2020 NCPA Community Pharmacy Start-up

BENCHMARKING REPORT

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NATIONAL COMMUNITY PHARMACISTS ASSOCIATION

INDEPENDENT PHARMACIES ACTING AS ONE
COMPLIANT PHARMACY ALLIANCE COOPERATIVE

NCPA Community Pharmacy Start-up Benchmarking Report, *sponsored by Compliant Pharmacy Alliance*

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Introduction

This publication is the third edition of the benchmarking report for pharmacy start-ups published by the National Community Pharmacists Association, *the Voice of the Community Pharmacist®*.

Prior to this report, start-up pharmacies had virtually no benchmarking data on comparable pharmacies needed to make financial projections and compare progress against other start-up pharmacies. For numerous reasons, pharmacies operating for five or more years perform at significantly different quantitative levels than new pharmacies and thus do not produce reasonable comparative tools for benchmarking purposes. Measures such as sales volume are significantly impacted by the longevity of the business, which impacts other measures such as total sales and number of full- and part-time employees hired. For these reasons it is imperative that start-up pharmacies have access to benchmarking data from their peers. This report is the only resource available that provides such data.

In a world of low prescription drug margins and excessive DIR fees, it is important that start-up pharmacies develop strategies for diversifying their revenue from the get-go. Offering specialized services tailored to the health care needs of their patients allows start-up pharmacies to grow as small businesses while demonstrating their value as health care providers. Specialized services might include point-of-care testing, compounding, adherence programs, and disease state management programs. A new innovation in the industry is that community pharmacists have formed clinically integrated networks of pharmacy providers – known as CPESN® USA – to forge even stronger relationships with patients and their physicians. CPESN network pharmacies provide the integrated care and enhanced services that improve overall patient care, especially those with complex, chronic illnesses.

Medicare and Medicaid continue to comprise over 50 percent of independent pharmacies' prescription business, and this number will rise as members of the Baby Boom generation become eligible for Medicare and states that have yet to expand Medicaid choose to do so. Over 40 percent of the remaining independent prescription business is generated from other third-party contracts. With over 90 percent of prescription sales coming from government or private third-party contracts, a pharmacy's keen understanding of these programs and the contracts they offer is imperative for a start-up business to survive.

NCPA's longstanding series of Ownership Workshops continues to provide expert guidance to entrepreneurs desiring to open their first pharmacy, to chain pharmacists looking to be their own boss, and to current pharmacy owners interested in becoming a multi-store owner. Until this publication, there was limited data on those critical first years of business to incorporate with the techniques and business tools introduced to prospective and new pharmacy owners at the workshops. Another great resource for entrepreneurs is provided by NCPA's popular front-end guru and Senior Director of Store Operations and Marketing, Gabe Trahan. In his book, *Gabe's Favorite Tips*, he has compiled an extensive collection of tips and suggestions that experience tells him are the most important contributors to pharmacy success outside of the prescription department.

For the third year, NCPA has surveyed start-up pharmacies from around the country that have been open five years or fewer to accumulate this vital benchmark information specific to new businesses. We are proud to provide you with this third edition of the NCPA Community Pharmacy Start-up Benchmarking Report, sponsored by Compliant Pharmacy Alliance.

Methodology

Survey participants consisted of pharmacy owners or their designees representing pharmacies that began from scratch and have been in business for more than one year but no more than five years. NCPDP data was used to identify pharmacies that have been in business five or fewer years. NCPA invited these pharmacies to participate in the survey via an email campaign. Participants were provided the option of filling out an online version of the survey or completing a hard copy version. The survey closed on Sept. 30, 2019.

NCPA performed basic procedures to test completeness and accuracy of all surveys submitted. Of the surveys submitted, 145 had data that could be used in the analysis. Averages across measures were calculated and are presented in the tables that follow. The first edition of this survey collected data from fiscal year 2010 through fiscal year 2014, while the second edition survey collected data from fiscal year 2011 through 2016. The third edition survey for this publication collected data from fiscal year 2014 through fiscal year 2018. When possible, data from across surveys were combined to generate results for this study.

NCPA has exercised the utmost professional care in compiling the information received. While we have tested the information for clerical accuracy, the data supplied were not necessarily based on audited financial statements. NCPA does not make any assurances, representations, or warranties with respect to the data upon which the contents of this report were based. The information is provided for general education and information purposes only and is not an endorsement or recommendation by Compliant Pharmacy Alliance or NCPA of any of the featured products or services. Although the content is based on reliable sources, the sources have not been fully examined or updated. Thus, neither Compliant Pharmacy Alliance nor NCPA warrant that the information presented is accurate, current, or applicable for a particular use and accepts no responsibility or liability with respect to such information.

Pharmacy Landscape

The NCPA Community Pharmacy Start-up Benchmark Report, sponsored by Compliant Pharmacy Alliance, provides an overview of start-up pharmacies and presents trends going back five years. The tables that follow include information regarding demographic characteristics such as community size and how pharmacies self-identify. Patient care and progressive niche services such as point-of care testing, long-term care services, and collaborative drug therapy management offered by start-up pharmacies are present. Financial information such as prescription drugs sales, cost of goods sold, and gross profit are provided for each year of business and financial ratios such as current and quick ratios and prescription inventory turnover are measured across all pharmacies that provided data.

Demographic Characteristics

Tables 1 through 4 provide demographic characteristics of start-up pharmacies that have been in business five or fewer years. One of the first major decisions a start-up pharmacy may have to make is where to locate their pharmacy. Retail locations are available in many different forms, and each location has its own advantages and disadvantages. Picking the right location may mean the difference between the success or failure of start-up pharmacy. A shopping center storefront may have ample parking but also have size restrictions on the pharmacy's roadside sign. The ground floor of a medical office building may offer proximity to prescribers, but that doesn't guarantee referrals or collaborative practice activities. A growing trend that pharmacy owners have found profitable is to choose a location that has access to a drive-thru window. A pharmacy drive-thru window allows for fast and efficient dispensing, caters to patients with limited mobility such as parents with children, and reduces parking problems.

Table 1: Pharmacy Practice Settings	
Within a shopping center or strip mall	38%
Stand-alone community pharmacy or in downtown block	36%
Within a medical office building	13%
Within a clinic	6%
Within a grocery store	4%
Other	3%

Thirty-eight percent of the sampled start-up pharmacies choose to operate in a shopping center, with an additional 36 percent choosing to operate as a stand-alone community pharmacy (Table 1). Thirteen percent operate within a medical office and another 13 percent operate within a clinic, grocery store, or some other location setting. Picking the right location will depend on your community, budget, and the services your pharmacy plans to provide.

Table 2 shows how pharmacy owners self-identified the stores that they operate. The survey doesn't capture why owners choose one type over another, but an overwhelming majority open full-line pharmacies with prescription drugs, OTCs, first aid, and other offerings like gifts and greeting cards. A small number of start-ups opened an apothecary with a small front-end space, and the remainder of new owners started niche pharmacies such as compounding, telepharmacy or specialty. It is not uncommon for a full-line pharmacy, after becoming profitable and understanding the unmet healthcare needs of their community, to grow their business by opening up a niche pharmacy.

Table 2: Pharmacies Primary Business	
Full-line pharmacy	85%
Apothecary	6%
Compounding	4%
LTC	2%
Specialty	2%
Telepharmacy	1%

Eighty-five percent of sampled pharmacies operate a full-line pharmacy with an additional six percent operating an apothecary. Nine percent of sampled pharmacies opened a niche pharmacy. Of these pharmacies, four percent started a compounding pharmacy, and two percent opened a pharmacy focusing on long-term care. Two percent and one percent of sampled pharmacies focused on specialty medications and telepharmacy, respectively.

Table 3 shows the population of the community in which the sampled start-up pharmacies are located. Twenty-six percent of sampled pharmacies are located in communities with populations less than 10,000, with an additional 47 percent residing in communities with populations between 10,000 and 50,000. Small communities may be a great opportunity for a start-up pharmacy. Some have lost pharmacy access when a pharmacy closed after selling records to the nearest chain, which

Table 3: Pharmacy Community Setting	
Population over 50,000	27%
Population from 10,000 to 50,000	47%
Population less than 10,000	26%

may be 10 or more miles away. Some are growing and can now support a full-service pharmacy or perhaps an additional pharmacy. Small communities may be "medically underserved," a term of art that is important for certain contracts but also signals that the pharmacist has an opportunity to offer services that meet patient needs, improve access to health care, and provide professional fulfillment to the pharmacist.

Table 4: Pharmacy Footprint	
Prescription department	802 sq.ft.
Front end	911 sq.ft.
Total	1,713 sq.ft

Table 4 shows the average footprint of sampled pharmacies. The average sampled pharmacy is 1,713 square feet, of which 802 square feet and 911 square feet are dedicated to the prescription department and to the front end, respectively. The small front-end footprint suggests that start up pharmacies have focused their resources on prescription drug sales. In fact, as will be shown below, over 93 percent of total sales for start-up pharmacies is derived from the prescription department. While the average start-up pharmacy has a small front end, a few start-ups have created front-end niches, with front end square footage exceeding 3,000 square feet.

Full-Time Equivalent Employment

Payroll is the second biggest expense of a pharmacy. Given low prescription drug margins, it is crucial that start-up pharmacies avoid hiring more employees than is necessary to profitably operate their small business. Looking to technology and outsourcing can be a cost-efficient way to control operating expenses and compete in a highly competitive environment. Table 5 shows the number of full-time equivalent employees that an average start-from-scratch pharmacy employs, where an FTE is measured as an employee's scheduled work week divided by forty hours. As an example, an employee who works 40 hours per week counts as one FTE and an employee who works 20 hours per week counts as .5 FTEs. Findings from the study suggest that the average start-from-scratch pharmacy in business five or fewer years employed 6.2 FTEs. The typical sampled pharmacy employed 1.2 pharmacists and 2.4 technicians.

Table 5: Full-Time Equivalent Employees	
Pharmacists	1.2
Technicians	2.4
Other positions	1.4
Working owners	1.2
Total	6.2

Patient Care Services

With over 21,000 locations nationwide, independent community pharmacies are easily accessible health care providers that specialize in high-quality patient-centered care. One of the hallmarks of independent pharmacy has long been the services patients can access and receive in the pharmacy. Start-ups can leverage these services to establish their brand and provide revenue other than prescription sales. Some services are easy to roll out on day one, while others may get phased in when cash flow is established, patient demand is understood, or opportunities for collaborative care are presented. Examples of services that can be rolled out on day one include immunizations, glucose checks, lipid checks, blister packaging, and low-complexity non-sterile compounding. Services to develop over time may include diabetes self-management training, point-of-care testing with collaborative practice agreement to initiate therapy, complex/sterile compounding, and multi-dose compliance packaging. In addition, clinically integrated networks of community-based pharmacies are responding to the demand for demonstrable value. These niches are helping owners differentiate their pharmacies in local markets while diversifying their revenues.

Table 6: Patient Services	
Same day home delivery	78%
Refill synchronization	77%
Medication therapy management	74%
Immunizations	72%
Compounding	51%
Hospice	21%
Collabrotive drug therapy management	19%
Point-of-care testing	10%
Pharmacogenomics testing	1%

Table 6 shows that 78 percent and 77 percent of start-up pharmacies provide same-day delivery and refill synchronization services, respectively. Seventy-four percent and 72 percent provide medication therapy management and immunizations, respectively. While the survey did not collect information concerning fees charged for niche services, they can be an important source of revenue for both start-ups and established independent community pharmacies. Providing these niche services also establishes the independent community pharmacist as a health care provider rather than just a dispenser of medication.

Long-Term Care Pharmacies

Long-term care is another niche that offers independents the opportunity to diversify their revenue while focusing on the health care needs of their local communities. Independent pharmacies play an important role in caring for the nation's roughly 47 million people over the age of 65. Pharmacists provide medications and medication-related care for seniors in skilled nursing facilities, assisted living facilities, hospice, and home-based care. They also provide many specialty services for seniors such as nutrition assessment and support, intravenous therapy, durable medical equipment, ostomy supplies, and pain management.

By innovating, independents provide needed services and improve their business financially. Fifteen percent of start-up pharmacies provide some sort of long-term care services (Table 7). Eighty-two percent of start-up pharmacies that service long-term care populations do so out of the same pharmacy from which they dispense prescriptions to patients in the community. For these combination community and long-term care pharmacies (referred to as "combo-shops"), the average number of beds serviced is 53. The remaining 18 percent of start-up pharmacies dispense medications exclusively to long-term care populations. These pharmacies are referred to as closed-door pharmacies and the typical surveyed closed-door pharmacy serviced 107 beds. If a start-up is classifying

Table 7: Long-Term Care Services	
Provide long-term care services	15%
Combo-shop long-term care facility	82%
Closed-door long-term care facility	18%
Average number of beds, combo-shop	53
Average number of beds, closed-door	107

itself as a closed-door pharmacy and serving skilled nursing facilities exclusively, it is almost always because a combo shop has reached the threshold where this business can operate profitably on its own. Closed-door pharmacies may receive higher reimbursement for prescriptions and related services provided exclusively to skilled nursing facilities.

Compounding Pharmacies

Preparing compounded medications can provide a start-up business with a clear way to differentiate its services from those of its chain competition. Compounding prescription medications is often a source of professional satisfaction for pharmacists. Start-up compounding-only pharmacies are typically an offshoot from a full-service pharmacy that wants to establish a separate business identity for compounding services. Project costs for a start-up compounding-only pharmacy will differ because of specialized training, different equipment, inventory, supplier, and marketing expenses.

Compounding has come under increasing regulation, but still provides a promising avenue for pharmacies looking to diversify revenues and increase profits. The compounding common to the independent pharmacy ranges widely in complexity from non-sterile to sterile, non-hazardous to hazardous, and from full-line stores that compound to compounding-only pharmacies. Niches in compounding, such as veterinary compounding, are cash revenue niches that provide opportunities for reimbursements that are not dictated by third-party payer contracts.

Fifty-two percent of sampled start-up pharmacies stated that they compound. For sampled start-up pharmacies that compound, the average number of compounded prescriptions as a fraction of total dispensed prescriptions varied from a low of one percent to a high of 100 percent. Of these pharmacies, eight percent compounded more than 85 percent of prescriptions that they dispensed. Another 69 percent compounded less than 10 percent of the prescriptions that they dispensed (Table 8).

Table 8: Compounded Prescriptions	
Percent of pharmacies that compound	52%
Compound over 85 percent of total dispensed prescriptions	8%
Compound between 1% and 10% of total dispensed prescriptions	69%

Financial Benchmarks

Financial statements are critical to assessing the viability of a pharmacy start-up project. Benchmarking reports such as this one help assess success relative to that of similar businesses.

Financial measures are standard accounting ratios that are commonly used to evaluate your pharmacy's financial health. Becoming familiar with these ratios and learning how raising or lowering one component of the equation affects your bottom line can mean the difference between success and failure. Start-up pharmacies must be diligent in understanding financial measures and how these measures impact their bottom line. Use your financial statements to assess your present situation and identify any significant trends compared to the benchmarking data that follows. Identify the strengths and weaknesses of your pharmacy and identify possible causes for the problems. Set goals for the year and develop a written action plan for achieving better results. Implement your plan and monitor its progress. Review the plan monthly, evaluate its performance, and focus on additional areas that may require improvement. Revise the plan periodically if necessary. Repeat the entire process, making corrections and adjustments for the differences between actual results and measurable goals. Financial management is an ongoing process, not a short-term project. Work with your fellow pharmacists, your internal management team, professional accountant, and outside business advisers to gain the most from their expertise. Use this report to help guide your pharmacy through a cutthroat competitive environment.

While there may seem to be hundreds of financial ratios to analyze, the most commonly-used ratios fall into one of four buckets:

1. **Income statement ratios** that measure profitability. Commonly-used income ratios include gross margin and net profit.
2. **Productivity ratios** measure the efficiency of staff and facilities. Productivity measures include sales per employee and sales per square foot.
3. **Balance sheet ratios** measure stability. They include the current ratio and quick ratio.
4. **Asset management ratios** measure the working capital cycle. Measures include inventory turnover, accounts receivable turnover, and accounts payable turnover.

Tables 9 and 10 provide a brief overview of start-up pharmacy operations by years in business. Sampled start-up pharmacies in business for one year on average dispense 14,737 prescriptions per year. These pharmacies dispense 8,542 new prescriptions and 6,195 renewed prescriptions (Table 9). The number of dispensed prescriptions steadily increased with years in business and the number of renewed prescriptions gradually increased relative to the total number of prescriptions dispensed. By the fifth year in business, the average pharmacy started from scratch dispensed 46,915 prescriptions, an increase of 218 percent relative to a pharmacy in business for one year. Pharmacies in business for five years, on average, dispense 23,842 new prescriptions and 23,073 renewed prescriptions per year.

Table 9: Average Prescriptions Dispensed Per Pharmacy Location (by Years in Business)

	1st yr	2nd yr	3rd yr	4th yr	5th yr
New prescriptions	8,542	13,203	16,098	21,204	23,842
Renewed prescriptions	6,195	11,045	14,469	20,985	23,073
Total prescriptions	14,737	24,248	30,567	42,189	46,915

Table 10 provides financial information by years in business. Average total sales increase from $921,572 after one year in business to $3,010,822 after five years in business. The percentage of revenue that is generated from prescription sales ranged from a low of 93.5 percent in year one to a high of 96.7 percent in year four. By the fifth year in business, a typical start-up pharmacy brings in $2,905,240 in prescription sales and $105,582 from other sales.

Table 10: Financial Averages of Pharmacy Operations (by Years in Business)					
	1st yr	2nd yr	3rd yr	4th yr	5th yr
Prescription sales	862,272	1,357,888	1,874,752	2,482,584	2,905,240
All other sales	59,300	66,045	88,483	82,963	105,582
Total sales	921,572	1,423,933	1,963,235	2,565,547	3,010,822
Prescription costs	724,308	1,160,994	1,563,543	1,986,067	2,283,235
All other costs	41,510	46,231	61,938	58,074	73,907
Total cost of goods sold	765,818	1,207,225	1,625,481	2,044,141	2,357,142
Gross profit	155,754	216,708	337,754	521,406	653,680
Gross profit percent	16.9%	15.2%	17.2%	20.3%	21.7%

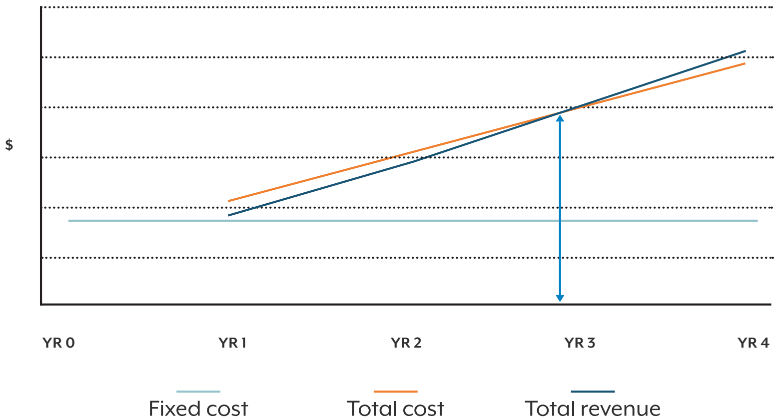
Table 10 also shows that gross profit increases with years in business. On average, sampled start-up pharmacies in business for one year generated 16.9 percent in gross profit, but by year five the comparable figure increased to 21.7 percent, a roughly 33 percent increase over time. Gross profit dollars also increased over this time period by more than 300 percent from $155,754 after year one in business to $653,680 after five years in business. While much of this increase can be attributed to rapidly increasing prescription sales as start-ups grow, it is important that start-up owners focus beyond growing sales by not dropping the ball on the purchasing side of business. Cost to goods sold is the number one expense of a pharmacy and must carefully be monitored if a start-up is to generate enough gross profit dollars to cover operating expenses and earn a profit. Joining a buying group can leverage scale, minimizing the cost of purchases and maximizing rebate dollars.

Owner's Discretionary Income (owner's salary plus net profit) is not reported here but would be the gross profit minus expenses of running the pharmacy business, such as wages, rent, utilities, office supplies, etc. The Break-Even Commentary that follows addresses the point in time at which the start-up records positive net profits.

Break-Even Commentary

A number very important to pharmacy owners who have just started business is the break-even point, where a business starts to turn a profit. One way to analyze the break-even point is to focus on total prescriptions dispensed. Because prescriptions dispensed represent over 90 percent of total revenue, total revenue can roughly be estimated by multiplying prescriptions dispensed by the average price of a dispensed prescription. The weighted average price of a prescription dispensed by the pharmacies surveyed for this report is $60. Figure 1 provides an illustration of break-even analysis utilizing prescriptions dispensed from Table 9 and prescription sales from Table 10. Figure 1 demonstrates that a typical pharmacy in business for one or two years records negative net profits because costs exceed revenues. But by the midpoint of year three, revenues begin to exceed costs. For the average start-up, that occurs around 30,000 prescriptions. Most start-ups require financing to cover expenses in the first few years. Since most banks ask for three years of financial projections, it may be a useful exercise to estimate the fixed costs, variable costs, and total revenue over two, three, or four years to find the break-even point. It is difficult to predict what business will look like three or four years on, so revise these estimates every year with as much actual data as possible. Pharmacies that do not break even within five years should thoughtfully consider the future of the business. Bank financing usually has a five-year repayment schedule, making five years the latest reasonable point to break even.

Figure 1: Start-up Pharmacy Break-Even Point



Pharmacy owners looking for ideas to shorten the time to break even need to consider ways to boost non-dispensing revenue. One way to do this is by offering services that don't require inventory or expensive equipment.

Balance Sheet Ratios, Productivity Ratios, and Asset Management Ratios

The amount of working capital, or cash flowing through the business, indicates liquidity. The current ratio is a common benchmark for measuring cash flow or liquidity. This ratio shows that sampled pharmacies have $2 in current assets on hand for every $1 in current liabilities (Table 11). A high value of the current ratio indicates that a pharmacy has enough liquidity to pay its current obligations. A current ratio of less than one indicates that a pharmacy may have problems meeting its short-term obligations.

Table 11: Financial Ratios	
Current ratio	2.00
Quick ratio	1.14
Accounts receivable turnover	22
Accounts receivable turnover (days)	17
Accounts payable turnover	23.1
Accounts payable turnover (days)	16
Inventory turnover	11.75
Inventory turnover (days)	31
Prescription inventory	12
Prescription inventory turnover (days)	30
Sales per employee	$246,375
Sales per square foot	$965

The quick ratio measures the amount of liquid assets available to a pharmacy relative to the current liabilities held by the pharmacy. Assets that can easily be converted into cash are considered liquid, and a pharmacy's debts that are due within a year are considered current liabilities.

A quick ratio of one indicates that a pharmacy has exactly enough assets to be instantly liquidated to pay off its current liabilities. A quick ratio of less than one suggests that the pharmacy cannot pay off its current liabilities quickly, while a ratio above one suggests that a pharmacy can instantly pay off its short-term obligations. Sampled start-up pharmacies had an average quick ratio of $1.14, suggesting that for every $1.00 in current liabilities, the average start-up pharmacy had $1.14 in cash and accounts receivable on hand, providing enough liquidity to quickly pay off short-term debt.

The rate at which customer accounts receivables are collected by the pharmacy are characterized by the accounts receivable turnover ratio. The higher the turnover, the quicker credit is turned into cash for the pharmacy and can be expressed as a value in regard to the number of days needed for collection. The efficiency of a pharmacy to pay its creditors for inventory is measured by the pharmacy's accounts payable turnover. This measure can also be expressed as a value in terms of number of days needed to pay creditors. Across all sampled pharmacies, accounts receivable turnover days and accounts payable turnover days averaged 17 and 16 days per pharmacy, respectively.

The goal of inventory management is to minimize the investment in inventory while ensuring that inventory is available when needed. Inventory turnover measures the number of times inventory is sold or used in a time period such as a year. It is an important measure of how well a pharmacy generates sales from its inventory. It is calculated to see if a pharmacy has an excessive inventory in comparison to its sales level. Sampled start-up pharmacies had an inventory turnover of 11.75 and a prescription inventory of 12. Converting turnover into days per year shows that total inventory stayed on stock for an average of 31 days while prescription inventory stayed on stock for an average of 30 days, suggesting that prescription inventory turns more rapidly than OTC inventory.

Sales per employee is a financial ratio that measures the revenue generated by each employee of the pharmacy on average. It equals the pharmacy's total revenue divided by the average number of employees for the period analyzed. Sampled start-up pharmacies had a sales-per-employee ratio of $246,375 per employee.

Sales per square foot measures the ability of a pharmacy to efficiently generate revenues given the amount of store space available. While there is no standard good or bad number, a higher number suggests that a pharmacy is maximizing the space they have. The average start-from-scratch pharmacy in business for five or fewer years had sales per square foot of $965.

A Few Tips to Help Run Your Pharmacy Efficiently

Do not sign your lease too early. With the time it takes to open the doors for business in some areas, this can set a pharmacy up for failure from the start. Monthly lease payments with delays in opening for business can drain cash fast. Don't sign that lease until you have worked with your professional team (lawyer, accountant). Don't let a landlord or anyone else pressure you into signing a lease until you know it's the right time.

Do not underestimate the amount of working capital that is needed to operate a start-up. Being poorly capitalized will put a start-up pharmacy on the path to bankruptcy from the start. Doing due diligence, working with your professional advisors, and attending the NCPA Ownership Workshop are just some of the measures you must take to ensure you understand your working capital needs and why it is so important.

Think outside the box. If a start-up pharmacy is planning on simply filling prescriptions like their competitor, their business will find it difficult to survive. A start-up pharmacy owner must be entrepreneurial in their approach to differentiate themselves in the marketplace. This differentiation will drive traffic, word of mouth, and revenue/cash flow that are needed from the first day you open. Knowing everyone in town is not a business strategy.

Benchmark Case Study

The owner of City Pharmacy is disheartened to discover that, despite his best efforts, the pharmacy is only meeting industry benchmarks for the third year of operations. The following plan is one approach to understanding and change.

City Pharmacy's gross margin is 17 percent, which is average for pharmacies after three years of operation but is four percentage points lower than pharmacies after five years. The pharmacy's gross profits are $78,000 lower when compared to start-ups in business for five years. In order to improve gross profit, the pharmacy needs higher sales and/or lower cost of goods. After three years of business, the owner has a better understanding of wholesaler contracts and group purchasing organizations. Projections for the next three years make the owner confident that the pharmacy will cross a threshold for the current wholesaler's volume discount. The owner has also finalized a collaborative practice agreement to initiate antiviral and antibiotic therapy after positive influenza and group A streptococcus, respectively. Patients pay cash for the service and the fee is set to cover expenses, provide a profit to the pharmacy, and compete with similar services at quick care clinics.

Growing prescription volume will be a challenge. The pharmacy is located in a community of 15,000 that also has another independent and a mass merchant chain pharmacy. The Kaiser Family Foundation reports that Americans fill 11.6 prescription per capita in retail pharmacies. A town that size would be expected to have 174,000 prescriptions annually, and the owner would like to capture roughly a third of the market, or 58,000 prescriptions. The owner has steadily grown prescription volume to 31,000, but that is well below his goal of 58,000. Smart marketing of the flu and strep testing service will grow volume for those therapies and may also result in additional immunizations and front-end sales, not to mention new patients with maintenance medications.

Marketing Strategy

It's not the media; it's the message that creates a successful marketing campaign. If it were the media, then all you would have to do is spend money to be a success. Rule No. 1: Craft your compelling message first, then choose how to make use of it. Always keep in mind that what counts is not how many people hear you, but how many people you've motivated to visit your pharmacy.

There are three groups of people that represent potential customers. Group one: people who know about you, and even may like you, but are not yet irritated enough to transfer their prescriptions. Group two: people who drive by your store but are too preoccupied to realize you exist. Group three: most likely younger consumers who don't have much need for a pharmacy. When they're ready, they'll search the internet for information. The people in groups one and two are the ones you want to focus on. Remember, the vast majority of potential new customers are already taking medication. For this reason, you need to be an expert in no-hassle prescription transfers. The promise of your marketing pitch should be: "Make one call and we will take it from there."

Curbside Appeal. For appeal, stores need to look alive because that communicates success. Newly-opened stores have an advantage here: older stores will most likely want to look into a facelift. People are looking to entrust their health care to an established business that looks like it will be around for a long time. Remember, the front of your store makes the first impression.

Word of Mouth. If you are a new store owner or someone who is doing less than 150 scripts a day, don't bank your future on word of mouth. Sorry, but it's true. Word of mouth does not happen nearly as often as we think it does. The fact is that we don't discuss the topic of how great our pharmacist is all that often. Oddly, your chances of word of mouth attracting new customers only grow with the number of customers you already have. For that reason, start by asking for and collecting testimonials. There are customers out there that are pied pipers and want to follow the crowd, not lead the crowd. At least one testimonial belongs on the landing page of your store's web site. Fill the "about" page with what people say about you. Testimonials are your best chance of making word of mouth work, so start collecting them today.

Traditional Media. Which media is best: print, radio, TV, direct mail, or digital? The answer is whichever media matches the format needed to complement your compelling and persuasive message. Master one media format and then reformat the winning message to fit another type of media and move on.

Print Media. When using a newspaper, you will need a headline that grabs the attention of the customer and makes them feel special. A message along the lines of: *"You want someone to know that your time is valuable, they insist on accuracy, and they want time to have all your questions answered. Here is the good news, we do that for our customers every day. Let us do it for you; enjoy your time spent with a pharmacy that makes time for you. Call 802-802-8002 and we will take it from there. See you soon."* The line *"Call 802-802-8002 and we will take it from there"* is known as a "call to action." Every ad in any media outlet, print or otherwise, must have a call to action; an ad without it is throwing money away and wasting time.

Radio. Follow the same rules as with print media. Choose a station on which you can afford to run the ad frequently. When it comes to delivering your message, be daring and choose to have no music in the background. Music can make the ad sound great, but it also can compete with your message and, at times, can be annoying. If you want to use music, lead-in and lead-out, but no music when the message is playing. Purchase a campaign of 30-second messages. Example: **Deep voice** (not yours) – *A message from Dr. Patricia Cline, pharmacist and owner of Hometown Pharmacy.* **Patricia** – *Are you concerned about whether you should be using CBD products while on medication? I am too. Let's talk. Come to Hometown Pharmacy and let us be your partner in your good health. Let us ease your mind; we do it for your friends and neighbors every day. Join them by calling 802-802-8002.*" Again, repetition is key; repetition is key.

TV. The best TV ad is the one you do not pay for and is compelling. Contact every TV station in your area and let them know that you are available if they need to interview an expert in your field. TV is tough; there is no winning formula. Just do not be caught up with people seeing your ad and saying to you, "We saw you on TV last night." Unless they are standing in front of your pharmacy bench and they want to be a new customer, "We saw you on TV last night" means nothing.

Sales Flyers or Circulars. Utilize sales flyers and circulars in-store, by direct mail, and via newspaper inserts. By far, the most successful is direct mail. Next is a newspaper insert, which is also the most expensive. Lastly, use them for in-store, non-advertised specials. There are two reasons to host a sales flyer or circular event. One is to attract new customers using direct mail or an insert, and the other is using an in-store event to reward your customers for coming in.

Direct Mail. Develop four or five postcards, each with a different message that can be delivered over a four to five week time period. Only send out as many at a time that you can afford to send four to five weeks in a row. That number may be as little as 1,000. That's fine. In most cases, there is no reason to send postcards out further than a two-mile radius around your location. The postcard formula is much like the newspaper ad formula. On the front of the postcard is a captivating photo, and the reverse side is a one- to two-line headline with a call to action.

Website. Your website should make it easy for people to find what they are searching for. For that reason, your hours, location and phone numbers need to be on the landing page. You don't want potential customers having to hunt through your website for that information. A "contact us" button/link needs to be easily seen on **every page** of your website. When using photos of people, make sure they are not from stock photos of a pharmacist. Photos of a pharmacist, staff, aisles in the store, or pharmacy bench all need to be yours. No cutting corners or cut-and-paste. To keep your website interesting, highlight fresh content on health alerts, healthy living tips, and testimonials.

Final note: Beware of the curse of intelligence. Not everyone is as fluent in "pharmacy" language as you are. Consider this ad about compliance packaging: *"When it comes to taking medication, are you or your loved ones having a compliance issue?"* After the ad failed, it was quickly rewritten to read, *"Can't remember when you took your last pill? You are not alone!"* Then, the ad worked. Pay special attention to the language you use when mentioning med sync, compliance packaging, compounding, and durable medical equipment.

Conclusion

Pharmacists considering opening a pharmacy from scratch want to know how much money is needed to start a pharmacy and how long until the pharmacy records a profit. Owning a pharmacy is still very much a viable career path. Success as an owner requires commitment to high-quality patient care while at the same time staying on top of trends in health care that will affect the business. Breaking even in the third year of operations is typical and financial projections should be cast with this in mind. Operating for two to three years before recording a profit affects the amount of capital to which the owner needs access. This Community Pharmacy Start-up Benchmark Report, sponsored by Compliant Pharmacy Alliance, sheds light on the actual performance of the average start-up community pharmacy and serves as an important resource for benchmarking new pharmacies. Additional resources can be accessed by attending NCPA Ownership Workshops or by utilizing items like *Gabe's Favorite Tips*.

Notes

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