduate of Dalhousie University’s B.Sc. in Pharmacy degree in 1992 and, at 42 years of age, was considered to be a “bright light” on the Pharmed management team and a potential candidate for a senior executive position within the next few years.

Regional managers were responsible for all aspects of store operations, including merchandising, store plan and layout, budgets for advertising and promotion, security, finance, employee management, employee training programs, appointing store managers and proposals for new stores or closing existing stores.

### **ANGELA MACFEE**

Angela MacFee graduated from the Dalhousie Pharmacy School in 2003 after completing her high school program in Musquodoboit Harbour in 1999. She joined Pharmed in the Dartmouth Shopping Mall immediately after her university graduation and was promoted to head of the pharmacy department in 2007 and to store manager in mid-2011. MacFee still resided in Musquodoboit Harbour, about 15 kilometres from Dartmouth, with her husband and two children.

As head of the pharmacy department, Brenner considered MacFee to be one of the “pharmaceutical stars” within the Pharmed organization. Her service to customers was outstanding: fast, on time, accurate and friendly. The number of pharmacist “errors” was close to zero, the cases where the prescribed drug was not available in that store and the prescription was unduly delayed were almost nil and there had been no problems with narcotic drugs going missing or being stolen. MacFee’s pharmacy department had been repeatedly recognized by the organization as one of the five best pharmacies within Pharmed.

As store manager, MacFee ran the store and its operations well, and her financial skills were very good; consequently, the store’s financial performance was excellent. MacFee’s management performance record was somewhat less clear. While her basic friendliness and good humour remained, the side of her that tended to see things as “right” or “wrong” and “black” or “white” caused problems for some staff members and a few customers. Although overall employee morale was satisfactory, MacFee’s skills at developing a rapport with staff and her motivation of staff were not strong as, at times, she could come across as harsh and opinionated. She became difficult on matters requiring compromise, and she was known to be a tough

negotiator when it came to employees' salaries, benefits or vacation changes. As a leader, MacFee exhibited a directive style, wherein she dictated and delegated to employees. She was also achievement-oriented, expecting continual improvement in the setting of goals.

Brenner recalled that after MacFee was appointed store manager, she had pushed hard to increase her role in setting the advertising and promotions budget and in deciding how to spend the funds. She tended to be an outspoken critic of Pharmed's "head office mentality" and challenged Brenner regularly, often on something seemingly trivial, and she would sometimes be almost incensed at his attitude.

## **THE INCIDENT**

### **September 24, 2011**

On September 24, 2011, Mabel Johnston bought nine packages of Diet Magic pills at a sale price of \$79.95 per package, reduced from a regular price of \$94.95 per package, for a total of \$813.09 (included 13 per cent harmonized sales tax), at a Dartmouth Pharmed store. Each package included a month's supply of tablets to be taken twice a day. The pills had a "best before" date of June 30, 2012. Pharmed's sale, supported by the pharmaceutical supplier, was part of a month-long promotion of products involving fitness and weight loss.

In late November, Johnston and her husband travelled to Florida for the winter season. Early in December, Johnston encountered some medical problems, and her doctor in Florida diagnosed her with high blood pressure and advised her not to continue using the diet pills.

### **May 3, 2012**

On May 3, 2012, three days after getting back home from Florida, Johnston returned with seven of the nine packages of Diet Magic to the Dartmouth store and asked for a refund. MacFee refused to refund the returned pills, citing that the delay in returning the goods was unreasonably long and the "best before date" (of June 30, 2012) made the pills worthless as re-saleable merchandise.

### **May 8, 2012**

Five days later, Frank Chan, president and majority shareholder of Pharmed, received a letter from Johnston protesting MacFee's decision to not refund any part of Johnston's purchase. Chan immediately contacted Brenner about the complaint. Chan expressed his shock and said, "I will fax the letter to you today. Deal with it George, please. Let me know the outcome."

Upon reviewing Johnston's letter, Brenner noted that Johnston and her husband, Bob, had both been loyal Pharmed customers for several years, both at the pharmacy and in the over-the-counter business. Both were now in their early sixties and were retired high school teachers. Brenner also looked up the Johnstons' pharmacy purchases file for the Dartmouth store. They had health insurance coverage from their former employer, and, before leaving for their Florida winters, they always ordered a significant supply of prescription drugs, sufficient to last until they returned to Dartmouth in the spring each year.

Brenner thought that MacFee should have tried to find a compromise with Johnston when she returned the Diet Magic product. The loss of customers as valuable as the Johnstons was too great a cost to pay for the

sake of being “right” or “wrong” with this transaction, especially considering that Pharmed’s culture and values were so focused on customer satisfaction.

### May 9, 2012

On May 9, Brenner telephoned Johnston to discuss the matter. Johnston was pleased to talk to him and explained the situation. She understood the problem of returning the Diet Magic pills in May of the following year, seven months after purchasing them, but noted that the purchase was consistent with their buying products at the store to take to Florida for the winter. Johnston said that MacFee was rigid and not prepared to negotiate or even to discuss a solution to the situation. Johnston said that she had asked the clerk about taking the Diet Magic pills when she bought them, but no one had indicated to her that the pills should not be taken by persons with high blood pressure.

Brenner asked Johnston what she thought would be fair and was pleasantly surprised to discover that she was flexible in her thoughts about a refund. He ended the phone call by saying that he would call back within a few days after he had done some further investigation.

Brenner then telephoned MacFee to obtain her view of the incident with Johnston. MacFee verified Johnston’s account of the incident; however, MacFee’s response was immediate and fervent:

MacFee: George, she wanted a refund for stuff she purchased eight months ago. And the “best before” date was June 30, for goodness sake! What can we do with diet pills that have a month or so before they’re no longer useable? This was a no-brainer. We don’t give refunds for requests like that. If we did, we’d be out of business in no time. That was ridiculous!

Brenner (trying to calm MacFee): Angela, I understand your position on this matter, but the Johnstons are very good customers of yours. They spend a lot of money in your store and, technically, the goods were returned in good condition before they expired. That is consistent with our return policy.

The rest of the conversation heated up between Brenner and MacFee and went as follows:

MacFee (responding tersely): I did what was right with this request for a refund. The customer was totally out of bounds to come into this store and ask for a refund on these goods. I refused to take these goods back, and I stand by my decision.

Brenner (calmly but authoritatively): That’s fine. But I’m thinking about calling the Johnstons tomorrow and offering them a voucher for the purchase of \$500 worth of goods from our Pharmed store. And when Mabel Johnston comes into your store, I want you to greet her and apologize for not trying to find a compromise.

There was a lengthy pause.

MacFee: OK, fine. (She then slammed down the telephone.)

Brenner was agitated by MacFee’s behaviour and called the store back almost immediately. A clerk said that MacFee had gone for lunch and seemed to be in a bad mood. Brenner asked the clerk to leave MacFee a note to call him as soon as she returned.

By 3 p.m., MacFee had not returned Brenner's call, so he once again called her. The conversation went as follows:

Brenner: Hi, Angela.  
MacFee: Hello.  
Brenner: I called to find out why you hung up on me.  
MacFee: I thought our conversation was finished, so I hung up.  
Brenner: No, our conversation was not over. We were in the middle of a dialogue, discussing an important incident on which we had a difference of opinion, and it was important that we reach an understanding about it. This is not something you should do to your boss, and we cannot have this kind of behaviour. I want you to come in and see me tomorrow morning at my office. We will discuss the transaction, the customer and our relationship at that time.

(Brenner could almost feel MacFee bristle at his suggestion.)

MacFee: I am extremely busy in the store and do not have time tomorrow to discuss this stupid refund thing further. If you want to give her a voucher that is your business, but do not expect me to agree with it.  
Brenner: Angela, I expect you here tomorrow morning at 9:30 a.m. This is serious business, and we obviously have a lot to discuss.  
MacFee: I'll think about it.  
Brenner: Do that, Angela.

## CONCLUSION

Brenner knew he had to be well prepared for tomorrow morning's meeting. He wondered what action he should take. It was important that he get MacFee "on board" with his decision and, even more important, that she learn to respect him and his authority. This would be a crucial meeting.