

How do you measure the financial success of your pharmacy business?

Money in the bank? Far too simplistic. Turnover? A little better, but still not telling you enough. Turnover may increase but if costs increase by the same or more to achieve it, a business is not any more successful than it was previously. Pharmacy business owners must think more deeply about how they measure the financial success and growth of their business. A crucial tool in this analysis is the use of Key Performance Indicators (KPIs).

There are many non-financial KPIs which can be measured, such as customer satisfaction rate. However, we will focus here on financial KPIs, which can provide business owners with a much deeper understanding of their business, its performance and its financial health.

Gross Profit Margin

This measures the profitability of a pharmacy with a specific focus on direct costs of sale. GP Margin is determined by calculating the gross profit (turnover less direct costs of sale) and dividing by turnover. Every pharmacy owner should know their GP Margin target and monitor this to ensure sufficient gross profit is being made to cover overhead expenses and still make an overall net profit. When calculating gross profit, turnover should exclude any wholesale income (which will have a much lower margin) and one-off income sources. It also helps to ensure staff are following the buying procedures in place and are not bypassing the system.

Average Revenue per Prescription

Pharmacists can easily calculate their script count which is the total number of prescriptions filled over a specific period. Monitoring this helps understand the workload and overall demand. Taking this one step further, the average revenue can be calculated per prescription filled. It can help pharmacies assess the value of each prescription and identify opportunities to increase revenues. Linked to this, the generic dispensing rate, which measures the percentage of generic drugs to branded drugs, can be useful to know given a higher generic rate can improve the gross profit margin.



Staff Costs as a percentage of Revenue

This measures the extent to which your turnover is used to cover the costs of your employees. To capture the whole picture, staff costs should include pension contributions, tax and national insurance. By dividing staff costs by revenue, you will arrive at the staff costs percentage. The target could be to reduce the percentage without affecting your non-financial KPIs, ensuring that any cost savings are not negatively impacting the customer experience but simply improving the financial efficiency of the business. Also bear in mind that locums are generally more expensive for the business if relying heavily on locums.

EBITDA

This is earnings before interest, tax, depreciation and amortisation. It shows the basic cash flow generated from trading and is an essential measure used by banks for funding.

The above is far from exhaustive but provides an indication of the type of metrics that are most telling in measuring the performance of your business. Many of these metrics can be benchmarked against the industry average, or average in your geographic area, to analyse how you compare with your competitors.

Being aware of these metrics is one thing but to make them meaningful they must be measured against targets, for instance to grow gross profit margin by x%. Your management accounting reporting should incorporate calculation of your chosen KPIs and track them against the target to allow you to monitor if the business is on track.

For pharmacy businesses who do not have their own Finance Director or internal finance team, the management reporting can be outsourced to an accountant. Reporting tailored specifically to your business can be prepared to compile all the key financial information, metrics and KPIs into one monthly or quarterly report pack, giving business owners real time information on their business' performance.



If you would like to know more about the benefits of management accounts reporting, please email us at info@thomsoncooper.com to arrange a free consultation.

Scott Wilson – Qualified Accountant



Scott is our Accounts Department Senior Manager who specialises in Management Accounting and Corporate Finance. He advises business owners on how their business is performing, identifying areas of potential growth as well as areas of concern. He also has experience in both the buy-side and sell-side of business acquisitions, covering all aspects from business valuation to the due diligence process.

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