

Pharmacy Focus

DRIVING LIFELONG PROSPERITY

Autumn 2019

SPOTLIGHT ON THE MARKET



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Market update

The market continues to be active and has continued to be fuelled by acquisitive independent contractors (including first time buyers) and more recently new corporate acquirers.

The large corporate operators such as Lloyds and Rowlands have continued to rationalise their portfolio as they look to sell and close branches that are not profitable or strategically are no longer required.

The continued downward pressure on dispensing income (see new contract opposite) and large overhead costs such as rent, rates and staff has led to many branches becoming unprofitable. The large corporates have changed their long-term strategy and have looked to centralise dispensing, which reduces the need for several branches in close

proximity to each other. Under this plan, the majority of patients will either receive their medication directly to their house or will pick it up from a centralised branch.

The improvement in technology, change in society in relation to products being delivered and patients being charged for delivery has meant that centralised dispensing is now more achievable.

The change in strategy of the larger corporates has led to more pharmacies being on the market and with the right plan the pharmacies can be a great opportunity for buyers.

New contract

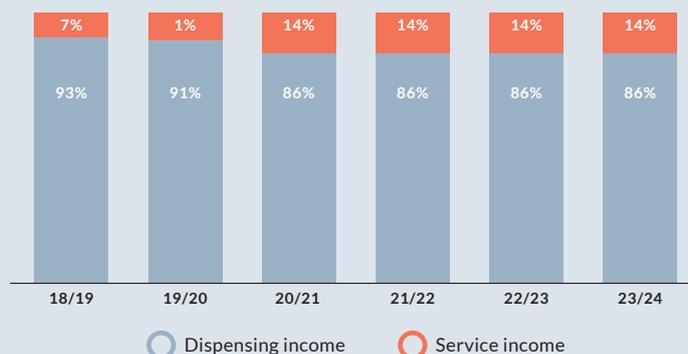
The new pharmacy contract did not bring any great surprises in that further funding was put towards services and continued downward pressure on dispensing income. However, the new contract has brought stability for the next five years with guaranteed funding of £2,592 million and new challenges for the pharmacy sector.

It is important that pharmacies take up the challenge of the new services in the contract and demonstrate to the government that pharmacy is vital in delivering healthcare solutions in the community. The fear of not meeting this challenge will be lost income and a potential cut in funding after the 5 years.

In order to understand the new pharmacy contract over the next 5 years, we have split the funding between dispensing related income and service income in this focus.

As can be seen above, dispensing income initially decreases (following the loss of the establishment payment) and then stagnates from 2020/21, based on the initial allocation of the funding.

SPLIT OF FUNDING



*Please note that the establishment fees and pharmacy access scheme have been assumed to be dispensing income.

However, over the life of the 5 year contract the split in funding is expected to change. There will be several changes throughout this period as new services are commissioned and other funding discontinued. A summary of key review dates is below:

FEE TYPE	REVIEW DATE
Establishment payments	Expected to cease 2020/21.
Single activity fee	Year on year review. This is discussed in further detail below.
Retained medicine margin	Expected to remain consistent throughout.
Other dispensing activity related payments	Expected to remain consistent throughout.
Pharmacy quality scheme	The criteria will change, but the funding is expected to remain consistent.
Pharmacy access	The pharmacy access scheme will be reviewed on 1 April 2020.
NMS	The areas covered by NMS may change over the 5-year period but again the funding is expected to remain consistent.
NHS community pharmacist consultation service	Funding will increase over the 5 years, depending on the success of the service.
Hepatitis C vaccinations	Initial funding has been allocated up to 1 April 2021 and will be subject to review at this point.
Unallocated service funding	This will be used to fund difference services over the 5-year period.

SINGLE ACTIVITY FEE

The single activity fee is expected to be reviewed throughout the life of the contract with any reduction expected to be transferred to service income rather than reallocated to dispensing income.

The most likely source for a reduction in the single activity fee will come from an elimination of seven day dispensing where it is not considered to be necessary and the removal of non-essential items on prescriptions such as over the counter products.

PHARMACY ACCESS SCHEME

With the increase in centralised dispensing and delivery of prescription items to the patient, it would not be surprising to see this income reduced, with any reduction in income being allocated to services. The reduction, if any, is likely to come via a way of a change in criteria, with only the pharmacies that other pharmacies cannot easily reach the patients benefiting.

Centralised dispensing/ Hub and spoke

The actual reduction in dispensing income is not set out in the contract as the funding over the five years of the contract does not appear to take into account price inflation of medication or any increase in items dispensed, which may come after the potential reduction items highlighted above.

The reduction in dispensing income has led to the larger corporates to find efficiencies in dispensing and this is through centralising dispensing. Centralising the majority of the dispensing will save costs in relation to staff and premises (such as rent and rates), as fewer branches will be required. Also, if patients are charged for delivery, the cost of delivering the medicine will also be removed.

Effectively the remaining branches of the larger groups will become collection points, deliver urgent medicines, deliver service element of the contract and provide private services.

So, what does this mean for the independent contractors and smaller groups and what can they do?

We would recommend that a strategic review is performed on each pharmacy that you own to cover the following areas:

Review of contract requirements: Review the five-year contract and assess how are you going to meet the requirements of the contract?

Source of prescriptions and long-term trend: What is the source of my prescription items and will the items increase or decrease over time?

Demographic: What is the local demographic and what are the health requirements?

Barriers: What are the barriers to me delivering the services to meet the local health needs, whether through NHS or private services and how can these be removed?

Efficient utilisation of space: Is the dispensary set out in the most efficient manner?

Alternative use of Space: Are you making the most of your retail space? Could the space be better used for consultancy rooms or could any area of the building be let out.

Non – profitable branches: If you own more than one branch are there any branches that are not profitable. If they are not profitable, why is this and can the position be realistically improved.

Utilisation of branches: Where branches are not profitable, could this be served by another branch that you own?



Following the strategic review, summarised below are points that you may wish to action or strengthen:

Model of dispensing: With funding decreasing, pharmacies need to look at being more efficient at dispensing and reducing their cost base. This could be adopting similar models to larger corporates (i.e. hub and spoke) but on a smaller scale for smaller groups. For single operators it will be interesting to see what happens with legislation to enable smaller operators to adopt this model.

Technology: Where possible, operators should utilise technology to drive efficiency as well making it convenient for patients to interact with the pharmacy. By doing this it should at least help protect you from losing patients to larger operators.

Customer service: Many independent contractors deliver a customer service that can not be matched by larger operators. Customer service will be a key differential and should not be compromised due to income decreasing.

Training: Investment in staff is essential in freeing up the pharmacist time so that the delivery of the new service elements can be performed. Staff should also be trained to identify patients that can benefit from the services.

Other revenue streams: Pharmacies will need to adopt and perform the new services in contract as quickly as possible. Pharmacies should also consider offering private services to patients depending on the local demographic and health needs. Working with other local health professionals should become normal practice and will lead to additional services being performed.

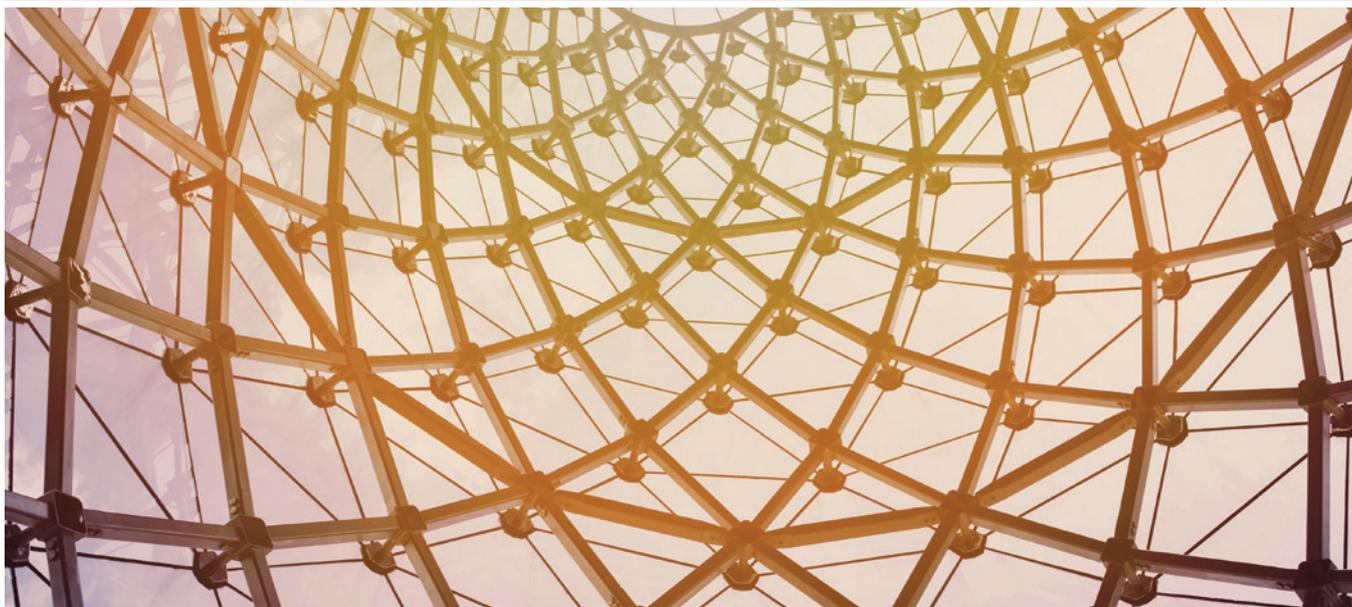
Delivery service/closure of branches: As large corporates start to charge for delivery, independents should consider increasing advertising of their free delivery service in order to gain additional patients in the short term. Eventually you would expect the whole market to charge for delivery once it becomes normal practice.

If a large corporate is closing a branch you should consider targeting patients in that area even if you can only offer a delivery service as you may be able to gain a share of the market and significantly grow items without significant capital investment.



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If you would like to discuss the point raised in this focus, please contact Richard Medes a director in our pharmacy team.



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