



National
**COMMUNITY
PHARMACISTS**
Association

*Formerly NARD, the
National Association of
Retail Druggists*

N C P A

**205 Daingerfield Road
Alexandria, Virginia
22314-2885**

**phone
703.683.8200**

**fax
703.683.3619**

www.ncpanet.org

NCPA-Pfizer Digest

*Company Consulting Report
Prepared for:
Sample Company
Control No: 999*

The material and contents provided in this report are informative in nature only. The report is distributed with the understanding that neither the authors, Business Resource Services, Inc. nor the National Community Pharmacists Association is engaged in providing legal or accounting assistance. Legal and accounting aid, if needed, should be sought from professionals in those fields.

Compiled by:

Business Resource Services, Inc.
200 First Avenue West, Suite 301
Seattle, Washington 98119 USA
Phone – 206.284.5102
Fax – 206.282.4092
Email brs@brs-seattle.com
URL <http://www.brs-seattle.com>



Copyright:
Business Resource Services, Inc.
2006 ALL RIGHTS RESERVED

Table of Contents

	Page
INTRODUCTION	
<i>How To Use Your Consulting Report</i>	i
<i>Your Guide to Interpreting The Benchmarks</i>	ii
FINANCIAL BENCHMARKS	1
COMMON-SIZED INCOME STATEMENT	2
COMMON-SIZED BALANCE SHEET	3
YOUR INDIVIDUAL ANALYSIS	
<i>Productivity</i>	4
<i>Profitability</i>	5
<i>Cost of Dispensing</i>	7
<i>Financial Position</i>	8
<i>Cash Flow</i>	8

How To Use Your Company Consulting Report

This is your Company Consulting Report, which is available to you as a result of your participation in the *2006 NCPA Pfizer-Digest*. When used together with the Digest, it can be a valuable tool to improve your financial management decisions. Before reviewing the pages that follow, please take a few moments to read our suggestions for gaining maximum benefit from this report.

Steps for Effective Use of this Report

First...

- If you have not already done so, read the *2006 NCPA-Pfizer Digest*.
- Review the Guide to Benchmarking for details on what the ratios mean and how they are used, including key influences on balance sheet and income statement ratios. You can find the Guide to Benchmarking at www.NCPANet.Org.

Next...

- Go to pages one through three of this report and compare your pharmacy's ratios and common-sized statements to the statistics for:
 1. All Pharmacies – All of the pharmacies that sent financial information for the Digest are included in this column.
 2. Top 25% – These are the top twenty-five percent, based on owner's discretionary profit percentage, of all participating pharmacies (for more information on how the top 25% were selected, refer to the Digest).
 3. Sales Categories – These are the companies reporting total revenues similar to yours. Companies were classified into these categories:
 - Less than \$1.5 million
 - \$1.5 to \$2.5 million
 - \$2.5 to \$4 million
 - More than \$4 million

Then...

- Read the remainder of this Company Consulting Report to help you to identify the strengths and weaknesses of your company. Then review Section IV of the Guide to Benchmarking - Action Plans for Success (at www.NCPANet.Org) to identify specific actions you can take to improve your financial performance.

Finally...

- **TAKE ACTION!** Implement your plans and monitor your progress. Use your accountant or other professional advisor to help you get the most from this process.

Your Guide to Interpreting the Benchmarks

Name of The Ratio	How It's Computed	What It Says In Words	Top 25%	Good Direction
PROFITABILITY RATIOS				
OWNER'S DISCRETIONARY PROFIT MARGIN	$\frac{\text{Net Profit Before Tax} + \text{Owner's Salary}}{\text{Sales}}$	For every dollar in sales there is about 13 cents in profit before any income tax or owner compensation were paid	12.7%	↑
OWNER'S DISCRETIONARY PROFIT DOLLARS	Profit Before Tax Plus Owner's Salary	Half of the companies had Owner's Discretionary Profit Dollars greater than \$342,763 and half had less	\$342,763	↑
PRODUCTIVITY RATIOS				
SALES PER EMPLOYEE (Including Owners)	$\frac{\text{Sales}}{\text{Number of Employees Incl. Owners}}$	Each employee generated an average of \$429,962 in annual sales	\$429,962	↑
STAFF COST PER EMPLOYEE (Excluding Owners)	$\frac{\text{Non-Owner Wage, Tax \& Benefits}}{\text{Number of Employees Excl. Owners}}$	On average, each employee (excluding owners) cost \$35,888 in wages, benefits and taxes for the year	\$35,888	↓
Rx SALES PER SQUARE FOOT	$\frac{\text{Prescription Sales}}{\text{Rx Department Square Feet}}$	On average, each square foot of Rx department space generated \$3,840 in sales	\$3,840	↑
OTHER SALES PER SQUARE FOOT	$\frac{\text{Other Sales}}{\text{Square Feet Excluding Rx. Dept}}$	On average, each square foot of non-Rx space generated \$104	\$104	↑
TOTAL SALES PER SQUARE FOOT	$\frac{\text{Total Sales}}{\text{Square Feet}}$	On average, each square foot of facility space generated \$1,312 in sales	\$1,312	↑
COST OF DISPENSING	$\frac{\text{Direct Cost of Dispensing} + \text{Allocation Cost}}{\text{Total Prescriptions Filled}}$	On average, each prescription filled costs the company \$7.40	\$7.40	↓
MEDIAN SALES	Group Middle Point	Half of the companies had more than \$2,600,000 in sales and half had less	\$2,600,000	↑

Your Guide to Interpreting the Benchmarks

Name of The Ratio	How It's Computed	What It Says In Words	Top 25%	Good Direction
FINANCIAL POSITION RATIOS				
SALES TO ASSETS	$\frac{\text{Sales}}{\text{Total Assets}}$	For every dollar of total assets, the pharmacy generated sales of \$5.48	5.48	↑
RETURN ON INVESTMENT	$\frac{\text{Owner's Discretionary Profit Dollars}}{\text{Net Worth}}$	For every dollar the owners had invested, the pharmacy earned \$1.02 in owner's discretionary profit	101.5%	↑ (Although an extremely high number shows lack of owner investment)
DEBT TO WORTH	$\frac{\text{Total Liabilities}}{\text{Net Worth}}$	For every dollar that the owners have invested into the company, the creditors have invested 32 cents	.32	↓
CASH FLOW RATIOS				
CURRENT	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	For every dollar in current liabilities, there is \$5.50 in current assets with which to pay them	5.50	↑
QUICK	$\frac{\text{Cash} + \text{Accounts Receivable}}{\text{Current Liabilities}}$	For every dollar in current liabilities, there is \$2.68 in cash and accounts receivable with which to pay them	2.68	↑
INVENTORY TURNOVER	$\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$	The inventory turned over 10.7 times during the year	10.7	↑
INVENTORY TURN (DAYS)	$\frac{365}{\text{Inventory Turnover}}$	At year end there was 34 days worth of inventory on hand	34 days	↓
Rx INVENTORY TURNOVER	$\frac{\text{Rx Cost of Goods Sold}}{\text{Prescription Inventory}}$	The Rx inventory turned over 11.2 times during the year	11.2	↑
ACCOUNTS RECEIVABLE TURNOVER	$\frac{\text{Credit Sales}}{\text{Accounts Receivable}}$	The accounts receivable balance was collected (or turned over) 20.9 times during the year	20.9	↑
ACCOUNTS RECEIVABLE COLLECTION (DAYS)	$\frac{365}{\text{Accounts Receivable Turnover}}$	On average, customers with in-house charge accounts paid an invoice 17 days after it was issued	17 days	↓
ACCOUNTS PAYABLE TURNOVER	$\frac{\text{Cost of Goods Sold}}{\text{Accounts Payable}}$	Accounts payable turned over 36.9 times during the year	36.9	↑
ACCOUNT PAYABLE TURNOVER (DAYS)	$\frac{365}{\text{Accounts Payable Turnover}}$	On average, vendor invoices were paid 10 days after the purchase date	10 days	↓

**NCPA-Pfizer Digest
Financial Benchmarks**

Control No: 999

Sample Company

All Pharmacies Top 25% Over \$4 million Your Results 12/31/2005

Profitability Ratios

Owner's Discretionary Profit Percent	7.1%	12.7%	6.2%	4.9%
Owner's Discretionary Profit Dollars	\$213,061	\$342,763	\$376,787	\$852,800

Productivity Ratios

Sales Per Employee	\$398,449	\$429,962	\$434,206	\$404,286
Staff Cost Per Employee	\$37,086	\$35,888	\$40,727	\$42,857
Prescription Sales Per Square Foot	\$3,904	\$3,840	\$5,568	\$3,556
Other Sales Per Square Foot	\$100	\$104	\$135	\$65
Total Sales Per Square Foot	\$1,194	\$1,312	\$1,597	\$706
Cost of Dispensing	\$8.81	\$7.40	\$9.41	\$7.27
Median Sales	\$3,167,705	\$2,600,000	\$5,801,855	\$17,300,000

Financial Position Ratios

Sales to Assets	5.48	5.48	5.65	5.25
Return on Investment	62.0%	101.5%	68.7%	134.3%
Debt to Worth	0.61	0.32	0.87	0.33

Cash Flow Ratios

Current Ratio	3.34	5.50	2.70	1.61
Quick Ratio	1.38	2.68	1.26	0.79
Inventory Turnover	10.6	10.7	12.5	8.9
Inventory Turn Days	34	34	29	41
Prescription Inventory Turnover	12.0	11.2	13.7	11.0
Accounts Receivable Turnover	19.8	20.9	18.1	11.9
Accounts Receivable Collection Days	18	17	20	31
Accounts Payable Turnover	24.9	36.9	22.5	7.5
Accounts Payable Days	15	10	16	48

Other Information

Percentage of Total Prescriptions:				
Covered by Medicaid	26.8%	30.6%	29.2%	20.0%
Covered by Other Third-Party	57.9%	51.4%	57.5%	60.0%
Prescriptions Dispensed Annually:				
New	33,430	28,227	58,399	189,280
Renewal	37,782	33,753	64,795	174,420
Percent of Rx Dispensed Generically	53.0%	52.6%	51.3%	52.0%
Average Hourly Wage Rates:				
Staff Pharmacists	\$41.86	\$43.17	\$44.33	\$55.00
Pharmacy Technicians	\$11.96	\$12.22	\$12.59	\$10.00
Clerks/Cashiers	\$8.89	\$9.23	\$9.20	\$6.50

NCPA-Pfizer Digest
Common-Sized Income Statement
Sample Company

Control No: 999

	All Pharmacies	Top 25%	Over \$4 million	Your Results 12/31/2005
SALES				
Prescription Sales	89.4%	90.8%	88.4%	95.3%
Other Sales	10.6%	9.2%	11.6%	4.7%
TOTAL SALES	100.0%	100.0%	100.0%	100.0%
COST OF GOODS SOLD				
Prescription Costs	69.6%	66.9%	69.7%	71.5%
All Other Costs	6.9%	6.0%	7.6%	2.8%
TOTAL COST OF GOODS SOLD	76.5%	72.9%	77.3%	74.3%
GROSS PROFIT	23.5%	27.1%	22.7%	25.7%
OPERATING EXPENSES				
Payroll Expenses				
Non-Owner Salaries and Wages	7.2%	5.8%	8.3%	7.3%
Payroll Taxes, Workers' Comp and Employee Ben	1.5%	1.4%	1.8%	1.5%
Total Payroll Expenses Excluding Owners	8.7%	7.2%	10.0%	8.8%
Owner Compensation	4.3%	6.3%	3.3%	4.7%
Total Payroll Expenses Including Owners	13.0%	13.5%	13.3%	13.5%
Other Operating Expenses				
Advertising	0.5%	0.5%	0.5%	1.3%
Insurance	0.4%	0.3%	0.3%	0.3%
Store Supplies, Containers and Labels	0.6%	0.6%	0.5%	0.7%
Delivery Service	0.2%	0.2%	0.2%	0.1%
Pharmacy Computer Expense	0.3%	0.3%	0.3%	0.6%
Rent	1.2%	1.0%	1.2%	1.0%
Utilities and Telephone	0.5%	0.5%	0.4%	0.4%
All Other Operating Expenses	3.4%	3.0%	2.8%	2.5%
Total Other Operating Expenses	6.7%	5.9%	5.9%	6.6%
TOTAL EXPENSES	19.7%	19.5%	19.2%	20.1%
NET OPERATING INCOME	3.8%	7.7%	3.5%	2.5%
Add: Owner Compensation	4.3%	6.3%	3.3%	4.7%
OWNER'S DISCRETIONARY PROFIT	8.1%	14.0%	6.8%	7.1%

NCPA-Pfizer Digest
Common-Sized Balance Sheet
Sample Company

Control No: 999
Your

	All Pharmacies	Top 25%	Over \$4 million	Results 12/31/2002
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and Cash Equivalents	18.4%	24.2%	19.0%	8.0%
Accounts Receivable	20.7%	17.4%	24.5%	22.2%
Inventory	45.3%	44.1%	38.5%	65.8%
Other Current Assets	4.3%	3.9%	5.1%	0.2%
Total Current Assets	88.6%	89.6%	87.1%	96.2%
Net Fixed Assets	10.2%	8.0%	8.8%	3.8%
OTHER ASSETS	4.9%	2.4%	4.1%	0.0%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%
<u>LIABILITIES AND OWNERS' EQUITY</u>				
CURRENT LIABILITIES				
Notes Payable Within One Year	5.2%	4.0%	4.9%	0.0%
Accounts Payable	18.3%	14.2%	22.7%	28.5%
Other Current Liabilities	5.7%	4.4%	5.8%	3.0%
Total Current Liabilities	29.1%	22.6%	33.5%	31.5%
LONG TERM LIABILITIES				
Notes Payable to Owners	7.9%	5.4%	7.4%	1.5%
Other Long Term Liabilities	7.1%	5.2%	8.8%	0.0%
Total Long Term Liabilities	15.0%	10.6%	16.1%	1.5%
TOTAL LIABILITIES	44.1%	33.2%	49.6%	33.0%
TOTAL OWNER'S EQUITY	55.9%	66.8%	50.4%	67.0%
TOTAL LIABILITIES AND EQUITY	100.0%	100.0%	100.0%	100.0%

This report is designed to help you interpret your 2005 financial results. It is separated into the same four key financial areas as the financial section of the 2005 Pfizer-Digest. They are:

- Profitability*
- Productivity*
- Financial Position*
- Cash Flow*

Review the comments in this report and determine which areas, if any, require management's attention. Then refer to Section IV of the Guide to Benchmarking for some specific actions you can take to improve your situation. You can download the Guide To Benchmarking at www.NCPANet.Org

Based on your owner's discretionary profit percentage, your pharmacy was included in the second highest quartile. For purposes of this report, your results have been compared to results of the top 25%. The top 25% is made up of the companies with the highest owner's discretionary profit percentage (profit before tax, plus owner's compensation).

Productivity

Staff costs as a percentage of sales are higher than the average staff costs for the top 25%. Evaluate your staff productivity and compensation plans to determine whether adjustments should be made.

	Your Pharmacy	Top 25%
<i>Non-Owner Salaries and Wages</i>	7.3%	5.8%
<i>Payroll Taxes, Worker's Comp and Employee Benefits</i>	<u>1.5%</u>	<u>1.4%</u>
Total Staff Costs Except Owners	8.8%	7.2%
<i>Owner Compensation</i>	<u>4.7%</u>	<u>6.3%</u>
Total Staff Costs Including Owners	13.5%	13.5%
Sales Per Employee	\$404,286	\$429,962

Your low sales per full time equivalent employee indicates that you may be operating with excess staff for your existing sales.

Here is how your average hourly wage rates compared to those of the top 25%:

	Your Pharmacy	Top 25%
<i>Staff Pharmacist</i>	\$55.00 per hour	\$43.17 per hour
<i>Pharmacy Technician</i>	\$10.00 per hour	\$12.22 per hour
<i>Clerk/Cashier</i>	\$6.50 per hour	\$9.23 per hour

Profitability

Gross Margin Management

	Your Pharmacy	Top 25%
Cost of Goods Sold		
Costs of Prescriptions	71.5%	66.9%
All Other Costs	<u>2.8%</u>	<u>6.0%</u>
Total Cost of Goods Sold	<u>74.3%</u>	<u>72.9%</u>
Gross Profit	<u>25.7%</u>	<u>27.1%</u>

Your cost of goods sold is higher than the average for the top 25%. Had they been equal to those of the top 25%, additional profits would have been earned, totaling \$63,000.

Sales mix can impact gross profit -- so your results will vary depending on your product emphasis. For example, companies with more emphasis on prescription sales generally expect higher overall cost of goods sold and lower gross profit percentages. To help you to evaluate your company's performance at the gross profit level, we've summarized how your sales mix and departmental profitability compares to the top 25%.

	Sales Mix		Gross Profit	
	Your Pharmacy	Top 25%	Your Pharmacy	Top 25%
Prescriptions	95.3%	90.8%	25.0%	26.3%
All Other Sales	<u>4.7%</u>	<u>9.2%</u>	<u>40.0%</u>	<u>34.8%</u>
Total	100.0%	100.0%	25.7%	27.1%

Operating Expense Management

Operating expenses (excluding payroll) as a percentage of sales are higher than the average for the top 25%. Achieving the average expense efficiency would result in additional profit totaling \$31,500

Overall Profitability

You could improve profitability by implementing action plans to control:

- low gross profit (high cost of goods sold)*
- high payroll expenses*
- high operating expenses (excluding payroll)*

Refer to Section IV of the Guide to Benchmarking for specific actions that you can take to improve your performance in the areas outlined in this report.

Break Even Analysis

Break even analysis is a powerful tool for understanding the relationships between price, volume and costs. Developing an intuitive understanding of these relationships helps when making decisions to add or cut costs, change prices or add capacity.

The first step to calculate break even is to classify your costs as either fixed or variable. For purposes of this report, we assumed that the following costs were variable:

Cost of Good Sold	\$3,342,500
Store Supplies, Containers and Labels	\$31,000
Delivery Service	\$6,000
Total Variable Costs	\$3,379,500

The next step is to determine your contribution margin percentage:

Sales	\$4,500,000	100.0%
Minus: Variable Costs	<u>\$3,379,500</u>	<u>75.1%</u>
Equals: Contribution Margin	\$1,120,500	24.9%

For every dollar in sales, 75 cents (75.1% of one dollar) went to pay for variable costs leaving 25 cents to contribute to fixed costs and profit.

The final step is to determine the sales that would be required to cover the fixed and variable costs. We apply this formula to calculate the break even:

Fixed costs divided by contribution margin percentage equals break even

Your fixed costs	<u>\$801,000</u>	=	\$3,216,867
Divided by your contribution margin percentage	24.9%		Break Even Sales

This is your break even point based on your 2005 cost structure, including your 2005 owner compensation amount of \$211,500

After reaching your break even point, each one hundred dollars in sales contributes \$25 to profit.

Based on your 2005 cost structure, additional sales of \$4.02 are required to cover one dollar in additional fixed costs. Monitor your cost structure (variable cost percentage, contribution margin, fixed costs and break even point) each month to determine how your decisions to add or reduce staff, equipment or other costs will impact your profitability.

NCPA-Pfizer Digest
Cost of Dispensing
Sample Company

Control No: 999

Direct Cost of Dispensing

Store Supplies, Vials, Containers and Labels	\$12,777
Delivery Service and Auto Expense	\$18,262
Pharmacy Computer Expense	<u>\$5,157</u>
Total Direct Costs	\$36,196

Indirect Cost of Dispensing

Owners as Pharmacist Wages	\$93,600
Other Salaries and Wages	\$97,854
Payroll Taxes and Benefits	\$65,000
Advertising	\$3,979
Business Insurance	\$6,516
Office Postage	\$1,618
Rent	\$18,000
Utilities and Telephone	\$8,219
All Other Operating Expenses	<u>\$11,275</u>
Total Indirect Costs	\$306,061

Allocation Percent (Rx Sales Percentage)	x	<u>96.1%</u>
Allocated Costs		\$294,092
TOTAL Cost of Dispensing		\$330,288
Divided By Number of Prescriptions Filled		49,266
Cost of Dispensing per Prescription		\$6.70

NCPA Pfizer Digest cost of dispensing per prescription:

All Companies	\$8.81
Top 25%	\$7.40
West Region	\$10.39
South Central Region	\$8.52
North Central Region	\$8.73
Northeast Region	\$8.62
Southeast Region	\$8.16

Financial Position

Your assets are more productive, that is, they generate more sales for each dollar invested in assets than the median for the top 25%. This could indicate that you've reached the capacity of your inventory and equipment and may need to reinvest.

Your Return on Investment Ratio of 134.3% means that for every \$1.00 of Net Worth, the company earned \$1.34 in Owner's Salary and Net Profit Before Tax.

Your store had a high return on investment. When evaluating your results, consider that a high figure can be produced by either high profits or low net worth. Low net worth implies high debt or risk, an unfavorable result.

Your financial condition, as measured by the debt to worth ratio, is comparable to the median for the top 25%.

Cash Flow

The Working Capital Cycle represents cash flow that is "tied up" in the cyclic process that runs from cash, to inventory, to accounts receivable, and back to cash. Here is how your store's Working Capital Cycle compares to the cycle for the top 25%:

	Your Company	Top 25%
<i>Cash Goes Out To:</i>		
Inventory	41 Days	34 Days
Accounts Receivable	<u>31</u> Days	<u>17</u> Days
Total Days Cash is Out	72 Days	51 Days
Less: Days Financed by Trade Creditors	<u>48</u> Days	<u>10</u> Days
Net Days in Cycle	<u>24</u> Days	<u>41</u> Days

The "Net Days in Cycle" are financed by the owners and/or the creditors, depending on the extent of equity or non-trade account debt on the balance sheet.

Refer to Section IV of the Guide to Benchmarking for specific actions for improving cash flow.

Inventory Management

As shown on the previous page, your company's inventory turnover is slower than the median for the top 25%. To determine the effect of this condition on your cash flow (and your financing needs) we calculated the amount of inventory which would have been on hand at year-end had your turnover been equal to the median for the top 25%.

$$\begin{aligned} \text{If } & \frac{\text{Cost of Goods Sold}}{\text{Inventory}} = \text{Inventory Turnover} \\ \text{Then } & \frac{\text{Cost of Goods Sold}}{\text{Targeted Inventory Turnover}} = \text{Targeted Inventory} \end{aligned}$$

We can apply this formula to your company's numbers to arrive at a targeted inventory. Using the turnover ratio for the top 25% as our efficiency target we calculated your targeted inventory as follows:

$$\frac{\text{Your Costs of Goods Sold}}{\text{Targeted Inventory Turnover}} = \frac{\$3,342,500}{10.7} = \$312,383 \quad \text{Your targeted inventory}$$

(Target Based on the median for the top 25%)

Next we can compare your targeted inventory to your actual inventory to find out how much excess inventory you had on hand at the end of the year.

Your Actual Inventory	\$379,830
Less: Your Targeted Inventory	<u>\$312,383</u>
Excess Inventory	<u>\$67,447</u>

Excess inventory represents capital tied up in inventory that would otherwise be cash on hand (or reduced debt) if your inventory turned as quickly (as efficiently) as the median for the top 25%. See Section IV of the Guide to Benchmarking for a list of action plans that you can implement to improve your inventory turnover.