

Managing Pharmacy to the Numbers

By Andy Oaks



WE HAVE ALL HEARD THE expression "failing to plan is planning to fail." This is critically true given today's economy and pharmacy market conditions. Owning and operating a successful independent pharmacy today has more challenges and opportunities than ever. The responsibilities of the independent operator are many. How does the job get done? The answer is with a formal business plan and the ability to manage the plan to the numbers on a daily, week to date, month to date, and year to date basis.

Retail pharmacy is a "make it happen" business. To make it happen and succeed, a disciplined approach must be followed. A disciplined approach is one that includes methodically forecasting sales and profit margins and determining the most efficient payroll and operating expenses. The goal is to outperform the plan each month by managing to the numbers on a daily and week to date basis. In doing so, all obligations will be met in a timely manner while achieving a bottom line net profit. Maximizing revenues and profit margins, controlling payroll and purchases, and maintaining operating efficiencies is all that it takes. Sound too easy? Focus on the following areas and you are on your way.

FORECASTING SALES

The key to bottom line profits starts at the top. Top line revenues (sales) must be sufficient to cover purchases, payroll, and operating expenses. Many demographic factors contribute to the equation in forecasting sales. Of vital importance are:

- Population of trade area
- Number of competing pharmacies in trade area
- Location of practice
- Number of doctors, medical practices in trade area

When forecasting sales for a start up pharmacy, it is best to take a more conservative approach, as the goal is to outperform the plan. In other words, do not be overly optimistic. Know your demographics and pharmacy practice performance indicators to best formulate your plan. Review the plan as often as needed to measure performance and to make informed management decisions in a timely manner.

Use historical data (past performance) when forecasting sales of an existing business. Add or subtract from this historical data depending on factors that may have an effect on performance. Factors such as cost of goods increases, new laws and regulations, pharmacy openings and/or closings, personnel changes, and local economic conditions all should be considered.

COST OF GOODS SOLD

Cost of goods sold and the ability to predict and control purchases plays a great role in determining an operation's cash flow position and ultimately the bottom line. A disciplined and educated approach to calculating total cost of goods sold should include all purchases, freight in, shrinkage, and inventory write down.

It is of utmost importance to know ahead of schedule what purchases should be according to your formal business plan. The operator should know this number and have the ability to manage it on a daily and week to date basis with the goal being to outperform the plan for the month.

One of the most common problem areas in owning and operating an independent pharmacy is over buying. The average pharmacy purchases approximately $200,000 per

month in prescriptions. Any deviation in excess of the plan can have dramatic ramifications on gross profit, cash flow, and the bottom line.

PAYROLL

Payroll is the largest controllable expense in owning and operating an independent pharmacy. The number of employees and their accompanying compensation must be determined and managed accordingly to outperform your formal business plan. A disciplined and well conceived plan addressing payroll should include:

- Pharmacist(s)
- Employees
- Contract labor
- Employee benefits
- Payroll taxes
- Payroll services
- Corporate overhead

An adequate and efficient staff is vital to the operations long-term success and bottom line. Managing payroll relative to sales and profit margins is the key. The owner/operator should have a benchmark or standard of performance to measure payroll. Like purchases, any deviations from the plan can have a dramatic impact on cash flow and the bottom line.

OPERATING EXPENSES

Operating expenses include both fixed and variable line items that must be managed to the numbers to ensure optimal efficiency and bottom line performance. Operating expenses should be measured, managed, and maintained as a percent to sales revenues. Variable operating expenses may fluctuate as sales do. A disciplined and well thought out formal business plan should allow for these operating expenses:

- Advertising
- Maintenance/Repair
- Auto/Delivery
- Meals
- Bad debt
- Miscellaneous
- Bank charges
- Postage/Freight out
- Cash Over <Short>
- Professional Fees
- Computer services
- Rent-Building
- Contributions
- Rent-Equipment
- Dues/Subscription
- Security
- Entertainment
- Supplies
- Franchise services
- Taxes/Licenses/ Permits
- Insurance: Property/ Casualty
- Telephone
- Interest
- Travel
- Laundry/Uniform
- Utilities

OTHER INCOME, OTHER EXPENSES

Many independent pharmacies provide services to their patients and communities that create traffic flow and that provide another source of income for the operation. These non-inventory line items should be listed on the formal business plan as "Other Income." Any supplies or expenses incurred in generating this income should be listed as "Other Expenses." Some of the more common examples include medication therapy management, equipment rental, delivery service, postage/ shipping services, and fax/copy services.

THE BOTTOM LINE

Retail pharmacy is a make it happen business. Making it happen is what makes retailing fun. That's right, fun! Have a plan, manage to the plan, and outperform your bottom line expectations. Even in these challenging times, those operators that follow these guidelines continue to enjoy the prosperity that owning and operating an independent pharmacy provides today.

In the December 2009 *America's Pharmacist* I will present performance benchmarks used to effectively measure and manage an independent pharmacy operation. Until then, have some fun!

Andy Oaks is the president of Retail Pharmacy Management Services, Inc. RPMS provides solutions and support to independent pharmacists throughout the United States. For additional information, visit www.rpms.biz or contact Oaks at 800-662-9035, or andy@rpms.us.

This issue of *America's Pharmacist* marks the debut of Andy Oaks' Pharmacy Management column. Oaks is president of Retail Pharmacy Management Services, Inc. RPMS' focus is on identifying inadequacies and inefficiencies within independent pharmacies, and implementing solutions to improve their financial conditions. In his monthly column, Oaks will provide tips and insights to help independent pharmacies improve their bottom line and maximize their potential.