

2008 NCPA Digest, sponsored by Cardinal Health

Benchmarking Analysis

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Introduction

Between April and July of 2008, data was collected from independent community pharmacies across the United States for the 2008 NCPA Digest, sponsored by Cardinal Health. As a result of your participation in that survey, this complimentary consulting report and benchmarking analysis is being provided free of charge. This report will compare your pharmacy's financials to other independent community pharmacies to determine the strengths and weaknesses of your pharmacy.

To use this report correctly, please become adequately familiar with the ratio's used in this report. The section titled "Calculations" will provide a quick and to the point description of each financial ratio, how it is calculated, and what it means. For a more in-depth analysis of these financial ratio's, please visit the Guide to Benchmarking available at www.ncpanet.org

Once familiar with these ratios the section titled "Income Statement Snapshot" and "Balance Sheet Snapshot" will provide a comparison of how your pharmacy compares to other independent community pharmacies based upon the allocation of your pharmacy's expenses, assets and liabilities. Following that the "Benchmarking" section will provide a snapshot of the main financial ratios for your pharmacy and how they compare against the rest of the independent community pharmacy marketplace.

The last section titled "Analysis" will provide a more in-depth picture of your company's cash flow, financial position, productivity, profitability, and, if appropriate, an analysis of your pharmacy's inventory management. This section will also perform a break even analysis and calculate the cost of dispensing for your pharmacy.

For the purposes of this report, your pharmacy will be compared against the top 25% of independent community pharmacies, as defined by owners' discretionary income as a percentage of sales. To learn more about how this quartile of independent community pharmacies were selected, please review the 2008 NCPA Digest, sponsored by Cardinal Health.

Calculations

Ratio	Formula Used	Understanding the ratio	Average value for Top 25%
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Cash Flow

Current	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	For every dollar in liabilities there is \$3.71 in current assets to pay for.	3.71
Quick	$\frac{\text{Cash} + \text{Accounts Receivable}}{\text{Current Liabilities}}$	For every dollar in current liabilities there is \$2.04 to pay for with cash and accounts receivable.	2.04
Inventory Turnover (annual)	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	Inventory was sold and replaced a total of 9.9 times during the fiscal year.	9.9
Inventory Turnover Days	$\frac{365}{\text{Inventory Turnover}}$	It takes a total of 37 days to turn one cycle of inventory.	37
Rx Inventory Turnover	$\frac{\text{Cost of Prescription Goods Sold}}{\text{Average Prescription Inventory}}$	Rx inventory was sold and replaced a total of 11.5 times during the fiscal year.	11.5
Accounts Receivable Turnover	$\frac{\text{Credit Sales}}{\text{Accounts Receivable}}$	Accounts receivable were collected 19.5 times during the fiscal year.	19.5
Accounts Receivable Collection Days	$\frac{365}{\text{Accounts Receivable Turnover}}$	Customers who used a charge account paid on average 19 days after the purchase.	19
Accounts Payable Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Accounts Payable}}$	Accounts payable had turned over 24.8 times during the fiscal year.	24.8
Accounts Payable Turnover Days	$\frac{365}{\text{Accounts Payable Turnover}}$	On average invoices were paid 15 days after the purchase date.	15

Financial Position

Sales to Assets	$\frac{\text{Total Sales}}{\text{Total Assets}}$	Every dollar of total assets generated sales of \$5.19 for the pharmacy.	5.19
Return on Investment	$\frac{\text{Owner's Discretionary Profit}}{\text{Net Worth}}$	The pharmacy earned 46 cents for every dollar the owners had invested.	45.8
Debt to Worth	$\frac{\text{Total Liabilities}}{\text{Net Worth}}$	Creditors invested 30 cents for every dollar that was invested by the owners into the pharmacy.	0.3

Productivity

Sales per Employee	$\frac{\text{Total Sales}}{\text{Total Employees}}$	Employees on average generated \$465,806 in annual sales for the pharmacy.	\$465,806
Staff Costs per Employee	$\frac{\text{Non-owner Wages, Taxes, Benefits}}{\text{Total Employees excluding owner}}$	Each employee on average cost \$41,564 in wages, benefits and taxes for the year.	\$41,564

Productivity (continued)

Rx Sales Per Square Foot	<u>Rx Sales</u> Rx Dept Square Feet	Each square foot of the Rx Department on average brought in \$3,855 in revenue.	\$3,855
Other Sales Per Square Foot	<u>Non Rx Sales</u> Square Feet (excluding Rx Dept)	Each square foot on average brought in \$70 in revenue from non prescription goods.	\$70
Total Sales Per Square Foot	<u>Total Sales</u> Total Square Feet	On average, each square foot of the building brought in \$2,500 in revenue.	\$2,500
Cost of Dispensing	<u>Total Costs to Dispense Rx</u> Total Prescriptions Dispensed	On average, it cost the pharmacy \$9.93 to dispense a prescription drug.	\$9.93

Income Statement Snapshot*

	Your Pharmacy	Average Pharmacy	Top 25%	\$3.5M to \$6.5M
Prescription Sales	94.9%	92.8%	95.2%	92.5%
Other Sales	5.1%	7.2%	4.8%	7.5%
Total Sales	100.0%	100.0%	100.0%	100.0%
Prescription Costs	71.7%	72.3%	72.0%	71.7%
Other Costs	3.6%	4.5%	2.6%	5.1%
Total Cost of Goods Sold	75.3%	76.8%	74.6%	76.8%
Gross Profit	24.7%	23.2%	25.4%	23.2%
Salaries and Wages	10.2%	11.8%	12.5%	12.0%
Payroll Taxes, Benefits	2.6%	1.9%	1.5%	2.0%
Total Payroll Expenses	12.8%	13.7%	14.0%	14.0%
Advertising	0.4%	0.5%	0.4%	0.5%
Insurance	0.4%	0.3%	0.3%	0.3%
Store Supplies	0.3%	0.5%	0.5%	0.5%
Delivery Services	0.3%	0.2%	0.2%	0.1%
Pharmacy Computer	0.3%	0.4%	0.4%	0.4%
Rent	0.5%	1.2%	0.8%	1.2%
Utilities	0.2%	0.5%	0.4%	0.4%
Other Expenses	2.5%	2.9%	2.1%	2.7%
Total Other Operating Expenses	4.8%	6.5%	5.1%	6.1%
Total Operating Expenses	17.6%	20.2%	19.1%	20.1%
Net Income	7.1%	3.0%	6.3%	3.1%

*Note, numbers may not add up to 100% due to rounding error.

Balance Sheet Snapshot

Your Pharmacy Average Pharmacy Top 25% \$3.5M to \$6.5M

Cash	2.1%	15.5%	24.4%	16.8%
Accounts Receivable	1.4%	25.7%	19.9%	23.8%
Inventory	39.2%	37.3%	36.5%	39.3%
Other Current Assets	28.6%	3.7%	6.1%	4.6%
Total Current Assets	71.3%	82.2%	86.9%	84.5%
Net Fixed Assets	28.5%	11.5%	7.3%	10.4%
Other Assets	0.1%	6.3%	5.8%	5.1%
Total Assets	100.0%	100.0%	100.0%	100.0%
Notes Payable Within One Year	14.3%	8.7%	2.5%	7.4%
Accounts Payable	7.1%	15.8%	16.1%	14.5%
Other Current Liabilities	0.0%	8.1%	7.1%	10.5%
Total Current Liabilities	21.4%	32.6%	25.7%	32.4%
Notes Payable to Owners	0.2%	8.0%	7.7%	11.9%
Other Long Term Liabilities	14.3%	10.5%	3.0%	5.6%
Total Liabilities	35.9%	51.1%	36.4%	49.9%
Total Owner's Equity	64.1%	48.9%	63.6%	50.1%
Total Liabilities plus Owner's Equity	100.0%	100.0%	100.0%	100.0%

Benchmarking

Profitability	Your Pharmacy	Average Pharmacy	Top 25%	\$3.5M to \$6.5M
Gross Margin	24.7%	23.2%	25.4%	23.2%
Payroll Expenses	12.8%	13.7%	14.0%	14.0%
Operating Expenses	17.6%	20.2%	19.1%	20.1%
Operating Profit	7.1%	3.0%	6.3%	3.1%
Owner Discretionary Income as a Percentage of Sales	9.7%	6.3%	13.4%	7.0%
Productivity				
Sales Per Employee	\$433,783	\$423,718	\$465,806	\$491,158
Staff Costs per Employee	\$50,000	\$45,883	\$41,564	\$55,560
Prescription Sales per Square Foot	\$7,408	\$3,637	\$3,855	\$4,526
Financial Position				
Sales to Assets	5.57	5.09	5.19	5.42
Return on Investment	84.7%	30%	45.8%	26.5%
Debt to Worth	0.58	0.66	0.3	0.42
Cash Flow				
Current Ratio	100.10	2.89	3.71	5.42
Quick Ratio	5.00	1.3	2.04	1.29
Inventory Turnover	10.7	9.8	9.9	10.6
Inventory Turn Days	34 days	37 days	37 days	34 days
Accounts Receivable Turnover	46.8	16.6	19.5	18.7
Accounts Receivable Collection Days	8 days	22 days	19 days	20 days
Accounts Payable Turnover	58.8	22.4	24.8	25.6
Accounts Payable Days	6 days	16 days	15 days	14 days
Drug Mix				
Covered by Medicaid	10.0%	13.6%	16.5%	12.9%
Covered by Medicare	10.0%	25.7%	25.7%	24.0%
Covered by Other Third Party	75.0%	48.1%	43.5%	52.0%
Cost of Dispensing	\$11.99	\$10.89	\$9.93	

Analysis

The analysis is separated into six areas: cash flow, inventory management (only included for pharmacies with low inventory turnover rates), financial position, productivity, cost of dispensing, break even analysis, and profitability. Each area will identify the strengths and weaknesses of your pharmacy (as compared to the top quartile of independent community pharmacies). To determine which specific actions need to be undergone to improve your pharmacy please refer to Section IV of the Guide to Benchmarking which can be downloaded online at www.ncpanet.org/digest

Analysis: Cash Flow

Cash is used to pay for:	Your Pharmacy	Top 25%
Inventory	34 days	37 days
Accounts Receivable	8 days	19 days
For a Total of:	42 days	56 days
Subtract Days Financed by Trade Creditors:	6 days	15 days
Net Days in Working Capital Cycle	36 days	41 days

As shown above, your pharmacy's accounts receivable collection days are competitive with the top 25% of independent community pharmacies. The number of days it takes to turn inventory at your pharmacy is competitive with the top 25% of independent community pharmacies.

Your pharmacy's current ratio is currently within an acceptable range compared to other independent community pharmacies. The quick ratio for your pharmacy is currently within an acceptable range compared to other independent community pharmacies.

Analysis: Inventory Management

Current Prescription Inventory Turnover: 10.4

Your pharmacies prescription inventory turnover ratio is lower than the average for the top quartile of independent community pharmacy. By getting rid of excess inventory through better inventory management your pharmacy can improve it's cash flow and reduce inventory carrying costs.

$$\text{Targeted Inventory Turnover} = \frac{\text{Cost of Prescription Goods Sold}}{\text{Average Prescription Inventory}}$$

Using this formula we can determine an appropriate target inventory for your pharmacy.

$$\frac{\text{Your Cost of Rx Goods Sold}}{\text{Targeted Inventory Turnover}} = \frac{\$2,800,150}{11.5} = \$243,491$$

Using this formula we can determine how much excess inventory is currently being held.

Your Average Prescription Inventory	\$270,000
Subtract Targeted Inventory	\$243,491
Excess Inventory	\$26,509

This excess inventory could represents what otherwise could be cash on hand or money to be reinvested into your pharmacy. Inventory management can be improved through better forecasting, monitoring sales patterns to determine optimal timing for purchasing products, and through finding ways to increase demand for your pharmacy to increase sales.

Analysis: Financial Position

Sales to Assets Ratio for Your Pharmacy
5.57

Sales to Assets Ratio for Top 25%
5.19

Return on Investment for Your Pharmacy
84.7%

Return on Investment for Top 25%
45.8%

Debt to Worth Ratio for Your Pharmacy
0.58

Debt to Worth Ratio for Top 25%
0.3

Net Worth as a % of Assets for your Pharmacy
64.1%

Net Worth as a % of Assets for Top 25%
63.6%

Your assets are currently more productive than the average for the top quartile of independent community pharmacies. This means that your pharmacy is generating a high level of sales for each dollar invested in assets. This may indicate that your pharmacy has reached its capacity given your current equipment and inventory management, and that you may need to reinvest.

Return on Investment is optimized by having a healthy value for net worth while maximizing profits for the pharmacy.

Your pharmacy had a good return on investment when compared to the top 25%.

Analysis: Productivity

Staff Costs as a Percentage of Sales for Your Pharmacy

10.2%

Staff Costs as a Percentage of Sales for Top 25%

7.7%

Staff costs as a percentage of sales are high when compared to the top quartile of independent community pharmacies. Please compare what you are currently paying your employees to the industry standard wages below.

Corresponding Wages

Job Title	Your Pharmacy	Average Independent Community Pharmacy
Staff Pharmacist	\$45.00	\$49.60
Pharmacy Technician	\$12.00	\$12.88
Clerk/Cashier	\$9.00	\$8.85

Your pharmacy's sales per employee are lower than the median when compared to the top quartile of independent community pharmacies. This indicates that it might be beneficial to invest in workflow technologies that can increase productivity and/or that your pharmacy may be operating with excess staff given your pharmacies existing sales. Given the staff costs as a percentage of sales and value of sales per employee, it may also be beneficial to reevaluate staff scheduling based upon high traffic days and times.

	Your Pharmacy	Top 25%
Prescription Sales per Square Foot	\$7,408	\$3,855
Other Sales per Square Foot	\$250	\$70
Total Sales per Square Foot	\$3,003	\$2,500

Analysis: Cost of Dispensing

Direct Costs Associated with Dispensing Prescription Drugs

Store Supplies, Vials, Containers and Labels	\$7,000
Delivery Service, Office Postage and Auto Expense	\$17,000
Pharmacy Computer Expenses	\$11,000
Total Direct Costs	\$35,000

Indirect Costs Associated with Dispensing Prescription Drugs

Salaries and Wages	\$400,000
Payroll Taxes and Employee Benefits	\$100,000
Advertising	\$14,000
Business Insurance	\$14,000
Office Postage	\$6,000
Rent	\$20,000
Utilities and Telephone	\$7,000
All Other Operating Expenses	\$97,000
Total Indirect Costs	\$658,000

Percent of Indirect Costs Allocated to Prescription Sales 94.9%

Allocated Indirect Costs \$624,291

Total Cost of Dispensing for Fiscal Year \$659,291

Divide by Number of Prescriptions Filled 55,000

Equals Cost of Dispensing per Prescription for Your Pharmacy \$11.99

Cost of Dispensing by Region

Northeast Region	\$12.98
Southeast Region	\$10.64
East-Central Region	\$10.66
West-Central Region	\$10.59
West Region	\$13.48

Analysis: Break Even

Taking the fixed costs and variable costs for your pharmacy, it is possible to determine the minimum level of sales that your pharmacy would need in order to break even. This minimum value represents what your pharmacy needs to achieve before it can begin making a profit. Through an understanding of how fixed costs and variable costs affect your breakeven point makes it easier to understand how decisions regarding adding or cutting costs, changing prices or adding capacity will influence the profitability of your pharmacy.

For this analysis, we assumed that the following are variable expenses for your pharmacy:

Cost of Goods Sold	\$2,940,150
Store Supplies, Containers and Labels	\$7,000
Delivery Service and Office Postage	\$17,000
Staff Costs	\$500,000
Total Variable Costs	\$3,464,150

Your margin on each dollar of revenue is therefore:

Sales	\$3,904,050	
Minus Variable Costs	\$3,464,150	
Equals: Contribution Margin	\$439,900	or 11 cents for every \$1

This contribution margin represents what is left over after every \$1 of sales that can go towards paying off fixed costs and to provide profit for the pharmacy. Raising the contribution margin would require reducing variable costs for the pharmacy.

Fixed Costs for your Pharmacy: \$52,000

Fixed costs divided by the contribution margin will equal the break even sales that your pharmacy would need to obtain before it can begin to make a profit.

$$\frac{\$52,000}{11\%} = \$461,492.61 \quad \text{Break Even Sales}$$

The above figure is your break even point, the minimum amount of sales needed for your pharmacy to become profitable."

Analysis: Profitability

	Your Pharmacy
Revenue from Sales	\$3,904,050
Cost of Prescriptions Sold	\$2,800,150
Cost of Other Goods Sold	\$140,000
Total Cost of Goods Sold	\$2,940,150
Gross Profit from Sales	\$963,900

Your cost of goods sold is higher than the top 25% of independent community pharmacies. This may be due to a high level of patients on Medicare Part D or other low paying third party coverage. Had your gross profit margin achieved the levels of the top 25% it would translate into additional gross profit of

\$27,729 in additional gross profit

Operating Expense Management

Operating Expenses as a Percentage of Sales for your Pharmacy
17.6%

Operating Expenses as a Percentage of Sales for top 25%
19.1%

Operating expenses as a percentage of sales is lower than the average for the top quartile of independent community pharmacies. This is a good sign. Every 1 percentage point that your operating expenses can be reduced would translate into an additional net income of:

\$39,041