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:
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.

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.
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

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>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Payroll Expenses</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

## Payroll Expenses

<table>
<thead>
<tr>
<th>Non-core Pharmacists</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.7</td>
<td>1.5</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Technicians</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Other Positions</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Total Non-core Employees</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Workforce</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.9 Full Time Employees</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Top 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$3,621,854</td>
<td>100%</td>
</tr>
<tr>
<td>COGS</td>
<td>$2,792,450</td>
<td>77.1%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>$829,404</td>
<td>22.9%</td>
</tr>
</tbody>
</table>
Top Performers

<table>
<thead>
<tr>
<th>All</th>
<th>Top 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll expenses</td>
<td>$470,841</td>
</tr>
<tr>
<td>Other expenses*</td>
<td>$257,152</td>
</tr>
<tr>
<td>Net Profit</td>
<td>$101,412</td>
</tr>
</tbody>
</table>

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

Financial Health

<table>
<thead>
<tr>
<th>Critical Area</th>
<th>Key Words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>Gross Margin and Expense Controls</td>
</tr>
<tr>
<td>Productivity</td>
<td>Staff Efficiency</td>
</tr>
<tr>
<td>Financial Position</td>
<td>Managing Assets and Controlling Debt</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Working Capital</td>
</tr>
</tbody>
</table>

Profitability Ratios

<table>
<thead>
<tr>
<th>PROFITABILITY RATIOS</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net operating income percentage</td>
<td>2.9%</td>
<td>2.7%</td>
<td>2.7%</td>
<td>6.7%</td>
<td>6.4%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Net profit before tax</td>
<td>$95,845</td>
<td>$88,683</td>
<td>$88,021</td>
<td>$301,150</td>
<td>$198,212</td>
<td>$207,819</td>
</tr>
</tbody>
</table>
### Productivity Ratios

<table>
<thead>
<tr>
<th>Metric</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per employee</td>
<td>$498,374</td>
<td>$482,095</td>
<td>$468,727</td>
<td>$461,863</td>
<td>$459,032</td>
<td>$461,587</td>
</tr>
<tr>
<td>Staff costs per employee</td>
<td>$48,742</td>
<td>$49,018</td>
<td>$45,021</td>
<td>$45,372</td>
<td>$45,988</td>
<td>$46,093</td>
</tr>
<tr>
<td>Total sales per employee</td>
<td>$1,019</td>
<td>$1,009</td>
<td>$1,039</td>
<td>$1,059</td>
<td>$1,098</td>
<td>$1,109</td>
</tr>
</tbody>
</table>

### Financial Position Ratios

<table>
<thead>
<tr>
<th>Metric</th>
<th>ALL</th>
<th>Top 25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales to assets</td>
<td>4.9</td>
<td>5.59</td>
</tr>
<tr>
<td>Return on investment</td>
<td>20.2%</td>
<td>50%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>4.0</td>
<td>4.1</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>1.66</td>
<td>1.70</td>
</tr>
</tbody>
</table>

### Cash Flow

<table>
<thead>
<tr>
<th>Metric</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>4.0</td>
<td>4.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>1.66</td>
<td>1.73</td>
<td>1.70</td>
</tr>
</tbody>
</table>
Inventory Turnover

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory turnover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(annual)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>11.1</td>
<td>10.9</td>
<td>11.0</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(days)</td>
<td>33 days</td>
<td>33 days</td>
<td>33 days</td>
</tr>
<tr>
<td>Prescription turnover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>11.9</td>
<td>11.8</td>
<td>11.9</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2,890,000</td>
<td>$2,950,000</td>
<td>$3,066,000</td>
</tr>
<tr>
<td>GM %</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Payroll exp</td>
<td>12%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Operating exp</td>
<td>8%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Net profit</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Rx ITOR</td>
<td>11.5</td>
<td>10.9</td>
<td>11.4</td>
</tr>
<tr>
<td>PTE/RPh</td>
<td>7 PTE/$50</td>
<td>8 PTE/$53</td>
<td>9 PTE/$55</td>
</tr>
</tbody>
</table>
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

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
Prescription Volume

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rx Volume</td>
<td>64,169</td>
<td>62,969</td>
<td>62,583</td>
<td>62,424</td>
<td>61,568</td>
</tr>
</tbody>
</table>

Why??

**Table 1: Independent Pharmacy in a Region**

<table>
<thead>
<tr>
<th>Test</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Number of Pharmacies in Which Independent Chain Has Ownership</td>
<td>1.99</td>
</tr>
<tr>
<td>Average number of prescriptions dispensed per pharmacy (in units)</td>
<td>85.4</td>
</tr>
<tr>
<td>New Prescriptions</td>
<td>31,150 (99%)</td>
</tr>
<tr>
<td>Renewed Prescriptions</td>
<td>13,135 (51%)</td>
</tr>
<tr>
<td>Total Prescriptions</td>
<td>44,285 (100%)</td>
</tr>
<tr>
<td>Average Prescription Charge</td>
<td>85.4</td>
</tr>
<tr>
<td>Percentage of Total Prescriptions Covered By Government Programs</td>
<td>Medicaid: 11%  Medicare Part D: 19%  Other Third Party Programs: 70%  Percentage of Generic Prescriptions Dispensed: 93%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Percentage of pharmacies providing MTM under Medicare Part D</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>59%</td>
<td>75%</td>
<td>80%</td>
</tr>
</tbody>
</table>
Adherence

Medication sync

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

<table>
<thead>
<tr>
<th>Social Media</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook</td>
<td>91%</td>
<td>80%</td>
</tr>
<tr>
<td>Twitter</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>LinkedIn</td>
<td>52%</td>
<td>45%</td>
</tr>
<tr>
<td>Instagram</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Pinterest</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

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

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

\[
\text{AR Turnover} = \frac{365}{15} = 24.5
\]

\[
\text{AR Turnover} = \frac{\text{Charge and TP sales}}{\text{AR}}
\]

\[
24.5 = \frac{2,000,000}{\text{AR}}
\]

Therefore, \( \text{AR} = 81,632 \)

## 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

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 AP of $82,684 would 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

**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 \times 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 \times 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 $5,000
- 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.

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

Example Community Pharmacy

<table>
<thead>
<tr>
<th>Sales</th>
<th>$3,000,000       (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGS</td>
<td>2,340,000         (78%)</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>660,000           (22%)</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Owner Salary</td>
<td>110,000           (3.7%)</td>
</tr>
<tr>
<td>Payroll</td>
<td>282,000           (9.4%)</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>510,000          (17.0%)</td>
</tr>
<tr>
<td>Net Profit</td>
<td>150,000           (5.0%)</td>
</tr>
<tr>
<td>Inventory:</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

32
## Impact On Selling Price

- Decrease COGS 1% to 77%
  
  OR

- Decrease Payroll 1% to 8.4%

### Impact On Selling Price

<table>
<thead>
<tr>
<th></th>
<th>Now</th>
<th>Decrease COGS 1% to 77% OR Payroll 1% to 8.4% ($30,000)</th>
<th>Decrease COGS 1% to 77% AND Payroll 1% to 8.4% ($30,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>X(NP + OS) + Inventory</td>
<td>$590,000</td>
<td>$693,000</td>
<td>$808,000</td>
</tr>
<tr>
<td>Average</td>
<td>$685,000</td>
<td>$823,250</td>
<td>$964,500</td>
</tr>
<tr>
<td>Difference</td>
<td>$138,250</td>
<td>$279,500</td>
<td>$279,500</td>
</tr>
</tbody>
</table>

### Impact On Selling Price

<table>
<thead>
<tr>
<th></th>
<th>Now</th>
<th>Decrease COGS 1% to 77% OR Payroll 1% to 8.4% ($30,000)</th>
<th>Decrease COGS 1% to 77% AND Payroll 1% to 8.4% ($30,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Sales</td>
<td>$750,000</td>
<td>$900,000</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>ROI/NI</td>
<td>$750,000</td>
<td>$900,000</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>% Sales + Inventory</td>
<td>$650,000</td>
<td>$800,000</td>
<td>$950,000</td>
</tr>
</tbody>
</table>
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