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Choosing the Best Pharmacy Location

When starting a pharmacy choosing your business location is one of the most important decisions you will make. A great location can lead to a booming business, while a poor location can derail even the best business plan.

Evaluating Locations:

Considerations should include, but are not limited to the following criteria;

1. Accessibility and Traffic Patterns

- Is it easy for vehicles to enter, park and exit back into traffic?
- How many parking spaces are available for your location?
- Are there difficult intersections to traverse?
- What is the level of traffic in relation to the location?
- What other commercial establishments are in the near vicinity?
- Is the location along a route most commuters travel on their way home?
- What is the speed limit along the road?
- Is it easy to find – if there are street numbers, are they easy to see at the speed the cars will travel past the location?

2. Visibility

- Is visibility vital to the success of your business? That will depend on the type of products you sell and your competition.
- Typically, pharmacy customers will come in the course of running other errands. Prescription drugs are not, for the most part, an impulse purchase. As a result, being located in isolated and inconvenient places is bad idea.
- Regarding visibility, here is the bottom line: A location with good accessibility in a growing community is ideal; however, the most visible location may not be the best location for your pharmacy. The most prominent location for a non-impulse business like a pharmacy may ultimately depend on the competition.
- Is there signage, or can you add signage that can be seen from the road?
- Remember, visibility comes at a premium expressed in additional dollars per square foot. Don't buy more than you need.

3. Hours of Operation

- Make sure your business is open long enough to match the needs of your customers.
- If you are “on the way home”, are you open for business when patients are headed home from work?
- If you are near grocery stores or other weekend errands, do you have weekend errands?

4. Neighborhood Development

- What type of demographics does the neighborhood sustain and can it support your business? Research the latest census figures. Check www.uscensus.gov or the local Small Business Administration for more information on the area and plans for future development.
- What type of development is planned near the location? Tip – to gauge economic trends, visit the seat of local government and look for new building permits granted in revitalization areas or proposed new roads planned for growing communities. Your local chamber of commerce or business organizations are also a good source of information.

5. Size

- Don't rent more space than you need, but your business plan should anticipate growth and expansion where you can provide niche specialty services that distinguish your pharmacy from the rest.
 - i. Tip- Look for space that offers expansion opportunities to adjacent or conveniently located complementary space. If additional space becomes available ask the landlord to include a right of first refusal or option to buy or lease the location.

6. Lease Length – See *The Pharmacy Lease Planning Document*

- Too long of a lease and you may find yourself paying rent for space you have outgrown or a business you have sold.
 - i. Tip- Ask the landlord to consider a series of short term leases with multiple options to renew. (i.e. ask for a two year lease with three 3-year options to renew creating in effect, an 11 year lease). Now, you will have a little less negotiating leverage but the trade off is less liability. As the business matures offer the landlord longer lease terms in exchange for lower rent and right of first refusal to buy the property. Ask for the ability to “assign” the lease or sublet the space.

Once you have chosen the pharmacy location your next concern will be constructing it. The extent of construction depends on how you receive the space. If the building requires extensive modifications you have to include the cost of “build out” along with funding needed for fixtures, inventory, pharmacy counters and adequate cash reserves into your business plan. Tip – ask the landlord for rent allowances for time allocated to construction. This is especially important if all you are offered is a “shell” or the economic climate favors the lessee.

Location “Speak”

- Build Out –
 - Construction of the building to be completed prior to tenant occupancy
- Arctic Shell –
 - Also known as, cold shell, bare shell, base shell, cold dark shell, cold dark box, dark shell, dark box, grey shell, or grey box depending on the current “build out”. An arctic shell is typically a commercial building with an unfinished interior and lacks heating, ventilating, and air conditioning (HVAC), and usually without insulation, lighting, plumbing, ceilings, electricity, elevators, or interior walls and has only a cement floor. An arctic shell for example, is ready for warm shell or vanilla shell improvements (i.e. HVAC) as well as tenant improvements, which are to be completed by the tenant once the lease agreement has been negotiated and executed.
 - TIP- See if the landlord will offer financial incentives in the form of a tenant improvement allowance, which pays for or at least partially defrays the cost of any improvements necessary for you occupy the building itself. Tenant improvement allowances do not usually include furniture, pharmacy fixtures, or equipment (FFE) or trade fixtures necessary for the tenant to conduct business. Like many real estate terms and phrases, practical use and meanings of those terms associated with shell leases (e.g., vanilla shell, base shell, cold shell, warm shell, etc.) differ by location and situation, sometimes even within the same region or municipal area. As they say, the devil is in the details. The lease or sales contract should clearly and exactly specify the degree to which construction of any sort of "shell" or "box" building has been or will be completed prior to tenant occupancy
- Appurtenance –
 - Is a [legal](#) term for what belongs to and goes with something else, the accessories or things usually conjoined with the substantive matter to the building in question. If you move your pharmacy’s location, not every fixture or piece of furniture “if conjoined in a substantive matter” can be removed. They become part of the current location. See you attorney for clarity on this issue.

- Ingress –
 - Away of entering a building or pharmacy parking lot.
- Egress –
 - A way of leaving a building or pharmacy parking lot.
- Ten year transportation plan –
 - A local jurisdiction’s detailed action plan describing over ten years, new road construction in your locality. In many cases, the plan is available at the seat of local government in your community.
 - Tip- New roads translate into growing communities that will need good independent community pharmacies.
- Option to buy –
 - An option to buy the property you lease, comprises of an offer by the landlord to sell the property to the tenant on specified terms and conditions, coupled with an undertaking not to withdraw such offer within a specified period
- Right of first refusal –
 - Obliges the landlord to give the tenant the right to purchase the property at a price offered by the third party. Speak to your attorney to assess whether an option to buy or right of first refusal lease term is right for you.
- Line of credit –
 - A line of credit (also called a credit line or credit limit) is the maximum amount of money a bank will lend to an individual or business without requiring additional approval. The lender determines a line of credit based largely on the individual's credit worthiness and income potential. Having a line of credit is very useful for pharmacists who may have to take out several loans over time to purchase equipment or upgrade their facilities. Instead of applying for one \$25,000 bank loan, for example, a business owner with a \$25,000 line of credit can take out a \$5,000 loan in April, then a \$10,000 loan in August and finally a \$2,000 loan in December, all with prior approval from the lender. By using a line of credit, borrowers can take out just enough money for a specific expense then pay it back entirely before taking out additional funds. With a pharmacy’s cash flow being so dependent on lump sum payments from third party payers, a line of credit may allow you to make your own payables in a timely manner. Speak to your financial advisor about the value of a line of credit for your business.

- Letter of credit –
 - A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank is required to cover the full or remaining amount of the purchase

Summary

- Limit personal liability by executing the lease through the business entity (i.e. corporation).
- If you must sign personally attempt to negotiate away the guarantee after an agreed amount of years. If your business is thriving the landlord may be amendable.
- Consider a nominal prescription profit sharing plan with your landlord in exchange for lower rent. (i.e. \$0.05 from every prescription filled.). Do the math and make sure it works for you.
- Instead of a security deposit of 2-3 months and thousands of dollars ask the bank for a letter of credit that demonstrates your financial standing in the community. This may be difficult for first time buyers or borrowers but it's worth the try. At the very least your pharmacy is a community asset, attempt to negotiate down the deposit to one month. You are not going anywhere in the middle of the night.
- A knowledgeable attorney along with your accountant is essential to conducting business efficiently. Find an attorney to best suit your needs and an accountant who understands the business benchmarks found in profitable pharmacies. Don't be afraid to reach out to other pharmacy owners for recommendations. You don't have the time to train these professionals about your business.
- Negotiating a commercial lease is tricky and no business for neophytes. Always speak to your attorney before binding yourself or your company to this important document.

Do not select a business location without a plan to thoroughly evaluate the appropriateness of a particular site. Figure out how much money you can afford to spend per month on your business location and stick to it! Don't overestimate your resources and try not to fall in love with a location that does not meet your criteria. There are always other suitable locations. Prior to signing a lease for a property that requires extensive modification make very sure it is a location where your business will prosper.

The location selection criteria listed are for discussion purposes only. Contact a qualified professional consultant that addresses your individual or business requirements. NCPA professional staff is available to assist you if you have additional questions.

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