NCPA
NATIONAL COMMUNITY PHARMACISTS ASSOCIATION

2015 Annual Convention

Date:	Tuesday, October 13, 2015
Time:	9:45 am – 11:15 am
Location:	Gaylord National Harbor Resort and Convention Center, National Harbor 11
Title:	NCPA Digest, Sponsored by Cardinal Health: A Guide to Improved Pharmacy Practice **Sponsored by Cardinal Health** ACPE # 207-000-15-127-L04-P · 0.15 CEUs ACPE # 207-000-15-127-L04-T
Activity Type:	Application-based
Speaker:	Donna West-Strum, Chair and Associate Profess of Pharmacy Administration, Research Associate Professor, The University of Mississippi Richard Jackson, PhD, President, Community Pharmacy Consulting

Pharmacist and Pharmacy Technician Learning Objectives:
Upon completion of this activity, participants will be able to:
1. Discuss financial performance trends in independent community pharmacy in 2014.
2. Outline how to utilize pharmacy average data to benchmark individual performance indicators from a community pharmacy.
3. Summarize key data to collect to assess pharmacy niche performance.

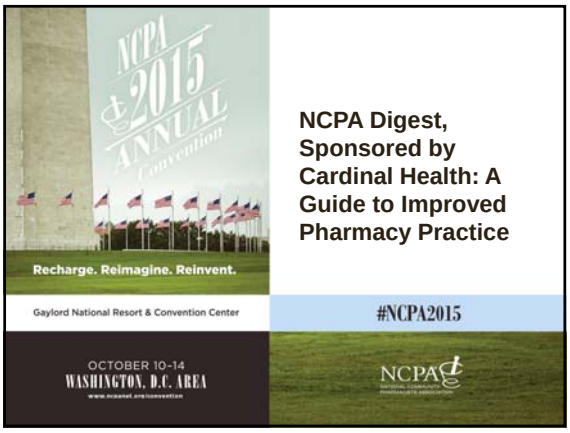
Disclosures:
Donna West-Strum is receiving an honorarium for this program. The conflict of interest was resolved by peer review of the slide content.

Richard Jackson is receiving an honorarium for this program. The conflict of interest was resolved by peer review of the slide content.

NCPA's education staff declares no conflicts of interest or financial interest in any product or service mentioned in this program, including grants, employment, gifts, stock holdings, and honoraria.

ACPE

NCPA is accredited by the Accreditation Council for Pharmacy Education as a provider of continuing pharmacy education. This program is accredited by NCPA for 0.15 CEUs (1.5 contact hours) of continuing education credit.



NCPA Digest, Sponsored by Cardinal Health: A Guide to Improved Pharmacy Practice

Disclosure

Donna West-Strum is receiving an honorarium for this program. The conflict of interest was resolved by peer review of the slide content.

Learning Objectives

1. Discuss financial performance trends in independent community pharmacy in 2014.
2. Outline how to utilize pharmacy average data to benchmark individual performance indicators from a community pharmacy.
3. Identify key data to collect to assess pharmacy niche performance.

Methodology

Summarizes data from independent pharmacies nationwide

Independent owners having completed at least one year of operations with dispensing business participate

Electronic data collection

Self-administered survey; data from 2014

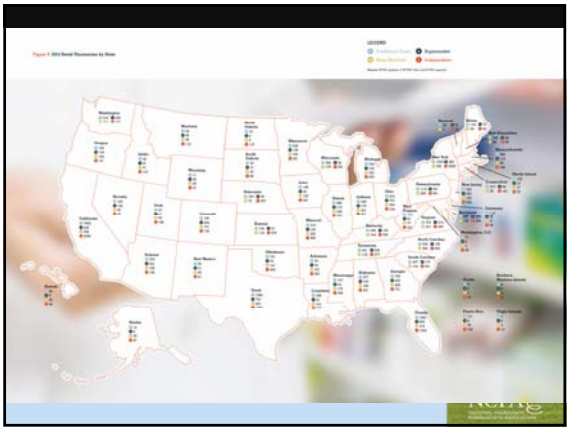
Data analyzed and published

- Public and Member version
- Geographic region, third-party volume, location comparisons

Define Independent Pharmacy

Independent pharmacy is independently owned, not publicly traded

37% are independents



Penny for your thoughts….

What words or few words come to your mind when you think of the financial health of independent pharmacy?

Key Points from the Digest

- Sales are steady. Watch expenses!
- Tips from the best financial performers.
- Monitor financial health.
- Vital to local community: access, economic, political, patient outcomes.
- Changing health care environment.
  - Quality is top of mind
  - Significant part of health care team
- What else besides prescriptions?

Gross Margin

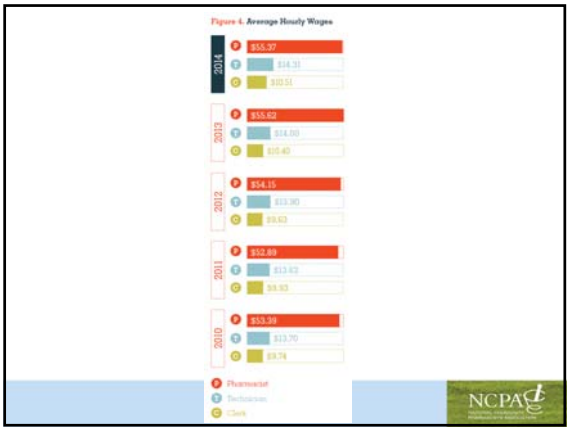
Table 2. Averages of Pharmacy Operations, 10-Year Trend

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	**100%**
Cost of Goods Sold	76.4%	77.2%	76.8%	76.8%	76.2%	76.0%	77.1%	76.8%	76.7%	**77.1%**
Gross Profit	**23.6%**	**22.8%**	**23.2%**	**23.2%**	**23.8%**	**24.0%**	**22.9%**	**23.2%**	**23.3%**	**22.9%**
Payroll Expenses	13.4%	13.6%	13.7%	13.5%	14.1%	14.5%	13.4%	13.7%	13.4%	**13.0%**

Payroll Expenses

Table 3. Pharmacy Staff Positions

	2012	2013	2014
Non-owner Pharmacists	1.7	1.5	**1.5**
Technicians	3.7	3.3	**3.5**
Other Positions	3.1	3.5	**3.4**
Total Non-owner Employees	8.5	8.3	**8.4**
Working Owners–Pharmacists and Other Positions	1.4	1.5	**1.5**
Total Workforce	**9.9 Full Time Employees**	**9.8 Full Time Employees**	**9.9 Full Time Employees**



Cost of Dispensing

Total annual costs allocated to Rx department
Total annual number of Rxs dispensed

All pharmacies= $10.98, down from $11.17

Top Performers

	All		Top 25%	
Sales	$3,621,854	100%	$3,705,691	100%
COGS	$2,792,450	77.1%	$2,671,803	72.1%
Gross margin	$829,404	22.9%	$1,033,888	27.9%

Top Performers

	All		Top 25%	
Payroll expenses	$470,841	13.0%	$463,211	12.5%
Other expenses*	$257,152	7.1%	$211,224	5.7%
Net Profit	$101,412	2.8%	$359,452	9.7%

**computer, rent, utilities, other expenses controlled by Top 25%*

Financial Health	
Critical Area	Key Words
Profitability	Gross Margin and Expense Controls
Productivity	Staff Efficiency
Financial Position	Managing Assets and Controlling Debt
Cash Flow	Working Capital

Profitability Ratios

		ALL			Top 25%		
PROFITABILITY RATIOS		**2012**	**2013**	**2014**	**2012**	**2013**	**2014**
Net operating income percentage	Net profit before tax / Sales	2.9%	2.7%	2.7%	6.7%	6.4%	6.6%
Net operating income dollars before tax	Net profit before tax	$95,845	$88,683	$88,021	$201,150	$198,212	$207,619

Productivity Ratios

		ALL			Top 25%		
		2012	2013	2014	2012	2013	2014
Sales per employee	Sales / # of employees incl. owners	$498,374	$482,095	$448,727	$461,863	$459,032	$461,587
Staff costs per employee	Non-owner wage, tax, benefits / # of employees excluding owners	$49,782	$49,018	$45,021	$45,372	$45,988	$46,093
Prescription sales per square foot	Prescription sales / Prescription dept. square feet	$3,021	$3,107	$3,047	$3,103	$3,162	$3,184
All other sales per square foot	All other sales / Square feet excluding prescription dept.	$124	$117	$112	$136	$141	$138
Total sales per square foot	Total sales / Square feet	$1,019	$1,089	$1,039	$1,059	$1,098	$1,109

Financial Position Ratios

FINANCIAL POSITION RATIOS		ALL			Top 25%		
Sales to assets	Sales / Total assets	4.9	4.7	4.5	5.59	5.51	5.56
Return on investment	Net operating income dollars / Net worth	20.2%	19.7 %	19.1%	50%	47%	45%

Cash Flow

		2012	2013	2014
Current ratio	Current assets / Current liabilities	4.0	4.1	4.0
Quick ratio	Cash + accounts receivable / Current liabilities	1.66	1.73	1.70

Inventory Turnover

		2012	2013	2014
Inventory turnover (annual)	Cost of goods sold / Inventory	11.1	10.9	11.0
Inventory turnover (days)	365 / Inventory turnover	33 days	33 days	33 days
Prescription inventory turnover	Prescription cost of goods sold / Prescription inventory	11.9	11.8	11.9

QUIZ

Over the last 5 years, gross margin percentage has increased, decreased, or remained relatively the same?

Payroll expenses as a percentage of sales in Digest pharmacies _____compared to the year before.

a. increased b. decreased c. stay the same

ITOR for prescription medications is increasing, decreasing, or remaining relatively the same?

Case Study

	2012	2013	2014
Sales	$2,890,000	$2,950,000	$3,068,000
GM %	22%	21%	20%
Payroll exp	12%	12%	14%
Operating exp	8%	5%	5%
Net profit	2%	4%	1%
Rx ITOR	11.5	10.9	11.4
FTE/RPh Wage	7 FTE/$53	8 FTE/$53	9 FTE/$55

Key Points from the Digest

- Sales are steady. Watch expenses!
- Tips from the best financial performers.
- Financially healthy.
- Working harder…..
  - Vital to local community: access, economic, political, patient outcomes.
  - Quality is top of mind
  - Significant part of health care team
  - What else besides prescriptions?

Vital to the Community

ACCESS
Rural: 33% serving population less than 10,000; Over 70% serving a population less than 50,000

Economic

Vital to the Community

Vital to the Community

Patient Outcomes
Leadership and Advocacy

Key Points from the Digest

- Working harder…..
  - Vital to local community
  - Changing health care environment
    - Quality is top of mind
    - Significant part of health care team
  - What else besides prescriptions?

Quality is Top of Mind

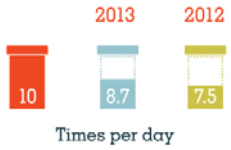
Accreditation

EQUIPP- 78% monitor quality measures using EQUIPP or similar platform

Medicare Part D Star ratings, Network decisions, P4P

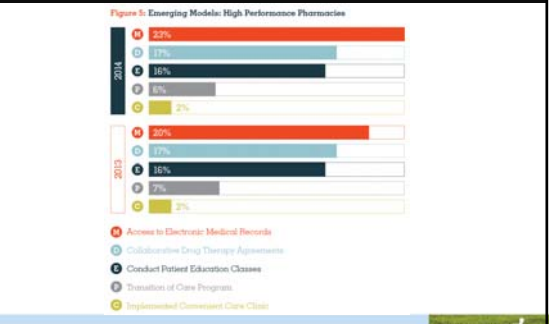
Health Care Team

Figure 9. Pharmacist Interactions with Other Health Care Professionals–Discussion With Physician or Other Health Care Professional Regarding Patient's Drug Therapy



Health Care Team

Health Care Team: High Performance Pharmacies



Prescription Volume

	2010	2011	2012	2013	2014
Rx Volume	64,169	62,969	62,583	62,424	61,568

	2010	2011	2012	2013	2014
Rx Volume	64,169	62,969	62,583	62,424	61,568

Why??

Table 1. Independent Pharmacy at a Glance

Year	2014
Average Number of Pharmacies in Which Each Independent Owner Has Ownership	1.69
Average number of prescriptions dispensed per pharmacy location	
New Prescriptions	30,139 (49%)
Renewed Prescriptions	31,429 (51%)
Total Prescriptions	**61,568 (100%)**
Average Prescription Charge	$54.41
Percentage of Total Prescriptions Covered By	
Government Programs (Medicaid or Medicare Part D)	51%
Other Third-Party Programs	38%
Percentage of Generic Prescriptions Dispensed	80%

What else besides prescriptions?

- Changing health care environment
  - Quality is top of mind…improve appropriate medication use
  - Significant part of health care team
  - Value…better outcomes

New Opportunities

Innovation

Growth

MTM Services

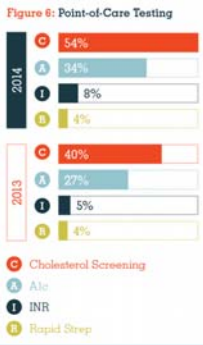
Table 5. Medication Therapy Management in Independent Community Pharmacy

	2012	2013	2014
Percentage of pharmacies providing MTM under Medicare Part D	69%	75%	80%

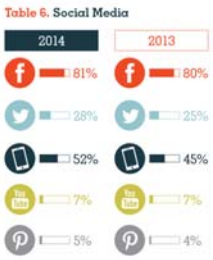
Adherence

Medication sync

- Increase prescription volume
- Streamlined workflow
- Better inventory control
- Easier to transition to patient care services
- Patients are more adherent



Patient Engagement



Identify New Niches

What types of financial information do you need to consider?
Look at the impact of your niche on P&L statement

- Revenue generated from products and/or services
- Price and payer
- Cost of seeing a patient – allocate space (rent, electricity, etc); supplies; educational materials, staff
- Gross margin of products sold; space allocated to products; other specialty products
- Prescription volume trends
- Expenses- payroll, advertising, etc
- Ratios: Profitability, productivity, efficiency, cash flow

- Community pharmacists are staying competitive and growing as small businesses. They are financially healthy.
- Community pharmacists have great stories to tell about the many ways they care for their patients.
  - Read the profiles in the DIGEST!
- They are leaders in the community. They impact the community economically as well as through their civic contributions.
- They are a vital part of the health care team.

Special thanks to….

- YOU for participating in survey
- Cardinal Health for funding
- NCPA staff

NCPA Digest, sponsored by Cardinal Health:
A Guide to Improved Pharmacy Practice

Richard A. Jackson, Ph.D.
Professor Emeritus, Mercer University College of Pharmacy and Health Sciences
President, Community Pharmacy Consulting, Inc.

Disclosure

Richard Jackson is the President of Community Pharmacy Consulting. Mr. Jackson received an honorarium for this workshop. The conflict of interest was resolved by peer review of the slide content.

Improving Your Financial Picture

- More Profits
- Transferring Ownership

When is the Best Time to Answer a Question?

Answer: Before You Have To

When is the Best Time to Solve a Financial Problem in your Pharmacy

Answer: Before You Have To

At Least Once a Year

- Have an Annual Physical Exam
- Conduct an Annual Fiscal Exam

Normalization of Data Three Sets of Books (financials)

- For the Bank (Look Good)
- For the IRS (Look Bad)
- For the Owner (Look Real)

Financial Analysis

- Comparative Analysis
- Ratio Analysis
- Identify Problems
- Describe Solutions (Action Plan)
- Define Measurable Outcomes (Goals)
- Measure Success

Comparative Analysis Income Statement

- Express Each Component of the Income Statement as a Percentage of Sales
- Compare to NCPA Digest Averages and Top 25%

Income Statement Analysis

- Cost of Goods Sold
- Expenses (Especially Personnel)

Comparative Analysis Balance Sheet

- Express Each Component of the Balance Sheet as a Percentage of Total Assets
- Compare with NCPA Digest Averages and Top 25%

Financial Ratio Analysis

- Profitability Ratios
- Productivity Ratios
- Financial Position Ratios
- Cash Flow Ratios

Profitability Ratios

- Net Profit Percentage
- Net Income $ (Net Profit plus Owner Salary)

Productivity Ratios

- Sales/Employee
- Staff Salaries/Employee
- Rx Sales/Sq. Ft.
- Other Sales/Sq. Ft.
- Total Sales/Sq. Ft.

Financial Position Ratios

- Sales/Assets
- Return on Investment (Net Profit/Net Worth)
- Debt/Net Worth

Cash Flow Ratios

- Current Ratio
- Quick or Acid Test Ratio
- Inventory Turnover
- Rx Inventory Turnover
- Accounts Receivable Turnover
- Accounts Payable Turnover

Areas For Improvement

- Profit
  - Cost of Goods Sold
  - Expenses
- Cash Flow
  - Accounts Receivable
  - Accounts Payable
  - Inventory

Improving Profit Cost of Goods Sold

- Caveat: Even Small Differences Significant
- Too high, not indication of too much inventory

Beginning Inventory
+ Purchases
Cost of Goods Available for Sale
- Ending Inventory
Cost of Goods Sold

Improving Profit Cost of Goods Sold

- Modify Pricing
- Evaluate Source of Supply
- Cash/Quantity Discounts
- Shoplifting/Pilferage
- Evaluate Third Parties

Third Party Dilemma Economics 101

In the long run, small business variable expenses do not increase in a linear fashion but stepwise.

Greatest variable expense is payroll.

Elementary Example

- 100 Rx's/day
- Third party contract (Cost + $2.50) increases volume 10 Rx/Day to 110 Rx/Day
- Add 3 more contracts one at a time (Now 140/day)
- Hire part-time pharmacist 2 hours a day for $50/hour.
- Increased work 40%, same income

Improving Profits Expense Control

- Personnel (Salaries and Wages)
- Greatest Expense
- Example: Decrease payroll from 10% to 9% of sales and increase net profit $40,000 or over 30%
- To Decrease Payroll
  - Decrease Employees
  - Decrease Hours of Employees
  - Decrease Hours Pharmacy Open

Improving Cash Flow Accounts Receivable

- Accounts Receivable Collection Period: Days to collect average account/third party.
- AR Turnover = Credit and Third Party Sales/AR
- ARCP = 365/AR Turnover
- Usual Value is 15 Days

Improving Cash Flow Accounts Receivable

- Reasons for Value Over 15 Days:
  - Too Liberal Extension of Credit
  - Poor Collection Policies
  - Late Paying Third Parties

Improving Cash Flow Accounts Receivable

Example:

Credit and Third Party Sales = $2,000,000

Accounts Receivable = $109,589

AR Turnover = $2,000,000/$109,589 = 18.25

ARCP = 365/18.25 = 20 days

Improving Cash Flow Accounts Receivable

To what would accounts receivable of $109,589 have to be reduced to produce an acceptable ARCP of 15 days?

AR Turnover = 365/15 = 24.5
AR Turnover = Charge and TP sales/AR
24.5 = $2,000,000/AR
Therefore, AR = $81,632

Improving Cash Flow Accounts Receivable

- How to Reduce Accounts Receivable
  - More Selective Credit Extension
  - More Aggressive Credit Collection
  - Evaluation of Third Party Plans

Improving Cash Flow Accounts Payable

- Normal is 15 -25 Days
- Reasons for Too High Value (Low Cash)
- Due to:
  - High Accounts Receivable
  - High Inventory
  - Low Profits (High COGS, High Expenses)

Improving Cash Flow Accounts Payable

- Accounts Payable Collection Period: Days to pay average accounts payable.
- AP Turnover = Annual Purchases/AP
- APCP = 365/AP Turnover
- Usual Value is 15 - 25 Days

Improving Cash Flow Accounts Payable

Example:

Purchases = $1,000,000

Accounts Payable = $82,684

AP Turnover = $1,000,000/$82,684 = 12.1

APCP = 365/12.1 = 30.1 days

Improving Cash Flow Accounts Payable

To what would accounts payable of $82,684 have to be reduced to produce an acceptable APCP of 25 days?

AP Turnover = 365/25 = 14.6

AP Turnover = Annual Purchases/AP

14.6 = $1,000,000/AP

Therefore, AP = $68,493

Improving Cash Flow Accounts Payable

- How to Reduce Accounts Payable
  - Increase Cash
  - Decrease Accounts Receivable
  - Decrease Inventory
  - Increase Profits (Decrease COGS and Expenses)

Improving Cash Flow Inventory

- Largest Investment in Community Pharmacy
- Average Inventory
- Average Inventory Turnover

Improving Cash Flow Inventory

- Inventory Turnover = Cost of Goods Sold/Inventory

- Example:
- Cost of Goods Sold = $3,200,000
- Inventory = $400,000
- Inventory Turnover = $3,200,000/$400,000
- Inventory Turnover = 8.0

Improving Cash Flow Inventory

To what would inventory of $400,000 have to be reduced to produce a more acceptable inventory turnover of 10.0?

Inventory Turnover = COGS/Inventory
If Inventory Turnover = 10.0 then,
10 = $3,200,000/Inventory
Therefore, Inventory = $320,000
A Reduction of Approximately $80,000 or $6,666 per month for 12 months

Improving Cash Flow Inventory

How to Reduce Inventory

Open to Buy (OTB) Budget

Open To Buy Budget

- Entire Pharmacy
- Department

Open To Buy Budget

- Determine monthly Purchase Budget to:

- Maintain desirable inventory level
- Achieve desirable inventory level

Personal Purchase Budget

- Monthly income previous month
- Expenditures previous month

Open-to-buy Budget: Based On Previous Months

- Sales
- Purchases

Open-to-buy Budget Adjusted Each Month

- Sales previous month compared to expected sales
- Purchases previous month compared to amount budgeted to purchase

Open To Buy Budget Example For October

Assume Inventory at Desirable Level

- Projected sales this year: $200,000
- COGS = 75%
- Unadjusted Purchase Budget: $200,000 X 0.75 = $150,000

Unadjusted Purchase Budget

- Amount of inventory to purchase (at cost) to replace “expected” sales

Adjustments To UPB

- Sales previous month compared to expected sales
- Purchases previous month compared to purchase budget

Adjustment For Sales

- Actual sales previous month (September) = $180,000
- Projected sales = $200,000
- Difference = $20,000
- Didn't sell as much as projected
- Therefore, purchase less this month
- Adjustment = $20,000 x 0.75 = $15,000 (minus)

Adjustment For Purchases

- Purchase budget previous month (September) = $160,000
- Actual purchases = $150,000
- $160,000 - $150,000 = $10,000 (plus)
- Need to purchase ($10,000) more this month

Adjusted Purchase Budget

- Unadjusted purchase budget = $150,000
- Adjusted for sales = Minus $15,000
- Adjusted for purchases = Plus $10,000
- Total adjustment = Minus $,5000
- Adjusted purchase budget for October: $150,000 - $5,000 = $145,000
- To reduce $80,000 in year, reduce each month's purchase budget $80,000/12 or $6,666.
- Therefore purchase budget for October is $145,000 - $6,666 or $138,334.

NCPA

RULE OF THUMB VALUATION FORMULAS* FOR AVERAGE PHARMACY

- 25 % of Sales
- Return on Investment (ROI) or (NP/0.20)
- Net Profit X 5
- 15% of Sales plus Inventory
- 1.5 (Net Profit + Owner Salary) + Inventory
  - *multipliers and % vary with net profit

NCPA

Example Community Pharmacy

Sales	$3,000,000	(100%)
COGS	2,340,000	(78%)
Gross Margin	660,000	(22%)
Expenses		
Owner Salary	110,000	(3.7%)
Payroll	282,000	(9.4%)
Total Expenses	510,000	(17.0%)
Net Profit	150,000	(5.0%)
Inventory:	$200,000	

NCPA

Impact On Selling Price

- Decrease COGS 1% to 77%

  OR
- Decrease Payroll 1% to 8.4%

Impact On Selling Price

	Now	Decrease COGS 1% to 77% OR Payroll 1% to 8.4% ($30,000)	Decrease COGS 1% to 77% AND Payroll 1% to 8.4% ($30,000)
X(NP + OS) + Inventory	$590,000	$693,000	$808,000
Average	$685,000	$823,250	$964,500
Difference		$138,250	$279,500

Impact On Selling Price

	Now	Decrease COGS 1% to 77% OR Payroll 1% to 8.4% ($30,000)	Decrease COGS 1% to 77% AND Payroll 1% to 8.4% ($30,000)
% of Sales	$750,000	$900,000	$1,050,000
ROI/NP	$750,000	$900,000	$1,050,000
% Sales + Inventory	$650,000	$800,000	$950,0000

In Summary: Ways To Use Benchmarks

- Improving Profit
- Decreasing Cost of Goods Sold
- Decreasing Expense (Personnel)
- Improving Cash Flow
- Increasing Cash
- Decreasing Accounts Receivable
- Decreasing Accounts Payable
- Decreasing Inventory

NCPA
NATIONAL COMMUNITY PHARMACISTS ASSOCIATION
100 Daingerfield Road
Alexandria, VA 22314-2885
703.683.8200 | Fax 703.683.3619
www.ncpanet.org

Recharge. Reimagine. Reinvent.