



NATIONAL COMMUNITY PHARMACISTS ASSOCIATION



2010 NCPA DIGEST

Sponsored by Cardinal Health



CardinalHealth

EXECUTIVE SUMMARY

The *NCPA Digest*, sponsored by Cardinal Health provides an annual overview of independent community pharmacy, including a comprehensive review of the financial operations of the nation's independent community pharmacies for 2009.

In 2009, independent community pharmacy represented a \$93 billion marketplace, with 93 percent of sales for independents derived from prescription drugs. Although many independents continue to face slim margins from private third-party contracts and government reimbursement programs, they have strived to reduce their overhead costs through running a more efficient business. They are using labor-saving technologies to control payroll expenses. The number of employees per pharmacy location did not increase in 2009; however, the wages paid to pharmacists, technicians, and clerks increased, resulting in increased payroll expenses. In 2009, there were 23,117 independent community pharmacies employing over 315,000 workers, and providing high-quality services and niche markets that are greatly valued by patients.

An overview of the average independent community pharmacy is provided in Table 1. In general, the average independent community pharmacy location dispensed 64,635 prescriptions (207 per day) in 2009, which is a slight increase from last year's prescription volume of 62,379. This trend is similar to what other indicators in the pharmacy marketplace are showing. Prescription volume continues to increase. Thus, the average pharmacy is filling more prescriptions per day compared with last year. Given this, independent community pharmacists are looking for ways to improve efficiency and productivity, often by investing in technologies.

Many independents continue to operate multiple pharmacies. Twenty-seven percent of independent community pharmacy owners have ownership in two or more pharmacies, and the average number of pharmacies in which each independent owner has ownership is 1.69.

Data for the *Digest* have been collected for over 75 years, providing the opportunity to look at long-term trends for independent community pharmacies. Since 1999, gross margins as a percentage of sales have remained relatively flat at 22–24 percent. Alternatively, average sales per pharmacy location are still recovering from their regression during the first two years of Medicare Part D. Figure 1 shows these trends.

- Average sales per location for 2009 were \$4,026,097, up 3.7 percent from 2008. This is most likely correlated with an

Table 1 • Independent Community Pharmacy At-A-Glance

	2009	
Average number of pharmacies in which each independent owner has ownership	1.69	
Average number of prescriptions dispensed per pharmacy location		
New prescriptions	28,813	45%
Renewed prescriptions	35,822	55%
Total prescriptions	64,635	100%
Average prescription charge	\$58.11	
Number of hours and days per week per location		
Hours open per week	55	
Days open per week	6	
Inventory		
Prescription Inventory	\$245,412	6.1%
Other Inventory	\$66,863	1.7%
Total Inventory	\$312,275	7.8%
Annual Rate of Inventory Turnover	9.8	
Annual Rate of Prescription Inventory Turnover	11.7	
Percentage of total prescriptions covered by:		
Government programs (Medicaid or Medicare Part D)	44%	
Other third-party programs	45%	
Percentage of generic prescriptions dispensed	69%	

increase in prescription volume as the average prescription charge remained relatively the same compared with 2008.

- Gross margin increased slightly from 23.2 percent in 2008 to 23.8 percent in 2009, but remained in the 22–24 percent range seen over the last 10 years.
- Payroll expenses, as a percentage of sales, increased by 0.6 percentage points in 2009 to 14.1 percent. To keep overall expenses similar to last year, operating expenses had to be carefully monitored.
- Through attempts by independents to control operating expenses, the average net operating income remained similar to last year at 3.3 percent. Since sales increased, the net operating income dollars before tax increased slightly.
- The average monthly prescription drug inventory was \$245,412, and the annual turnover rate of prescription inventory was 11.7. The average number of out-of-stocks each business day was 3.1.

Figure 1 • Average Annual Sales (in Thousands) Per Pharmacy Location, 10-year trend



It is important to note that this year's *Digest* data reflect the marketplace in 2009, the fourth year for the Medicare Part D prescription drug benefit. Similar to 2008, 30 percent of prescriptions in independent community pharmacies were covered by Medicare Part D. Government programs such as Medicare Part D and Medicaid continue to purchase 44 percent of prescriptions sold in independent community pharmacies.

In 2009, independent community pharmacies faced many challenges both old and new. However, even in the most challenging times, independent community pharmacies continue to lead the way in innovations that define the future of

pharmacy practice. The industry has responded by expanding and diversifying its businesses to include enhanced patient care services (such as long-term care services), providing access to durable medical equipment products and training, and other valuable community services. For years, independent community pharmacies have been the nation's leaders in providing disease management services to patients with chronic health conditions such as diabetes, asthma, hypertension, and hyperlipidemia. They promote public health initiatives, such as immunization and smoking cessation programs. Recently, thousands of independent community pharmacies have embraced the concept of medication therapy management (MTM) services and integrated these

Table 2 • Averages of Pharmacy Operations

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of goods sold	76.7%	77%	76.5%	76%	77.9%	76.4%	77.2%	76.8%	76.8%	76.2%
Gross profit	23.3%	23%	23.5%	24%	22.1%	23.6%	22.8%	23.2%	23.2%	23.8%
Payroll expenses	12.2%	12.5%	13.1	13.2%	12.2%	13.4%	13.6%	13.7%	13.5%	14.1%
Other operating expenses	7.9%	6.9%	6.6%	6.8%	6.3%	6.5%	6.4%	6.5%	6.5%	6.4%
Total expenses	20.1%	19.4%	19.7%	20%	18.5%	19.9%	20%	20.2%	20%	20.5%
Net operating income	3.2%	3.5%	3.8%	4%	3.6%	3.7%	2.8%	3.0%	3.2%	3.3%

services into their practices. Other pertinent information about the independent community pharmacist's professional interactions includes the following:

- Increasing from 2008, 68 percent of independent community pharmacies indicate that they provide MTM, and 59 percent have received some level of reimbursement for their MTM services under Medicare Part D.
- Independent community pharmacists talk with their patients about nonprescription items 11.6 times a day.
- Independent community pharmacists consult with physicians almost seven times daily on prescription drug therapy. This includes generic product recommendations in response to patients with financial concerns that may affect their medica-

tion adherence, as well as therapeutic interchange recommendations. Physicians, in turn, accept pharmacists' generic product recommendations 81 percent of the time and other therapeutic recommendations 71 percent of the time.

Independent community pharmacists have proven over and over again throughout the last 75 years that they are resilient and will modify and reinvent their practices to adapt to economic challenges. They will continue to define the future of pharmacy by timely innovation and exceptional customer service. Most important, they continue to be vital health care providers to patients and dynamic leaders in communities of every shape and size, including key locations in rural and underserved areas.



METHODOLOGY

Independent community pharmacy owners who had completed at least one entire year of operations were invited to participate in this study. Pharmacy owners or their designees were asked to complete the surveys. We have exercised the utmost professional care compiling the information received. While we have tested the information for clerical accuracy, the data supplied were not necessarily based on audited financial statements. NCPA does not make any assurances, representations, or war-

rancies with respect to the data on which the contents of this report were based. The information on which the 2009 portion of the study is based was from fiscal years January 1, 2009 through April 30, 2010, with 74 percent of the responses reporting for the year ending December 31, 2009. Results from prior issues of the *Digest* have been incorporated with the 2009 results to facilitate assessing industry trends.