

A prescription to heal Harney's deep cuts?

Date: 26th June 2009



Minister Harney's announcement on the 18th June to reduce payments to community Pharmacists, may have just been 300 words but its impact has already been sliced and diced by all impacted in the pharmacy sector. Put simply the general feeling in the industry is that the proposed changes which come into effect from the 1st July 2009 will be catastrophic for the sector and will directly lead to job losses and pharmacy closures in the next 6 months.

While a highly organised and effective pharmacy lobby will no doubt get to impress upon the Department of Health their genuine concerns it is difficult to see how these measures will be overturned.

According to Fergal Melia, Russell Brennan Keane's Pharmacy specialist, pharmacists need to focus on what they can control. Certainly the pharmacy sector as a whole needs to regroup just as it did last summer. However at an individual business level, each pharmacy operator needs to stand back, assess the damage this does to their own business financially and consider what they can do to mitigate against some of these projected losses"

Fergal suggests a simple plan of action for each pharmacy:

1. Accurately calculate the financial impact on your business
2. Consider measures to mitigate against these losses
3. Implement these measures, and monitor their impact

1. Accurately calculate the financial impact on your business

These calculations need to be done for each shop individually. There is no simple formula that will accurately calculate these figures as, while the margin cut is quite straightforward, in order to see the effect of the increased dispensing fee you will have to review the annual amount of items dispensed from your monthly returns. As a general rule of thumb you will be affected to a greater extent if you are more exposed to a high private DPS prescription business.

Contact your accountant if you need assistance with these calculations. Know the figures, as without the proper information now, you cannot plan for the future with any certainty.

2. Consider all available measures to mitigate against these losses

Any business can be split into 3 areas financially - revenue, gross margin and overheads. Take a fresh look at each of these areas now and where improvements can be made. Minister Harney's announcement should help to focus minds!

Revenue. While prescription margins will fall due to the cut backs announced, revenue and the actual number of items dispensed should remain consistent. Therefore the question is - What can you do to increase the number of items your pharmacy dispenses compared to the pharmacy next door?

Margin. You will have identified through step one exactly how much your margin will fall by. Now what can you do about it? Two options within your control are:

- Generic goods and Parallel Imports. There are huge financial benefits from dispensing generic product. Of course you need to follow the existing guidelines and talk to local doctors about dispensing more generic product. This can add up to 6% to your annual gross margin and if you are not dispensing generics already then this is the most potent weapon available to mitigate against the minister's measures.
- Wholesaler discounts – what discount are you earning from your wholesaler. These vary significantly from one pharmacy to another. Where are you on this scale and why are you not getting the maximum discount available? Join a larger buying group to maximise the discount available.

Overheads. Your largest overhead is your wage bill. Ask your accountant or pharmacy specialists such as Russell Brennan Keane to see how your overall wage costs compares against best practice in the sector. Wage costs are falling rapidly and the latest announcements make wage reductions easier to communicate to and get acceptance from your staff.

For many shops, particularly those set up in the last five years, the cost of rent, rates and service charges is the second greatest overhead. These rents were negotiated at a time when margins were much higher. Go back to your landlord with a view to achieving significant rent reductions even where there are upward only review clauses in place.

All other costs including energy and professional costs **should now be reviewed** and there has never been a better time to shop around for competitive quotations. Again see how your costs for individual overheads compare to the best performers in the sector.

3. Implement these measures, monitor their impact

Implement the measures immediately. The minister has indicated that her cutbacks are effective from the 1st July so time is of the essence. Ask your accountant to prepare up to date accounts 3 or 6 months after the ministers measures are in place and when the effect of your own business review should be clear.

Conclusion – Mind Your Own Business

There will be much hand wringing and fretting as a result of these cut backs. However each pharmacy owner must focus on what they control and not waste time and energy on measures which are broadly out of your hands. The pharmacy union can lead the charge on behalf of the industry; you need to mind your own business.

For Further Information

If you would like an accurate calculation of the effect of the Ministers cutbacks and the options available to your business to mitigate against these losses please contact Fergal Melia, Russell Brennan Keane on 01 6440100 or by email: fmelia@rbk.ie.

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About RBK

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

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