Practice CHANGE Solutions

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1 CEU Approved for 1 CE unit by the Canadian Council on Continuing Education in Pharmacy. File # 608-0807. Lesson expires Sept. 28, 2010.

A PRACTICAL CE SERIES FOR PHARMACISTS SEEKING TO SUSTAIN AND BUILD AN EXPANDED SCOPE OF PRACTICE

Learning Objectives

Upon successful completion of this lesson, you should be able to:

1. Understand the importance of setting short- and long-term performance goals, before offering expanded services in the pharmacy.
2. Identify the common financial ratios or benchmarks used to develop and monitor short-term performance goals.
3. Describe the stages of long-term strategic planning, using accepted business tools such as the "Diamond-E Framework" and the "PEST Analysis."
4. Describe the benefits of a business plan.
5. Identify the components of a business plan, including an operational plan that addresses the expansion of pharmacy services.

Instructions

1. After carefully reading this lesson, study each question in the post-test and select the one option you believe is the best answer. Although more than one option may be considered acceptable, only one option is the best answer.
2. To pass this lesson, a grade of 70% (14 out of 20) is required. If you pass, your CEU(s) will be recorded with the relevant provincial authority(ies). (Note: some provinces require individual pharmacists to notify them.)

Answering options

A. For immediate results, answer online at www.pharmacygateway.ca.

B. Mail or fax the printed answer card to (416) 764-3937. Your reply card will be marked and you will be advised of your results within six to eight weeks in a letter from Rogers Publishing.

A FREE CONTINUING EDUCATION LESSON

Essential Business Principles in Preparation for Expanded Services in Pharmacy Practice

By Mike Jaczko, BSc. Phm, Peter Adams, BSc. Pharm, MBA and Andrew Lockie, BA, MBA

"Drive thy business; let it not drive thee."

—*Benjamin Franklin*

Introduction

The notion of expanded service in pharmacy practice is timely to say the least. As pharmacists and pharmacy owners/managers begin to step through newly opened windows of opportunity, new sources of revenue slowly come into focus. With increasing sales, the prospect of greater profits may result, but only if the costs attributed to providing these new revenues are properly planned for, and subsequently managed.

The opportunity to expand comes with risk, as incremental resources are required to deliver on expanded services. For example, "Sandra" and "Rick" are the owner and manager, respectively, of a small independent pharmacy in Ontario. They see a great deal of opportunity in expanding the scope of their practice to take advantage of the new government-sponsored medications review program, but are not sure how to allocate their limited resources to expand the business without adversely affecting the current dispensary operation and the level of customer service. For Sandra and Rick, and for all pharmacists who wish to expand their services but are unsure how to begin, it is important to thoughtfully develop a strategy that reflects the business climate and your pharmacy's capacity within it.

A pharmacy strategy begins with a strategic analysis. This includes tracking clearly defined and measurable goals and outcomes, analogous to the clearly defined endpoints pharmacists are familiar with in clinical drug trials.

Practice CHANGE Solutions

is a series of CE lessons dedicated to helping pharmacists map out a long-term, resource-based plan to create and sustain an expanded scope of pharmacy practice. While each lesson can stand on its own, they are designed to build upon each other, in the order in which they are published. The full series is as follows:

Lesson 1: Change Management & Needs Assessment in Pharmacy Practice (June 2007)
Lesson 2: Market Analysis & the Expansion of Services in Pharmacy Practice (September 2007)
Lesson 3: Essential Business Principles in Preparation for Expanded Services in Pharmacy Practice (November 2007)
Lesson 4: Marketing & Billing for Expanded Pharmacy Services (February 2008)
Note: CCCEP accreditation pending for Lessons 2 to 4 (inclusive)

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This lesson will guide a pharmacist or pharmacy owner/manager through a set of essential business principles in the development and performance-measurement of a pharmacy strategy. Adherence to these principles will help lay the foundation upon which to build a successful implementation of expanded, financially sustainable pharmacy services.

GOAL SETTING

- What defines success for a pharmacy?
- How is optimal success achieved in one's practice?

If you were to ask a hundred pharmacists these questions, you could expect to receive a hundred different answers.

The ability to determine how successful a pharmacy is, or has been, depends on what standards or goals have been set. Regardless of the type of pharmacy practice, one thing is certain: effectively setting goals is a key factor in building a successful pharmacy business or practice.

Should a pharmacy owner/manager define and measure success in a "misguided" way, and tailor the activities of their pharmacy accordingly, the outcomes are virtually guaranteed to be suboptimal.

Furthermore, pharmacy owners/managers often define success predicated on what has already happened. They feel that by working hard and dealing with circumstances to the best of their ability, the results could be defined as success. This approach is a dangerous and limiting trap that could lead to a pharmacy owner/manager "successfully" running a business that consistently underperforms—because there are no goals. *The efforts and activities that resulted in success in the past are often NOT the activities that will assure business success in the future.* Do not confuse effort with results!

The process of setting goals provides two important benefits:

1. It focuses effort on the most important aspects of running a business or practice, in order to grow or expand.
2. It prevents a pharmacy owner/manager from redefining success after the fact to accommodate an optimistic point of view.

Often when setting goals, business owners make two common and avoidable mistakes: they set goals that are too easily attained or they set unachievable goals and must manage the subsequent shortfalls. To avoid this, goal setting can be divided into two broad categories: performance goals (short term) and strategic goals (long term).

Focusing solely on short-term performance goals runs the risk of sacrificing future earning capability. For example, a pharmacy that has a strategy of driving prescription volume by waiving co-pays, thus attracting discount clientele who continue to expect discount perks, may mitigate sustained profitability. Conversely, focusing solely on long-term strategic goals risks sacrificing short-term success. For example, a pharmacy owner/manager who is intent on building a geriatric specialty practice may overfocus and inadvertently make younger family-oriented clientele feel less welcome. It is helpful to think of short-term performance goals as a sprint, and long-term strategic goals as a marathon. You must pace yourself accordingly.

The most successful pharmacies are those that effectively and constantly balance short-term goals with long-term objectives. For simplicity, consider short-term goals as achievable within one year, while long-term goals require more than a year. This is particularly salient as you begin to transition your practice into offering expanded pharmacy services. For example, a short-term goal may be to provide four appointment-based patient medication profile reviews per month within six months, with a view to increasing them to four appointment-based patient interactions per week after a year.

SHORT-TERM PERFORMANCE GOALS

Some performance goals can be measured empirically while others may be more difficult to measure. Pharmacy bears witness to both cases.

Many pharmacists have traditionally run their pharmacies by "feel," or intuition. Given today's environment of shrinking profit margins, gone are the days when there was room for error. By contrast, larger chain operators utilize relatively sophisticated proprietary benchmarks to measure both financial and operational performance goals. Benchmarks known as "ratios" use the relationships between key indicators in a pharmacy's financial statements to determine overall economic health. More and more, ratio analysis represents an important, necessary avenue for the development and monitoring of short-term performance goals. Meeting the industry averages for these defined ratios ensures that the pharmacy is on a solid financial and operational footing to withstand the economic challenges that could result when shifting and expanding professional services.

This portion of the lesson highlights some of the more common indicators, or financial ratios, useful to pharmacy operations. They are line items typically found in a pharmacy's income statement and balance sheet produced regularly by an accountant.

These ratios can be categorized to help answer several important questions:[1]

- **Liquidity:** Can the pharmacy pay its short-term commitments?
- **Financial efficiency:** Are the pharmacy's assets being managed efficiently?
- **Profitability:** Does the drugstore earn adequate profits?
- **Solvency:** Can the pharmacy pay its long-term commitments?
- **Operational productivity:** Is the dispensary operationally productive?

It is important to compare your pharmacy's ratios to both internal benchmarks (historical trends analysis) as well as external benchmarks accepted within the Canadian pharmacy industry. By conducting this type of strategic analysis, a pharmacy owner/manager will be in the proper position to plan, implement and evaluate expanded pharmacy services without putting undue financial pressures on the pharmacy operation.

Liquidity

Liquidity is the ability to convert assets (such as accounts receivables and inventory) into cash in order to pay short-term debt (such as trade payables owed to suppliers and wholesalers).

a. CurrentRatio = Current Assets ÷ Current Liabilities

In pharmacy, a current ratio of at least two times (2:1) is necessary to ensure that the operation has sufficient liquid reserves to meet short-term needs if sales drop or expenses increase suddenly. Alternatively, current assets (the sum of cash, accounts receivable, inventory, marketable securities and prepaid expenses) could shrink by 50% and still cover current obligations.[2] Cunningham's 2006 statistics quote the pharmacy average to be 2.5.[3]

b. Acid Test or Quick Ratio = (Current Assets - Inventory) ÷ Current Liabilities

The acid test ratio provides a better indication of a pharmacy's relative liquidity by removing inventory, the least liquid of all current assets. A value of at least one times (1:1) is typically considered good in pharmacy value.[2]

c. Accounts Payable Days =Accounts Payable ÷ Annual Purchases X 365 days

Accounts payable days describes how efficiently a pharmacy is paying creditors for merchandise. Pharmacy owners/managers should balance the average payable period, referred to as "utilizing trade credit," with suppliers' cash discounts. A value greater than 30 days may suggest the pharmacy is not taking advantage of the early-payment cash discounts. For example, an invoice indicating 2, 10 net 30 terms should lead a pharmacy to pay this invoice within 10 days to gain a 2% discount off the invoice cost.

Financial Efficiency

a. Inventory Turnover Rate = Cost of Goods Sold ÷ Average Inventory

This metric is the most direct measure of how well a pharmacy's single largest asset is being managed. It measures how many times a pharmacy uses up a complete cycle of inventory in a year. The higher the value the better, but only up to a certain point, when unacceptably high levels of out-of-stocks begin to appear. Stock-outs are a pharmacy's number one cost if a customer leaves unsatisfied. Dispensaries are capable of running at six to 10 "turns" a year. Many pharmacies have implemented perpetual inventory systems in both the frontshop and the dispensary to better manage inventory levels.

b. Accounts Receivable Days = Accounts Receivable ÷ Average Credit Sales per Day

This metric measures how quickly the pharmacy collects credit sales extended to customers or third-party drug plans. A value greater than 40 days suggests an excess of capital (money) that is "tied up" and not available to pay debts or as profit. This value is often compared to accounts payable days, described previously. Running a lower "days receivable" compared to "days payable" would indicate that the pharmacy is effectively using trade payables to finance store receivables. Receivable days have dropped during the past decade with the advent of online adjudication and electronic transfer technologies.

In conclusion, reducing working capital items such as inventory and accounts receivable reduces the need to borrow funds from a financial institution and frees up cash that could be deployed for expanded pharmacy services.

Financial Profitability

a. Gross Profit

Often referred to as gross margin, gross profit can be expressed in terms of dollars or as a percentage of sales. Revenue minus the cost of goods sold equals gross profit. From this amount, a pharmacy subsequently pays its various operating costs such as wages, rent, and telephone. It is appropriate to distinguish between frontshop margin (if your store has one) and dispensary margin. The average frontshop margin, quoted by Cunningham, is 30%, while the upper quartile operates at 35%. The average dispensary margin is 28–29%.[3] Finally, a store's "mixed" gross margin is a blending of the two, taking into account the relative proportion of frontshop sales compared to dispensary sales.

b. Net Profit

This value is a simplified measure of the amount of money left once the pharmacy has paid all its expenses for the year. Like gross profit, it can be expressed in terms of dollars or as a percentage of sales. It can also be expressed as "EBIT" (earnings before interest and taxes). It is important to know whether this figure is quoted before or after tax. Furthermore, tracking annual trends is key. Pharmacy operations can run from negative values (the store ran a deficit) to upwards of 4–10% of sales. Cunningham presents this ratio as a percentage of gross profit, i.e., a percentage of a percentage. For example, it quotes average net profits from 26–38% of gross profit. Assuming a gross margin of 25%, this translates into a net profit of 1.3–9.5% of sales (.25 X .26 = 1.3% to .25 X .38 = 9.5%).[3]

c. Return on Investment (ROI) = Net Profit ÷ Net worth (equity)

d. Return on Total Investment = Net Profit ÷ Equity + Liabilities

Two iterations of this ratio are cited above. In general, it evaluates how effective the money injected (owner's equity and debt) into the pharmacy is in generating profits for the pharmacy (i.e. a return). It is not uncommon to expect an ROI of 10–15% once a pharmacy matures and reaches a steady state. It is important to note that often ROI calculations require "normalization," which is a term used to ensure that net profits properly reflect a reasonable owner's salary, fair market rent (if the store is owned by the pharmacy) and all operating expenses.[4]

Solvency

Solvency is a measure of a pharmacy's ability to repay debt from long-term capitalization (money).[5]

a. Debt to Equity = Total Liabilities ÷ Net Worth (Total Assets - Total Liabilities)

This ratio compares the total debt of the pharmacy to its total equity and can be expressed either as a percentage or as a ratio. An acceptable average is 80% (or 0.8) while an upper quartile pharmacy operates at 60% (or 0.6).[3] If total debt exceeds owner's equity the pharmacy is vulnerable. Start-up pharmacies will naturally exceed 100% in their early years. Conversely, an established pharmacy that is unable to pay its longer-term debts is deemed to be insolvent and may find itself in serious financial trouble.

Operational Productivity

a. Wages

After inventory, a pharmacy's largest expense is payroll. Wages before benefit costs can be expressed as a percentage of gross sales or gross margin. The more traditional measure ranges from 8% in large operations to more than 15% of sales in small dispensary pharmacy operations. Given shrinking gross margins, wages can also be expressed as a percentage of gross margin (i.e., a percentage of a percentage). Industry averages range from 41–48%.[3] Assuming a gross margin of 25%, average wages as a percentage of sales would be 10.25-12% (.25 X .41 = 10.25% to .25 X .48 = 12%).

b. Prescriptions Per Scheduled Dispensary Labour Hour

Many large chain operators utilize this metric. Few if any studies on workload and dispensary productivity have been published in Canada and only a few in the U.S. Given the prevailing shift toward cognitive activities, we caution that this metric fails to fully recognize the myriad of other valuable tasks performed by pharmacists beyond prescription "checking." However, it can serve as a useful starting part to gain a better understanding of productivity and the use of human resources in the dispensary.

Table 1 represents a compilation of data intended to provide general Canadian guidelines, drawn from the author's experience. Note that there are three sets of guidelines, based on the total weekly prescription volume and weekly hours of opening. An individual pharmacy can calculate its own practice's ratio by dividing the number of prescriptions dispensed by the total number of pharmacists plus pharmacy technician hours (i.e. total labour hours) used during that same time period, then comparing it to the guideline given in the appropriate "Rx/Labour Hour" column in Table 1.

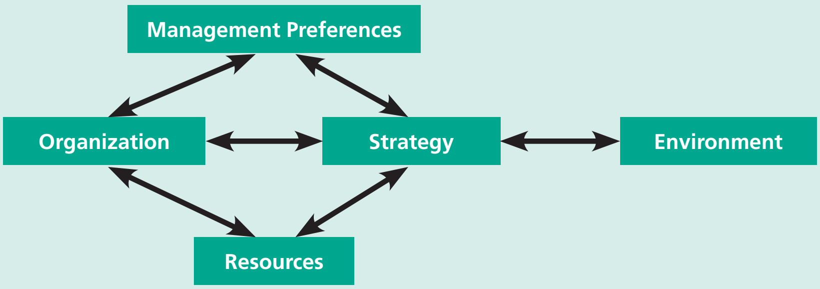
c. Scheduled PharmacyTechnician Hours Per Prescription

This metric can range widely from a start-up clinic operation to an extended-hour pharmacy operation. Table 1 represents a compilation of data intended to provide general Canadian guidelines, drawn from the author's experience. Note that there are three sets of guidelines, based on the total weekly prescription volume and weekly hours of opening. An individual pharmacy can calculate its own practice's ratio by dividing the number of technician hours used by the total number of prescriptions dispensed during that same time period, then comparing it to the guideline given in the appropriate "Technician/Rx (PT/Rx)" column in Table 1.

TABLE 1

Type Rx/week	Clinic - 50hrs		Daytime with Friday nights and Saturday—63hrs		9 to 9 weekdays with Saturday & Sundays—76hrs	
	Rx/labour Hr	PT/Rx	Rx/labour Hr	PT/Rx	Rx/labour Hr	PT/Rx
500	6	0	5.5	16	4.7	16
1000	6.125	9	6	9	5.4	9
1500	6.25	9.5	6	9	5.7	9
2000	6.75	10	6.75	10	6	9.5

FIGURE 1 Diamond-E Framework



Miscellaneous Metrics

a. Average Prescription Price

This value will vary depending on factors such as disease states prevalent in your practice, local physician prescribing habits, prescription volume and the breakdown between public-plan, private-plan and cash-paying customers. Cunningham's 2006 statistics indicate the average prescription price ranges from $58.77 to an upper quartile of $66.09.[3] Monitoring this metric is a key component to detecting trends and forecasting sales.

b. Average Prescription Margin

This metric is typically calculated using year-end total gross profit figures and comparing it to a pharmacy's "scanned" prescription gross margin, available from the dispensary computer system. However, accuracy may be limited by the validity of the drug costs maintained by the pharmacy. Cunningham's 2006 statistics indicate an average prescription margin of $15.75, with an upper quartile of $17.04.[3]

In conclusion, keep in mind that these short-term goals or metrics serve as general guides. Pharmacy operators and pharmacists are encouraged to apply these metrics based on individual business environmental circumstances with the aid of an accountant, ideally one knowledgeable in pharmacy operations. Additional ratios are readily found in *Pharmacy Management In Canada*, 2nd edition.[2] Establishing and measuring the above performance goals with a view to ensuring that a pharmacy operation is operationally and financially sound places a pharmacy in a stronger position to withstand the challenges that will come with the provision of expanded pharmacy services.

LONG-TERM STRATEGIC PLANNING

If a pharmacy meets its short-term performance goals consistently, it would seem that long-term success will follow. This is true only to an extent. While meeting short-term performance goals is critical to success, these goals are set with a mind to operational success in a given year in a given pharmacy business situation. However, we know that pharmacy business circumstances change; legislation changes; demographics change; drugs change; competitors change. A successful pharmacist must look to the future and run their operation in such a way that it positions their store for future success, even if occasionally this limits present-day success.

The process of setting long-term strategic goals is referred to as strategic planning. Some advise looking a year into the future and some five years; this is a matter of personal preference and capability. Strategic planning must begin with an in-depth analysis of current circumstances facing the pharmacy and the strategy currently in place. This may seem like a daunting task. The first questions that often come to mind are, "What should I consider?" "How often should I do it?" and "Where do I start?"

The "Diamond-E Framework"[6] offers a useful tool in analyzing existing and potential strategies, and developing and implementing new ideas that take into account key variables. The Diamond-E also highlights and structures the critical relationships that exist between these key variables.[6]

Diamond-E Framework

As can be seen in the diagram, strategy is the key variable that links all factors together. The Diamond-E Framework acts as a tool in the broad process of strategic analysis, which can be described in three steps:[7]

Step 1. Base Case Analysis: What would happen if the current strategy continued? Even if it is not explicitly defined, some form of strategy already exists in your pharmacy. It may not have been as a result of an in-depth analysis, but there are aspects to the way your pharmacy is located, managed and staffed that affect your business. It is important that you **identify** current strategies, regardless of how well or poorly they are defined. Review your financial performance against the benchmarks in the previous section, and where possible review how your store or practice has performed historically to identify trends. You are now in a position to **evaluate** current strategy and determine how your pharmacy would perform if you were to maintain the status quo. This will help clarify the nature and urgency of the changes required to maintain or improve upon your current successes.

Step 2. Strategy Formation and Testing: Development of approaches to capitalize on opportunities. What possible strategies could be engaged to take advantage of your pharmacy's circumstances and to grow your business? The Diamond-E will help dictate what issues take priority, how quickly one needs to act and what scale of action may be required.

Step 3. Decision and Implementation: Selection and implementation of preferred strategy. After formulating and evaluating all the potential strategies it is now time to select the strategy that provides the best opportunity for the pharmacy, develop and carry out a plan, and ultimately get results.

To do this, the "Diamond-E Drill," contained within the Framework,[8] guides you through each of the framework's key "linkages:" environment, resources, management preferences, and organization.[8] By working through these linkages, the drill helps build an understanding of the current strategy, assesses its appropriateness, provides ideas on how to change or improve the strategy, and assesses and selects from the alternatives. The drill can be used within all three steps of the broad process of strategic analysis (base case, strategy formation, and decision and implementation) to evaluate existing strategies or test new ones.

It is important to note that strategic analysis is a continuous process as the variables in the framework will always be changing, not unlike the need for the pharmacist's commitment to lifelong learning.[9]

STRATEGY-ENVIRONMENT LINKAGE

This linkage evaluates how a given strategy ties into the forces at work in the outside environment. For example, in light of public and private drug plan cutbacks, a pharmacy owner/manager must consider how best to react. Large chain operators may be able to raise professional fees but an independent pharmacy operator must take their competitors into consideration, as well as anticipate the reactions of cash-paying or fee-capped patients.

STRATEGY-RESOURCES LINKAGE

What resource requirements are required for a given strategy? If there are gaps, what is the probability of closing that gap? What is the consequence of not closing it? Resources are not exclusively financial in nature—the appropriate use of existing technology and expanding the role of technicians are two examples. In Ontario, the MedsCheck program may appear to be an easy way to access new funding, but only if appropriately trained staff, and scheduling protocols, are in place.

STRATEGY-MANAGEMENT PREFERENCE LINKAGE

If a strategy does not align with the preferences of those who are in a position to drive it, it will not matter how brilliantly conceived it is. Whatever direction is chosen, be certain that those in a place to carry it out, including you, are fully supportive of both the concept and its execution.

STRATEGY-ORGANIZATION LINKAGE

Evaluate the organization or structure of your pharmacy, including partners or umbrella organizations, and consider whether a given strategy is in alignment. Perhaps it is not, in which case you must either a) abandon the strategy, or b) change the structure. For example, some pharmacies may consider securing the support of a banner program to help mitigate the impacts of change in the marketplace.

PEST Analysis

In conducting analysis and developing strategy, it is important to draw upon your professional experience and common sense. As well, some helpful models exist to make sure you consider key elements. The PEST analysis is one such model. PEST stands for Political, Economic, Social, and Technological forces, all of which significantly affect the environment in which a pharmacy operates.

Political forces include new legislation—such as changes to municipal bylaws and minimum wage increases—and of course, amendments to the Pharmacy Act and provincial drug plans.

Economic forces, such as inflation, interest rates and unemployment rates, affect the basic supply and demand for a pharmacy. For example, as Ford, Chrysler and GM begin to shed their "legacy" costs, drug plans are adversely affected. Conversely, pharmacies in oil patch communities are experiencing a sustained boom, and OTC sales are extremely strong.

Social forces that affect a pharmacy include demographic factors such as family size, family life cycle (young, single; young, married with children; older, married without children; etc.), education and nationality.

Technological forces can be particularly strong for pharmacy. Think about how online adjudication has affected your practice since the early 1990s. Now consider emerging technologies, including universal drug information systems, electronic prescribing and the electronic health record.

In summary, long-term strategic planning depends on a multitude of factors. Every pharmacy will take a different path to get to a point where they have an effective and coherent strategy. The key is to use tools and models that provide you with the comfort of knowing that you have considered all the factors relevant to your circumstances. If your strategy is the same as it was five years ago, it is probably limiting your business success because it ignores the impact of the many changes that have taken place during that time. Developing and updating a strategy puts you in a position to benefit from the changes in the business landscape, rather than be victimized by them.

THE BUSINESS PLAN

Once a pharmacy has set short-term business performance goals and has a thoughtful long-term strategic plan, it is time to consider how to consistently move the pharmacy in the direction of providing new services. This implementation process is guided by a document known as the business plan.

Very few pharmacies or small businesses make the time to prepare a business plan. It may seem unnecessary if your pharmacy is already up and running. Your "plan," it may appear, is already a functional reality. This perspective is misguided and may prevent you from successfully refocusing on new opportunities.

Practically speaking, a bank often requires a business plan should you apply for a business loan. More importantly, business planning is a critical tool for setting, monitoring, and meeting business goals.[10] The *process of preparation* forces the pharmacist/owner to take a hard, objective look at the business. By asking, and subsequently answering, the tough questions, a pharmacy owner/manager can avoid making bad decisions, as well as identify tremendous market opportunities. *The secret to success invariably lies in answering these important questions ahead of time.* A business plan ties together short-term performance goals and long-term strategic planning, and creates an opportunity to test the economic viability of a business concept.

THE BENEFITS OF A BUSINESS PLAN[11]

A good business plan:

- Sets priorities, provides a focus and demonstrates commitment
- Motivates action, buy-in and support
- Sets realistic expectations for what can be accomplished
- Anticipates problems and avoids roadblocks
- Saves time and money in getting a business off the ground and keeping it running
- Ensures proper resources, processes and structures are in place and supports implementation of best practices
- Ensures that a pharmacy and its "deliverables" are marketable, competitive, viable and sustainable
- Serves as a benchmark for measuring performance and success
- Provides the basis for confidence of lenders, investors and sponsors; and
- Communicates goals, objectives and expectations so that everyone can work cohesively

COMPONENTS OF A BUSINESS PLAN

A business plan consists of the following components: a vision statement, a description of the business as well as descriptions of the market, the products and services, management, the operational plan and the financial position. An executive summary is also an important element, and there may be an appendix.

FIGURE 2 Sample execution chart

BUSINESS OBJECTIVE: Effectively Serve Senior Citizens Market

Vision: To be the top-of-mind pharmacy choice for senior citizens within a 10 km radius
Key Players: Myself, staff pharmacists, front store manager, market research firm, etc.
Measurements: Five documented medication reviews each month; 20% increase in product sales to seniors

WHEN	WHAT	WHO
January 10	Conduct research on seniors in target area, and what they value in a pharmacy	Myself (and/or my pharmacy team), market research firm
January 30	Target compliance packaging as one tactic	Train pharmacy technicians on the delivery of a compliance packaging system
February 10	Establish a protocol for conducting 30-minute medication reviews with appropriate senior patients	Staff pharmacist

Vision

A pharmacy's vision speaks to the "essence" of your practice. What do you hope to accomplish as a pharmacy owner/manager and pharmacist? What are your objectives? Describe your vision as succinctly and completely as possible. Some vision statements are profound but fewer than ten words. Take for example Wal-Mart's vision statement in 2000: *To become the worldwide leader in retailing.*

Pharmacy Description

This component of a business plan highlights your pharmacy "profile." Is it a business, partnership, or sole proprietorship? Where is it located? Describe the store management structure and staffing. Who are your advisors, including legal counsel and an accountant? Refer to a shareholders agreement if you have one.

The Market

Referring back to Lesson 2 of this CE series, it makes sense to refocus on a market analysis:

Informal Primary Analysis Put your finger on the pulse of your store. What are you finding day to day?

Formal Primary Analysis Conduct a survey, interview customers, analyze point-of-sale data.

Secondary Analysis Review broad market information that already exists in the trade journals, economic reports, and census statistics.

Competitive Analysis With whom do you compete? What value do they offer their customers? How might they react to adjustments you make?

Products and Services

Identify what types and categories of products and services your practice/store provides. Are you strictly a dispensary operation with limited OTC products, or is your operation a large retail practice selling cards, gifts, sundries, confectionery, health and beauty care? Describe available professional services in areas such as diabetes and long-term care. Identify any strategic relationships with physicians. As pharmacy practice moves to more cognitive models for reimbursement, this section may serve as a business "template" articulating that your practice is "going after" this service, which creates a competitive advantage.[2]

Management Team

This is a good opportunity to profile each member of your store team. Describe why each individual is on your team and the role they play in your operation. Consider adding resumés in an appendix at the back of your business plan.

Operational Plan

Define the nature of your store: is it a dispensary or a larger retail operation? What are your hours of operation and why? Describe the design of your dispensary. How do prescriptions "flow" through your dispensary (also known as work flow)? Where does the pharmacist provide patient counselling? What unique facilities, such as a counselling room, compounding area, or long-term care prep room, are part of the operation? Describe the types of job positions and labour required to run your store and why.

At this point in the business plan, capabilities and business goals come together to form a series of actions. The "execution" chart on page 6 captures the start of an operational plan that targets building a geriatric clientele.

BUSINESS OBJECTIVE: EFFECTIVELY SERVE SENIOR CITIZENS MARKET

Financial Position

It is most productive to think of a pharmacy's finances in terms of what has happened in the past, projecting what may happen in the future and anticipated financial resources required.

Historical: Include a copy of your most recent income statement, balance sheet and statement of changes in financial position.

Looking Forward: Include a copy of your projected income statement and possibly a cashflow projection. Inexperienced pharmacy operators/pharmacists would be well served to work with an accountant experienced in retail (ideally pharmacy retail) when attempting this task for the first time.

Financing Sources: Identify any bank loans, shareholder loans and any "off-balance sheet" financing, such as lease commitments.

Executive Summary

Once the above sections have been completed, it is worthwhile to prepare a brief and concise summary for the beginning of your business plan. It should succinctly identify the pharmacy's key objectives and their benefits, as well as map out strategies to successfully move towards those objectives. The small amount of additional time to write an executive summary brings everything into sharp focus for the pharmacy owner/manager and for staff. As well, the executive summary may be the only section that a potential investor or financial institution may choose to read. Therefore, it's important to see it as an opportunity to capture the imagination, and the support, of its readers.

Appendix

Found at the end of a business plan, this component includes additional useful information that did not belong in the body of the business plan. Examples include employee resumés, a copy of the landlord lease, significant contracts with large customers, such as a local long-term care facility, and even a copy of a "key-man" insurance policy if one exists.

Reviewing and Monitoring Business Plans

A business plan should be considered a living document. While it serves as a road map, bumps and potholes will often appear that force the pharmacy to take a detour. Therefore, regularly monitoring for significant developments in the marketplace or projected cost overruns is paramount. In large corporations, senior management and field operations resources are paid to pay attention. Similarly, it behooves the pharmacy owner/manager to invest the time, and if necessary the personnel, to do likewise. It is recommended that pharmacy owners/managers, and pharmacists, regularly refer back to their business plan, ideally on a quarterly basis, and take the time to revise it annually as required.

Conclusion

Operating a pharmacy can be complicated work. Using business principles to operate your pharmacy can appear daunting. Why should a busy pharmacist spend time tracking results that have already happened, or write a business plan for a business that is already operating? Because it is through these actions that we are able to focus future effort and set a wise course.

Rather than be victimized by a constantly changing business climate, developing a strong strategy based on relevant factors, and updating it on an ongoing basis, positions a pharmacy to thrive for the long term. Furthermore, the implementation of sound business practices will position your pharmacy to achieve optimal results, on an optimal timeline, given your circumstances—laying the foundation to deliver and sustain expanded pharmacy services.

References

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CE Questions

1. If a pharmacy operator works hard and deals with circumstances to the best of their ability, any result that flows from that effort could be defined as success.

a. true
b. false

2. Which of the following is a key benefit of goal setting?

a. It focuses effort on the most important aspects of running their business or practice.
b. It prevents a pharmacy operator from redefining success after the fact to accommodate an optimistic point of view.
c. Both a) and b)
d. None of the above

3. If one were to think of goal setting as a race, one should think in terms of a:

a. sprint—results today matter above all else. GO GO GO!
b. marathon—slow and steady wins the race.
c. a balanced run—paced accordingly, sprinting when needed and strong enough to cross the finish line.
d. none of the above.

4. Profitability in retail pharmacy has not changed in 25 years, so a pharmacy operator has lots of profitability to work with.

a. true b. false

5. Which ratio is NOT a measure of liquidity?

a. acid test (quick ratio)
b. accounts payable days
c. inventory turnover
d. current ratio

6. Stock-outs are a pharmacy operator's number one cost if customers leave unsatisfied.

a. true b. false

7. Solvency is a measure of a pharmacy's ability to cover short-term financial obligations.

a. true b. false

8. The optimal term of a strategic plan is:

a. one-year plan
b. five-year plan
c. ten-year plan
d. none of the above; it is a matter of personal preference and capability.

9. The "Diamond-E Framework":

a. offers a useful tool in analyzing existing and potential strategies, and developing and implementing new ideas.
b. identifies key variables that the pharmacist should consider in any strategic analysis.
c. highlights and structures the critical relationships that exist between these key variables.
d. all of the above.

10. The following are steps in the broad strategic analysis process:

a. base case analysis
b. strategy formation and testing
c. decision and implementation
d. all of the above

11. The Diamond-E drill is:

a. a new product recently launched at many pharmacies.
b. a quick and helpful way to evaluate possible strategies.
c. a business planning tool.
d. none of the above.

12. In conducting analysis and developing strategy, it is important to draw upon:

a. professional experience
b. common sense
c. helpful tools such as a PEST analysis
d. all of the above

13. PEST stands for:

a. Political, Economic, Strategic, Technological
b. Political, Economic, Social, Technological
c. Production, Excellence, Strategic, Tactical
d. Positional, Economic, Social, Tactical

14. If your strategy is the same as it was five years ago, then

a. you have a limiting strategy.
b. you have a perfect strategy.
c. you do not have a strategy.
d. none of the above.

15. Which of the following is NOT a benefit of a business plan?

a. sets priorities, provides a focus and demonstrates commitment.
b. anticipates problems and avoids roadblocks.
c. discourages realism in setting expectations for what you can accomplish.
d. serves as a benchmark for measuring performance and success.

16. A business plan consists of a vision statement, a description of the business as well as descriptions of the market, the products and services, management, the operational plan and the financial position and possibly an appendix. What else is an important component of a business plan?

a. hiring plans
b. a demographic analysis
c. an executive summary
d. none of the above

17. Business planning is:

a. a part of an implementation process.
b. helpful even if your pharmacy is up and running.
c. often required by a bank as part of a business loan application.
d. all of the above.

18. A vision for a pharmacy must be:

a. as complicated as your business model.
b. a step by step plan for action.
c. used in all promotional materials.
d. none of the above.

19. Which of the following is NOT an important element of the operational component of a business plan?

a. definition of the nature of your store.
b. workflow.
c. financing resources.
d. description of jobs and labour.

20. A business plan once completed can be left untouched for years.

a. true b. false

FACULTY

Essential Business Principles in Preparation for Expanded Services in Pharmacy Practice

About the authors

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- ❑ Mass merchandiser
- ❑ Grocery store pharmacy
- ❑ Hospital pharmacy
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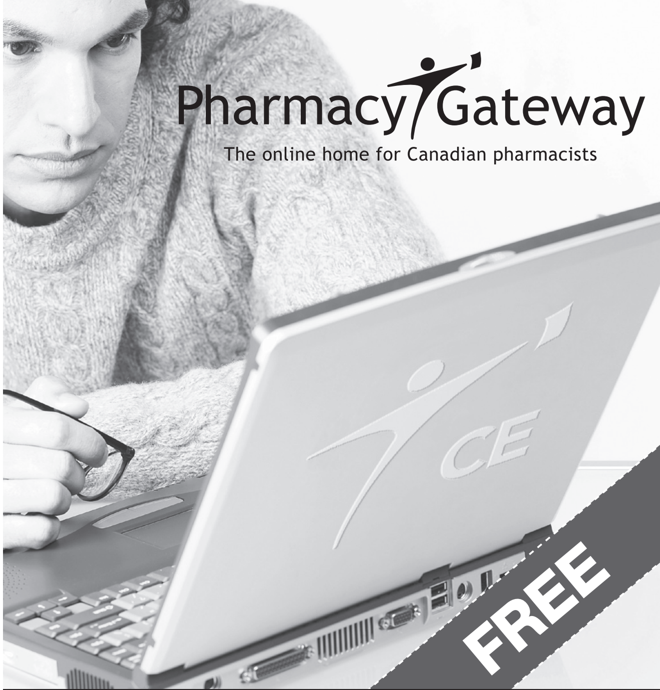

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