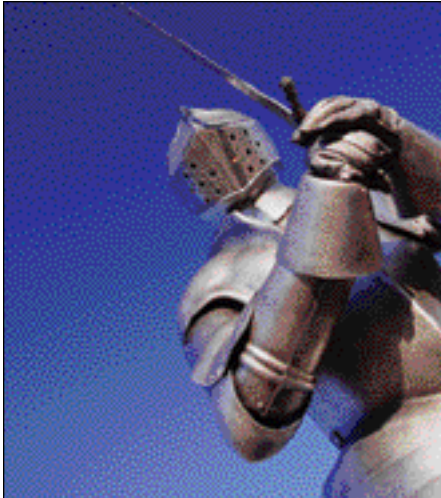


Whether A Start-Up Or Acquisition, Armor Yourself With Knowledge



Should I buy an existing business or start one from scratch? While in the world of large public companies, mergers and acquisitions have played a key role in the growth of many successful businesses, that is not always the case in the world of small business, particularly retailing.

Buying a going business presents a number of pros and cons. While many of these points are unique to pharmacy, some of them are not. They include:

- **LOCATION.** The old axiom that the three most important factors for success in retailing are location, location, and location is true. Some factors that create a positive here are the location itself, proximity to other stores that draw traffic, visibility, and parking.
- **LENGTH OF TIME.** A pharmacy with a long history in the same town, in the same location, possibly under the same ownership, usually has a reasonable amount of good will attached to it. This assumes, of course, that the business is successful, has a positive track record of growth in sales, and that the current owner enjoys a positive relationship with his customers and the community.
- **FINANCES.** Current cash flow, sales and profits, and both gross and net usually indicate that a new owner should do as well as the old one at the time of the acquisition. This helps

avoid the stress and anxiety of a new business, when one is waiting for those new customers to come in.

- **Rx VOLUME.** The current prescription activity, particularly refills, more or less “guarantees” that the new owner will be able to continue that trend, barring changed circumstances.

These factors are usually the most important ones in the decision to buy an existing pharmacy. But sometimes the investment plus debt incurred is more than a young pharmacist, particularly a first-time owner, is willing to pay. The alternative is opening a new pharmacy, which carries a set of issues and concerns of its own. These include:

- **FINANCES.** The need for working capital for the payroll and other operating expenses during the start up period is most important. Invariably, undercapitalized businesses suffer and often fail in the early stages of operation.
- **LOCATION.** Similar, if not identical, to the issue with going businesses, a good location is critical when doing a start-up. In today’s market, good locations include medical centers or clinics, where there is a solid base of physicians writing prescriptions every day. Another good location is in shopping centers with no pharmacy, usually a strip center with a supermarket or other strong local retailers providing traffic.
- **LEASE.** Reasonable rent, particularly in the early years, is essential for a start up. The need to keep all expenses as low as possible during the building period is clearly important.

There is no simple answer to the question, “Which of these routes is better for me financially?” The variables are huge and the unknowns, in both scenarios, can be daunting. My personal recommendation is to buy an existing business, particularly for first timers.

This presumes, of course, that the buyer has the necessary down payment and investment capital and can deal with

the debt he or she must incur to purchase a going business. (We will discuss the financing of these transactions in a future article in this series on “Buying and Selling a Pharmacy”).

In a well-structured transaction, with the proper down payment and working capital, a new owner can expect to draw a salary and service the debt incurred from the cash flow of the existing business. But, there are certainly no post-closing guarantees.

The start-up route may be dealt with better by an experienced/existing owner with one or more currently successful stores. Experienced owners are more likely to have the cash flow and profits from other businesses to help fund the transaction and provide the required working capital. In addition, current owners usually have wholesaler and supplier relationships that can help support their efforts in the early days through extension of credit and other means. But with that said, a first-time owner who has an opportunity to open a brand new store in a great location should certainly take a hard look at the opportunity, weighing the risks versus the rewards and the lack of necessity to build “good will.”

Regardless of the route you choose—new pharmacy start-up or acquisition of an existing business—it is important to do your homework on all aspects of the business by seeking professional advice and outside assistance. Well armored, you can go into any transaction with your eyes wide open and your expectations firmly grounded in reality. A well-planned start-up or the acquisition of an existing pharmacy can and will meet your requirements, financially and professionally. □

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