

2009 NCPA Digest, sponsored by Cardinal Health Consulting Report

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Introduction

NCPA is currently collecting data for the publication of the 2009 NCPA Digest, sponsored by Cardinal Health. In September, once all data has been collected for the 2009 Digest, individualized consulting reports will be sent to all survey participants, based upon the data that they have submitted for the 2009 Digest.

What follows below is a sample of what such customized consulting reports will look like. Since this is a sample for public consumption, the following pages are based upon data for a hypothetical pharmacy.

Income Statement Snapshot*

	Average Pharmacy	Top 25%	Top 10%	\$2.5 M to \$3.5M
Sample Pharmacy				
Prescription Sales	92.4%	92.8%	95.2%	94.9%
Other Sales	7.6%	7.2%	4.8%	5.1%
Total Sales	100.0%	100.0%	100.0%	100.0%
Prescription Costs	72.5%	72.3%	72.0%	69.7%
Other Costs	4.7%	4.5%	2.6%	3.2%
Total Cost of Goods Sold	77.2%	76.8%	74.6%	72.9%
Gross Profit	22.8%	23.2%	25.4%	27.1%
Salaries and Wages	11.9%	11.8%	12.5%	12.7%
Payroll Taxes, Benefits	1.7%	1.9%	1.5%	1.3%
Total Payroll Expenses	13.6%	13.7%	14.0%	14.0%
Advertising	0.5%	0.5%	0.4%	0.3%
Insurance	0.4%	0.3%	0.3%	0.2%
Store Supplies	0.5%	0.5%	0.5%	0.5%
Delivery Services	0.2%	0.2%	0.2%	0.2%
Pharmacy Computer	0.3%	0.4%	0.4%	0.4%
Rent	1.2%	1.2%	0.8%	0.9%
Utilities	0.5%	0.5%	0.4%	0.4%
Other Expenses	2.8%	2.9%	2.1%	1.6%
Total Other Operating Expenses	6.4%	6.5%	5.1%	4.5%
Total Operating Expenses	20.0%	20.2%	19.1%	18.5%
Net Income	2.8%	3.0%	6.3%	8.6%

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

Balance Sheet Snapshot*

	Average Pharmacy	Top 25%	Top 10%	\$2.5 M to \$3.5M
Sample Pharmacy				
Cash	15.7%	15.5%	24.4%	22.8%
Accounts Receivable	23.0%	25.7%	19.9%	18.7%
Inventory	43.1%	37.3%	36.5%	43.9%
Other Current Assets	4.7%	3.7%	6.1%	8.8%
Total Current Assets	86.5%	82.2%	86.9%	94.2%
Net Fixed Assets	9.6%	11.5%	7.3%	5.2%
Other Assets	3.9%	6.3%	5.8%	0.6%
Total Assets	100.0%	100.0%	100.0%	100.0%
Notes Payable Within One Year	5.4%	8.7%	2.5%	3.6%
Accounts Payable	17.4%	15.8%	16.1%	12.4%
Other Current Liabilities	6.1%	8.1%	7.1%	4.3%
Total Current Liabilities	28.9%	32.6%	25.7%	20.3%
Notes Payable to Owners	9.5%	8.0%	7.7%	1.7%
Other Long Term Liabilities	9.0%	10.5%	3.0%	3.2%
Total Liabilities	47.4%	51.1%	36.4%	25.2%
Total Owner's Equity	52.6%	48.9%	63.6%	74.8%
Total Liabilities plus Owner's Equity	100.0%	100.0%	100.0%	100.0%

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

Benchmarking

Profitability	Sample Pharmacy	Average Pharmacy	Top 25%	Top 10%	\$2.5 M to \$3.5M
Gross Margin	22.8%	23.2%	25.4%	27.1%	22.8%
Payroll Expenses	13.6%	13.7%	14.0%	14.0%	13.3%
Operating Expenses	20.0%	20.2%	19.1%	18.5%	20.3%
Operating Profit	2.8%	3.0%	6.3%	8.6%	2.5%
Owner Discretionary Income as a Percentage of Sales	2.8%	X	X	X	X

Productivity

Sales Per Employee	\$255,945	\$423,718	\$465,806	\$503,025	\$308,671
Staff Costs per Employee	\$38,548	\$45,883	\$41,564	\$43,473	\$35,615
Prescription Sales per Square Foot	\$2,485	\$3,637	\$3,855	\$3,995	\$2,776

Financial Position

Sales to Assets	5.44	5.09	5.19	5.52	4.12
Return on Investment	29.0%	30%	45.8%	63.9%	19.7%
Debt to Worth	0.90	0.66	0.3	0.15	0.64

Cash Flow

Current Ratio	2.99	2.89	3.71	5.77	2.74
Quick Ratio	1.34	1.3	2.04	2.55	1.47
Inventory Turnover	9.7	9.8	9.9	10	9.5
Inventory Turn Days	37 days	37 days	37 days	36 days	38 days
Accounts Receivable Turnover	22.5	16.6	19.5	22.7	15.9
Accounts Receivable Collection Days	16 days	22 days	19 days	16 days	23 days
Accounts Payable Turnover	24.1	22.4	24.8	26.7	20.9
Accounts Payable Days	15 days	16 days	15 days	14 days	17 days

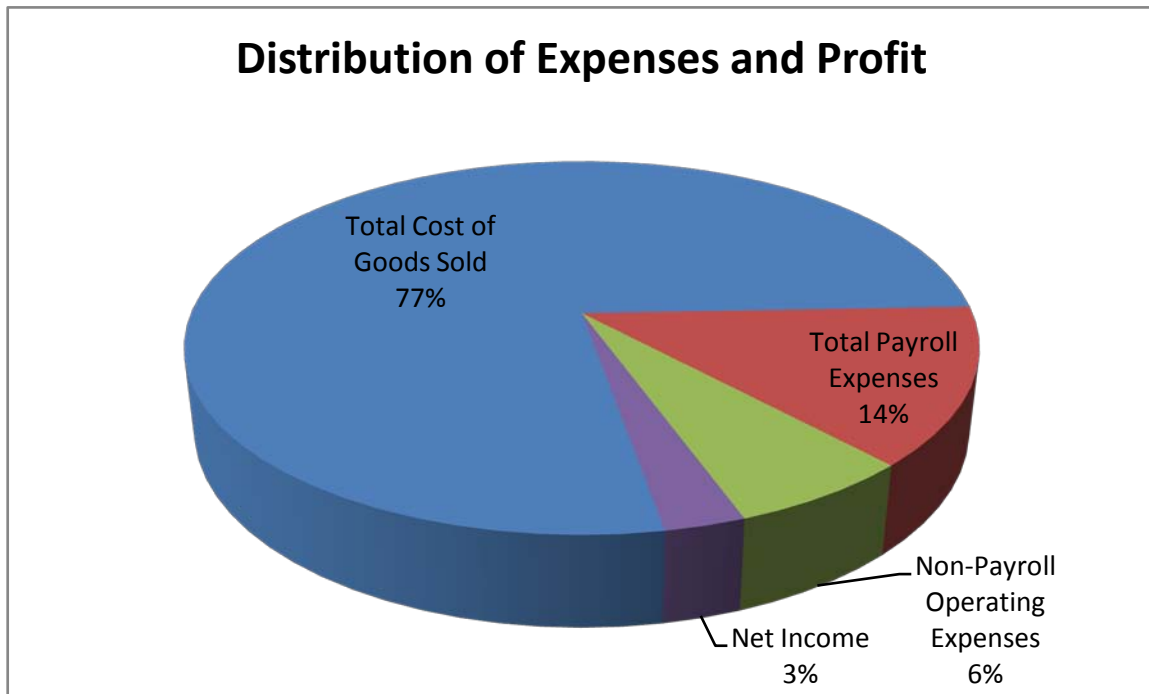
Drug Mix

Covered by Medicaid	15.0%	13.6%	16.5%	17.7%	12.0%
Covered by Medicare	24.0%	25.7%	25.7%	28.4%	26.7%
Covered by Other Third Party	52.0%	48.1%	43.5%	43.6%	47.6%
Cost of Dispensing	\$10.47	\$10.89	\$9.93	\$9.84	X

Profitability

Revenue from Sales	Sample Pharmacy \$3,429,664
Cost of Prescriptions Sold	\$2,486,506
Cost of Other Goods Sold	\$161,194
Total Cost of Goods Sold	\$2,647,700
Gross Profit from Sales	\$781,964

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 covered under low paying third party reimbursement plans, or due to an inability to acquire prescription drugs as cheaply as other pharmacies. Had your gross profit margin achieved the levels of the top 25% it



Operating Expense Management

Operating Expenses as a Percentage of Sales for Sample Pharmacy
20.0%

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

Operating expenses as a percentage of sales are higher than the average for the top quartile of independent community pharmacies. It may be worthwhile to try and reduce fixed and variable costs. Had your operating expenses been reduced to the average for the top 25%, it would have translated into an increase in net income of: \$30867

Productivity

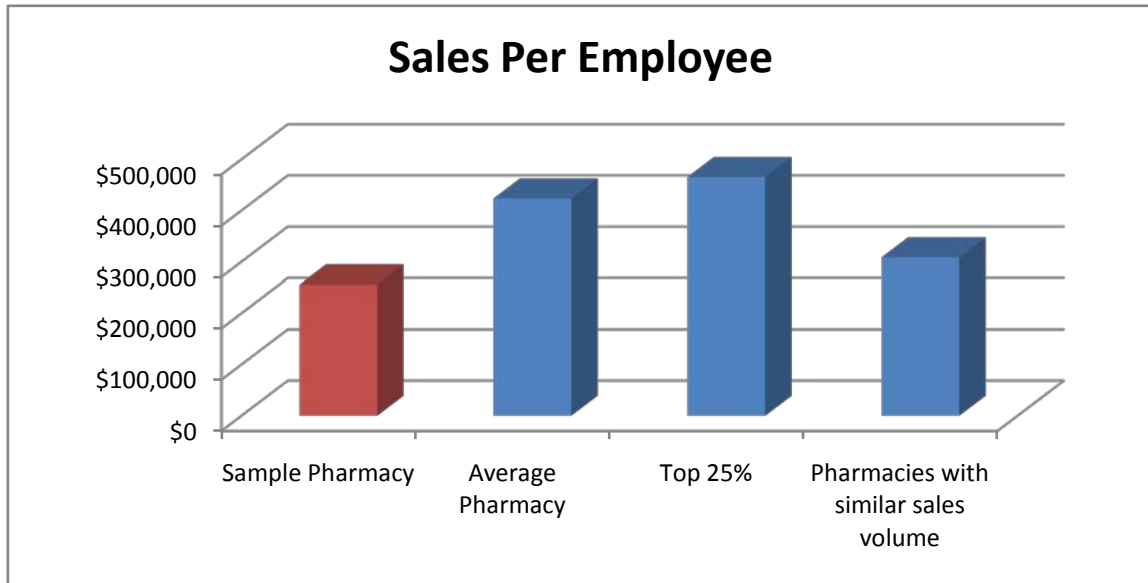
Staff Costs as a Percentage of Sales for
Sample Pharmacy
13.6%

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. A comparison of the wages offered at your pharmacy is provided below next to the wages offered by the average independent community pharmacies.

Job Title	Corresponding Wages	
	Sample Pharmacy	Average Independent Community Pharmacy
Staff Pharmacist	\$47.04	\$49.60
Pharmacy Technician	\$12.51	\$12.88
Clerk/Cashier	\$9.05	\$8.85

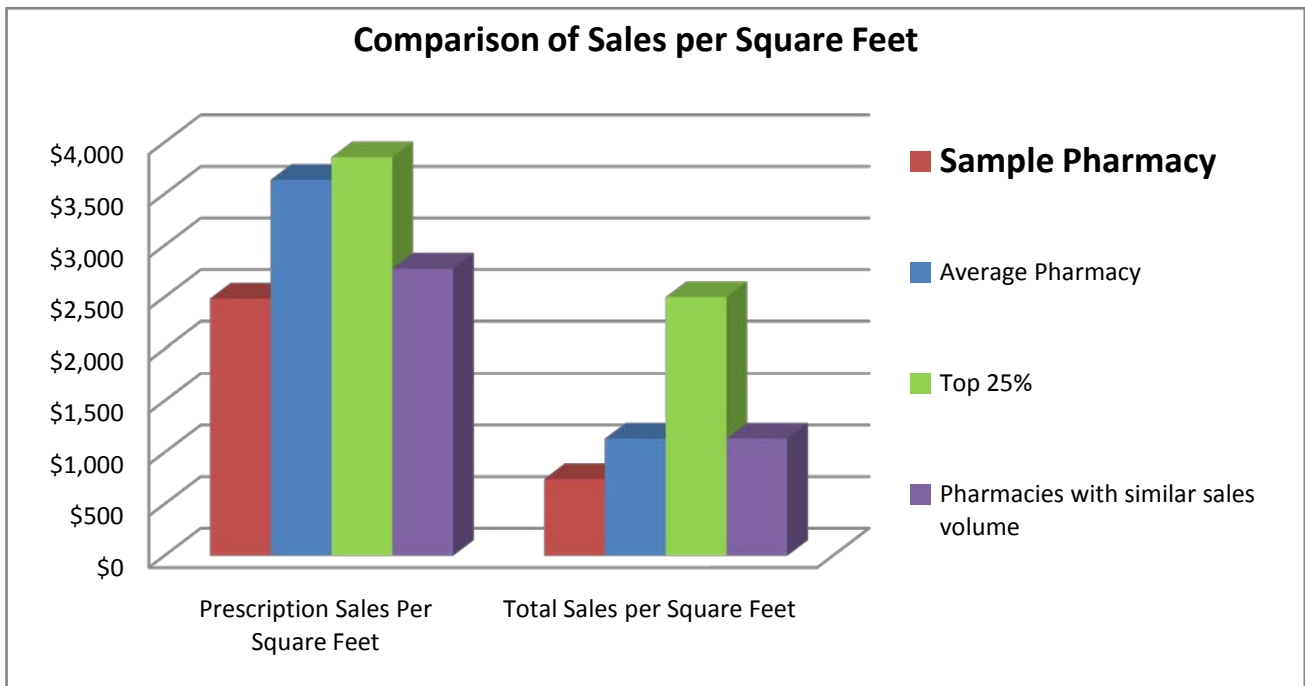
To understand the productivity of the employees involved in operations, it is worthwhile to look at total sales per full time employee involved in operations. A graphical comparison for your pharmacy is provided below.



	Sample Pharmacy	Average Pharmacy	Top 25% of Pharmacies	Pharmacies with \$2.5 M to \$3.5M in Sales
Sales Per Employee	\$255,945	\$423,718	\$465,806	\$308,671
Staff Costs Per Employee	\$38,548	\$45,883	\$41,564	\$35,615

Productivity Continued

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 existing sales. Given the relatively low level of staff costs as a percentage of sales and low volume of sales per employee, it may be beneficial to provide additional incentives for increased productivity among staff.



	Sample Pharmacy	Top 25%
Prescription Sales per Square Foot	\$2,485	\$3,855
Other Sales per Square Foot	\$78	\$70
Total Sales per Square Foot	\$742	\$2,500

Cash Flow

Cash is used to pay for:	At Sample Pharmacy	Top 25%	Top 10%
Inventory	37 days	37 days	36 days
Accounts Receivable	16 days	19 days	16 days
For a Total of:	53 days	56 days	52 days
Subtract Days Financed by Trade Creditors:	15 days	15 days	14 days
Net Days in Working Capital Cycle	38 days	41 days	38 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 too low when compared to the top quartile of independent community pharmacy. A low current ratio can cause liquidity problems. A look at the quick ratio for your pharmacy suggests that it is too low when compared to the top quartile of independent community pharmacies. A low quick ratio can cause liquidity problems as well.

Inventory Management

Current Prescription Inventory Turnover 11.7

Your pharmacy's prescription inventory turnover is lower than the average for independent community pharmacies.

Quality inventory management depends upon the ability of the pharmacy to reduce costs associated with ordering inventory, and to minimize costs associated with carrying inventory; while at the same time keeping inventory levels at an adequate level to prevent out of stocks. Out of stocks occur when a patient attempts fill a prescription drug that the pharmacy does not have in stock at that moment, and can lead to lost future business as such patients may choose to spend their time at a competing pharmacy. Inventory levels should therefore be set based upon the preferences of the pharmacy owner, in regards to the number of out of stocks the pharmacy is willing to risk in order to free up cash for the pharmacy through lower inventory levels.

Typically, most pharmacies with a similar sales volume carry an average prescription inventory level of between \$177,401 and \$215,876

The formula below can be used to determine the average inventory needed to increase your prescription inventory turnover to the same level as the independent community pharmacy.

$$\frac{\text{Your Cost of Rx Goods Sold}}{\text{Targeted Inventory Turnover}} = \frac{2,486,506}{12.1} = \$205,496$$

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

Your Average Prescription Inventory	\$212,522
Subtract Targeted Inventory	\$205,496
Excess Inventory	\$7,026

This excess inventory represents what otherwise could be cash on hand or money to be reinvested into your pharmacy. Through better forecasting and monitoring sales patterns it is possible to improve inventory management by determining the optimal timing and volume for purchasing products.

Financial Position

Sales to Assets Ratio for Sample Pharmacy
5.44

Sales to Assets Ratio for Top 25%
5.19

Return on Investment for Sample Pharmacy
29.0%

Return on Investment for Top 25%
45.8%

Debt to Worth Ratio for Sample Pharmacy
0.90

Debt to Worth Ratio for Top 25%
0.3

Net Worth as a % of Assets for Sample Pharmacy
52.6%

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 could 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 low return on investment when compared to the average for the top 25% of independent community pharmacies. Your pharmacy though, has a low net worth, which could be due to high debt or high risk, both of which are unfavorable results that should be addressed.

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 break even 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	\$2,647,701
Store Supplies, Containts and Labels	\$13,719
Delivery Service and Office Postage	\$10,289
Staff Costs	\$466,434

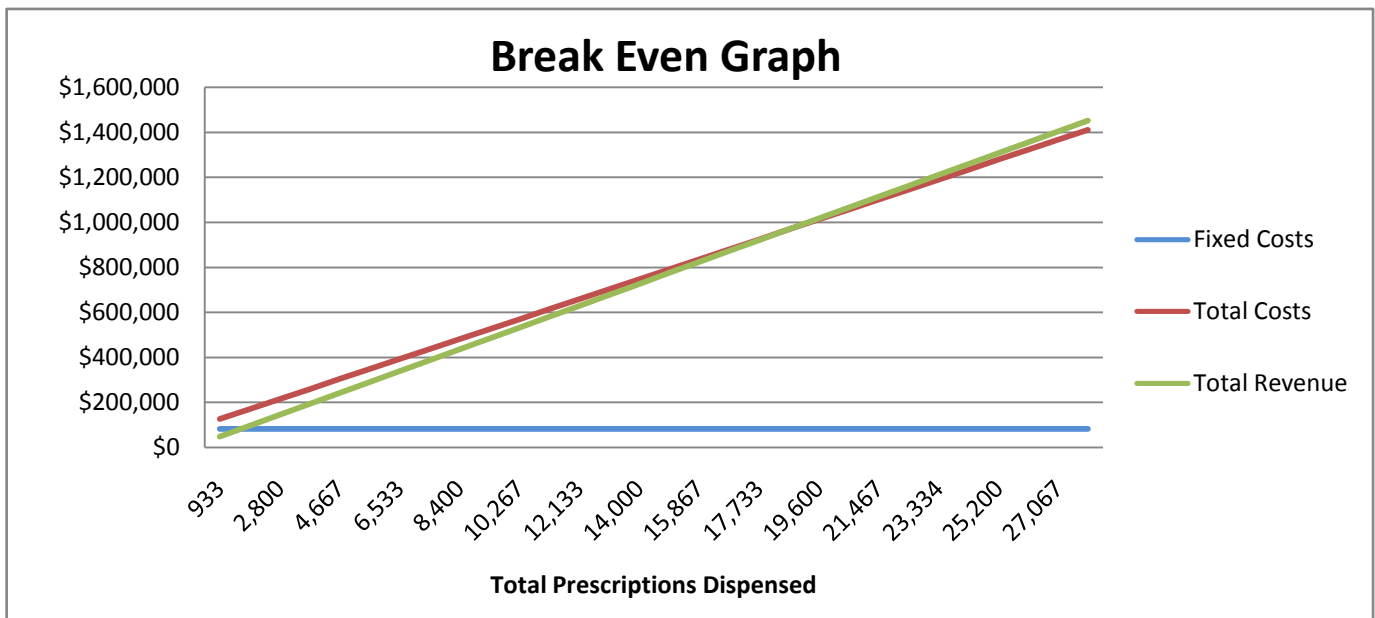
Total Variable Costs	\$3,138,143
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Your margin on each dollar of revenue is therefore:

Sales	\$3,429,664
Minus Variable Costs	\$3,138,143

Equals: Contribution Margin	\$291,521	or 8 cents for every \$1
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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, or by raising prices. A break even graph is provided below demonstrating the minimum amount of sales needed for the pharmacy to become profitable. The blue line represents fixed costs and remains constant as fixed costs are not tied to the volume of prescriptions dispensed. The red line represents total costs which increases along with total revenue, as total costs include both variable and fixed costs. Where the green line (total revenue) is greater than total costs (red line) is where the pharmacy becomes profitable.



Break Even Continued

To calculate the break even sales for your pharmacy, you must take the fixed costs for your pharmacy and then divide by the contribution margin. This will equal the minimum volume of sales needed to break even considering the current marginal costs associated with operating your pharmacy.

Fixed Costs for Sample Pharmacy: \$82,312

$$\frac{\$82,312}{8\%} = \$968,377.93 \quad \text{Break Even Sales}$$

Lowering your break even point can only occur by either reducing the fixed costs for your pharmacy, or by reducing your variable costs associated with dispensing prescription drugs.

To put the variable costs at your pharmacy into context, the contribution margin for your pharmacy is compared to the average contribution margin for other pharmacies.

	Sample Pharmacy	Average Pharmacy	Top 25%	Top 10%	Pharmacies with similar sales volume
Contribution Margin	8%	9%	11%	12%	8.8%

Reducing your fixed costs by 1% would reduce your break even sales needed by \$9,684

Reducing your variable costs by 1% either through lower acquisition costs for prescription drugs or by reducing operating expenses would lower your break even sales needed by \$94,112

Cost of Dispensing

Direct Costs Associated with Dispensing Prescription Drugs

Store Supplies, Vials, Containers and Labels	\$13,719
Delivery Service, Office Postage and Auto Expense	\$10,289
Pharmacy Computer Expenses	\$10,289
Total Direct Costs	\$34,297

Indirect Costs Associated with Dispensing Prescription Drugs

Salaries and Wages	\$408,130
Payroll Taxes and Employee Benefits	\$58,304
Advertising	\$17,148
Business Insurance	\$13,719
Office Postage	\$3,430
Rent	\$41,156
Utilities and Telephone	\$17,148
All Other Operating Expenses	\$96,031
Total Indirect Costs	\$655,066

Percent of Indirect Costs Allocated to Prescription Sales 92.4%

Allocated Indirect Costs \$605,281

Total Cost of Dispensing for Fiscal Year \$639,578

Divide by Number of Prescriptions Filled 61,087

Equals Cost of Dispensing per Prescription for Sample Pharmacy \$10.47

