

Pharmacy Matters

DRIVING LIFELONG PROSPERITY

Autumn 2018

SPOTLIGHT ON THE MARKET



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Our update on the market

The pharmacy market has now experienced a full year of cuts in NHS funding and many pharmacies have struggled in this period. Pharmacies have suffered a further reduction in cash flow with the clawback of buying margin through a reduction in the Category M funding, effective from August 2017.

A summary of the reductions in funding is below.

HISTORY OF THE CUTS IN GLOBAL FUNDING AND CATEGORY M CLAWBACK

GLOBAL FUNDING REDUCTION (permanent)



CATEGORY M REDUCTION (temporary)



How to increase profits and fight the cuts

Set out below are some ways you can potentially improve the profit of your pharmacy:

- 1 Increase the number of items dispensed;
- 2 Reduce the cost of buying pharmaceutical products;
- 3 Increase or offer different services;
- 4 Reduce staff costs; or
- 5 Reduce administrative expenses.

1 INCREASE THE NUMBER OF ITEMS DISPENSED

To increase the number of items dispensed by the pharmacy, you may want to consider the following:

- Introduce or increase the delivery service;
- Consider dispensing to local care homes;
- Create a targeted advertising/marketing plan; and
- New housing estates – any new housing developments should be actively marketed to.

2 REDUCE THE COST OF BUYING PHARMACEUTICAL PRODUCTS

The main cost to a pharmacy, other than wages and salaries, is the cost of pharmaceutical and retail products; if you have not already done so, you should review your purchasing to ensure that you are receiving the best deal.

Impact on pharmacy profits

The reduction in funding has impacted the price paid to pharmacies for the items dispensed. As shown in Table 1 below, the average price per item has decreased significantly.

A reduction in price paid per item has reduced turnover which has led to a reduction in gross profit margin. We have seen reductions in gross profit margin between 1% and 6%. The example in Table 2 opposite shows the impact of the reduction in gross profit margin for a small, standard hour pharmacy.

Pharmacies with low turnover levels are now struggling to survive, especially where they are having to repay bank finance following the acquisition of a pharmacy. Table 3 below shows the full reduction in profit before interest and tax for the small pharmacy example used previously in Table 2.

The reduction in profits has led to a number of pharmacies closing in the last six months, whilst other owners are now considering whether to sell their pharmacy.

TABLE 1 – Average item value

Month	2017/18 NHS year £	2016/17 NHS year £	Movement %
April	8.78	9.36	(6.24)%
May	8.87	9.35	(5.13)%
June	9.08	9.21	(1.47)%
July	9.13	9.23	(1.04)%
August	8.90	9.11	(2.34)%
September	8.99	9.16	(1.85)%
October	8.96	9.20	(2.56)%
November	8.88	9.19	(3.38)%
December	8.72	8.85	(1.45)%
January	8.63	8.78	(1.69)%
February	-	8.80	-
March	-	8.77	-

TABLE 2 – Reduction in gross profit margin (small pharmacy)

	Before Cuts £	Min reduction in GP % (1%) £	Max reduction in GP % (6%) £
Turnover	500,000	492,647	458,904
Cost of Sales	(335,000)	(335,000)	(335,000)
Gross Profit	165,000	157,647	123,904
GP %	33%	32%	27%

N.B. Assumed no reduction in cost to purchase the pharmaceutical products.

TABLE 3 – Reduction in profit before interest and tax (small pharmacy)

	Before Cuts £	Min 1% Reduction £	Max 6% Reduction £
Turnover	500,000	492,647	458,904
Cost of sales	(335,000)	(335,000)	(335,000)
Gross profit	165,000	157,647	123,904
Administration expenses	(115,000)	(115,000)	(115,000)
Net profit before interest and tax	50,000	42,647	8,904

N.B. Assumed no reduction in cost to purchase the pharmaceutical products.

Our clients who give a significant amount of time to purchasing have seen the best results; however, if you are in a busy pharmacy, you may not be able to give the time needed and therefore may want to consider: buying groups, systems that review prices and order the cheapest product, or employing someone to perform the buying function.

3 INCREASE OR OFFER DIFFERENT SERVICES

Most pharmacies are now performing the maximum amount of Medicine Use Review "MUR" (400 per annum) and are increasing the amount of "New Medicine Service" NMS performed. If possible it is recommended that you perform the maximum and these services can provide vital additional income.

Some pharmacies are now offering private services such as:

- Flu vaccinations
- Travel clinics
- Health check-ups

If time allows, you may want to consider offering services to local businesses such as on-site flu vaccinations, subject to the relevant training and authorisation.

The ability to offer additional services may be restricted due to the location of the pharmacy, geographically and physically. The demographic of the local area may mean that people are not willing or able to pay for services; if the pharmacy is situated within a doctor's surgery, you may be restricted to what services you can offer as the surgery may already be providing these services.

4 REDUCE STAFF COSTS

A full review of staffing levels should be performed to ensure that staff are being used to their maximum. You may be required to change staff hours and the days they work to ensure they are at the pharmacy when needed.

Once this has been performed, you may have spare staff hours that you can utilise in other areas. This can include the purchasing function highlighted above or offering additional services. Alternatively, you may choose to reduce staff, however, there is a cost to do so in redundancy pay and it can also have a significant impact on staff morale.

5 REDUCE ADMINISTRATIVE EXPENSES

From our experience, pharmacy owners keep good control over overheads; however, if you have not reviewed controllable overheads such as insurance, light and heat and telephone, we would recommend that you contact your suppliers to ensure that you have the best deal.

The overall feeling from the market is that pharmacy owners are having to work harder for the same or less money; however, by implementing the above strategies, you may be able to improve the profit of your pharmacy.

If you would like to discuss any of the above in more detail, please contact Richard Medes, Associate Director in the Pharmacy team.



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