



# Changing something established

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## MAKING A DECISION TO IMPROVE DISPENSARY EFFICIENCY IS A CRUCIAL FIRST STEP THAT MANY TRADITIONAL COMMUNITY PHARMACIES MUST TAKE TO PREPARE FOR LOOMING THREATS TO DISPENSARY PROFITABILITY.

**T**aking action to manage the potential risks is preferable to doing nothing at all. Doing nothing is the worst decision you can make. The successful innovators in any industry, and community pharmacy is no different, never choose the status quo and do nothing in the face of risks and challenges.

Innovation is defined by the *Oxford English Dictionary* as 'Change something established by introducing new methods, ideas or products' and there is nothing more established (some might say entrenched) in the traditional community pharmacy model as the dispensary process, roles, layout/design and failure of owners/managers to recognise the inefficiencies.

### UNCOVER INEFFICIENCIES

Most dispensaries I observe take an

inordinate length of time to handle most aspects: from script-in, keying in, picking, replenishment, transfer and checking, through to script-out. Close observation of these processes will uncover the time delay of distance the script has to travel, time it sits around between processes at busy times (as there aren't enough, or the right staff rostered on) and the

## ...MOST PHARMACIES CAN SAVE A LOT OF TIME BY IMPLEMENTING INNOVATIVE CHANGES THROUGHOUT THE WHOLE DISPENSARY

bottlenecks at script-out caused by so many functions (script-in, waiting, script-out, primary care enquiry, S2/3 requests, counselling and cash and wrap) being squashed into a tiny area—causing the process to get bogged down yet again.

The result is stressed-out pharmacists, pharmacy owners

bearing higher staff and floor/wall space costs and increasingly frustrated customers waiting much longer than necessary and detracting from their experience.

### CHOOSE TO ACT!

I have explained the crucial need for such dispensary innovation to many owners. Most acknowledge my points yet far too many fail to act, usually in fear of making a mistake and/or not wishing to challenge the status quo in their own pharmacy.

However, doing nothing in the face of the fundamental changes occurring throughout our economy and consumer environments, not to

mention the looming 2013 weighted average disclosed price (WADP) cuts is the worst decision owners can make.

### TRY THESE METRICS

Today the average gross profit dollars earned per script dispensed by traditional community

pharmacies is about \$14 (this varies depending on pharmacy location and generic substitution level) including fees, mark-up, wholesaler discount (shrinking), rebates, bonus stock and generic supplier discounts. I termed this RPS—Revenue Per Script.

Last year I calculated the average cost incurred to dispense a prescription to be \$9.56. This was based on data collected from 39 pharmacies after allocating all pharmacy overheads between the dispensary, scheduled medicines and retail sections. These costs included everything to do with running the dispensary such as wages, owner commercial salary, on-costs, rent, IT, continuing professional development, fixtures and fittings, stationery, light and power, bank charges and so on. I termed this CPS—Cost Per Script.

Therefore, community pharmacies, on average, earn net profit per script of \$4.44—the PPS or Profit Per Script.

These three figures are averages and vary depending mostly on how efficiently the dispensary is operated rather than location, which still has an effect, albeit much less. Figure One offers a small selection from among the pharmacies on which I have based my cost-of-dispensing analysis.

For each of these pharmacies the RPS is higher than the CPS. This delivers bottom line net profits per script and makes up the great majority of the total pharmacy net profit after scheduled medicines and retail sales are added in.

FIGURE ONE: Cost of dispensing in community pharmacies

Pharmacy	Turnover	Script volume	CPS	Comment
City strip	\$7m	110,000	\$13.40	Inefficient process, layout, roles and systems.
City strip	\$3.2m	67,000	\$7.65	Efficient in all aspects.
City strip	\$2.1m	32,000	\$9.61	Efficient roles & systems. Process not addressed
Shopping centre	\$6.9m	81,000	\$8.55	Efficient in all aspects except layout.
Shopping centre	\$9m	110,000	\$10.84	Roles/roster efficient.
Provincial	\$4.3m	50,000	\$11.13	Efficient systems/processes.
Provincial	\$2.4	37,000	\$9.61	Roles/roster needs attention.

▶ CONTINUED ON PAGE 62

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The point of knowing RPS and CPS is as follows:

- 1. As WADP cuts begin to exceed new generic discounts entering the market, the RPS may slowly fall, perhaps beginning December 2013.**
- 2. CPS will continue rising if the status quo remains (ie. wages, on-costs and rent in particular always rise).**
- 3. The gap between the two may therefore narrow over time, thus impacting net profits, cash flow, pharmacy valuation and for some, even viability.**
- 4. By beginning to work on improving dispensary efficiencies now community pharmacies will reduce their CPS, thus helping to maintain the gap between costs and revenue per script.**

### BENEFITS FOR ALL

The work done by Glenn Guilfoyle and Peter Feros, both experts in dispensary process and efficiency, and previously published in the *AJP*, indicates that most pharmacies can save a lot of time by implementing innovative changes throughout the whole dispensary.

According to Peter Feros the difference in script processing time between efficient and inefficient dispensaries is more than two minutes. By being able to save just one minute per script on average—equating to a saving of 60c per script—a pharmacy will reduce their CPS, thus helping to bridge some of the gap that may be lost to WADP cuts in the future.

Putting that in perspective, if the current net profit per script for the 35 pharmacies is \$4.44 and that falls

to, say \$3.66, in 2014 the saving of this 60c would bridge most of the gap these pharmacies otherwise stand to lose through WADP.

### REMEMBER...

Gravity shelves, drawers and robot systems, while helpful in most circumstances and dependent on individual needs, will only deliver a small proportion of this saving. The trick is to address the whole dispensary to gain the benefits that are clearly available.

Another crucial goal when attempting to lift dispensary efficiency is to reduce customer waiting time. Let's face it: no-one likes to wait needlessly so successfully minimising dispensing times will also minimise customer frustration, while impressing existing customers and giving them another reason to come back.

### A STEP FURTHER

But why stop there? Take these ideas together and aim to offer the fastest dispensary service in the market area. In achieving the goal you will have gained the opportunity to promote it as a powerful point of difference.

The efficiency dividend is a saving of the cost of time—time that pharmacists can use to engage customers by offering health solutions, providing remunerated services, bolstering solution sales and generally delighting the customer, thus creating another powerful point of difference.

So now is the time to crack the established status quo of your community pharmacy's entrenched dispensary systems by making innovative decisions for the future. ■