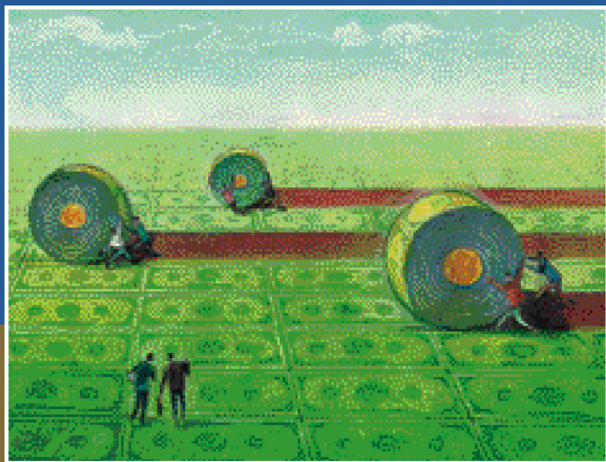
NCPA-Pharmacia

2002 DIGEST



Survey of Independent Pharmacy Operations in America

2002
NCPA-Pharmacia Digest

A summary of financial and demographic information for independent community pharmacies throughout the United States during 2001. The most comprehensive report of independent community pharmacy available.

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The *2002 NCPA-Pharmacia Digest* may be purchased by calling (703) 683-8200. The price of the publication for pharmacy students, colleges, universities and NCPA members is $25.00. Others may purchase a copy for $50.00. When ordering more than 25 copies, a discounted price may be obtained by contacting NCPA.

October 2002

Dear Reader:

Welcome to the *2002 NCPA-Pharmacia Digest*. For 70 years, the *Digest* has provided the most comprehensive report *available on* independent pharmacy. Our organizations are privileged to work together and make this vital information available to all interested parties.

NCPA, the National Community Pharmacists Association, represents the pharmacist owners, managers, and employees of the nation's nearly 25,000 independent community pharmacies. NCPA views the *Digest* as one of the most valuable services it provides each year to its independent pharmacist members and to the industry *and public at-large*. Not only does the information contained in the *Digest* provide a picture of independent community pharmacy as a whole for those with a stake in the pharmaceutical marketplace, but it also provides a gauge by which individual pharmacy owners can measure the financial state of their own pharmacy practices.

This year's *Digest* confirms the continued strength of independent community pharmacy. The nation's independent pharmacies, independent pharmacy franchises, and independent chains dispense nearly half of the nation's 3.2 billion retail prescription medicines and account for more than $50 billion in prescription drug sales each year.

Pharmacia recognizes independent pharmacy as an important partner in meeting the growing demands of consumers for medications and information regarding health care. As an innovative leader in a number of therapeutic areas, Pharmacia recognizes the vital importance of community pharmacy to the health of the nation.

The company's commitment to the *Digest* is aimed at defining and widely communicating the value of independent pharmacy in the marketplace. This year's *Digest* numbers reaffirm independent pharmacy's stability and strength.

We hope as you read the *Digest* that you too will come to appreciate the vital importance of independent community pharmacy in today's health care system. We are pleased to present this comprehensive report and together demonstrate our continuing commitment to the nation's independent community pharmacies.

Sincerely,

Bruce Roberts, R.Ph.
Executive Vice President & CEO
National Community Pharmacists Association

Mark Spiers
President, N.A. Operations
Pharmacia Corporation

PHARMACIA

Foreword

The *2002 NCPA-Pharmacia Digest* is provided as a service to community pharmacists and others interested in pharmacy services by the National Community Pharmacists Association with an unrestricted educational grant from Pharmacia Corporation.

The *NCPA-Pharmacia Digest* has been designed for use by independent community pharmacy managers, owners, and aspiring owners in the evaluation of financial data for their community pharmacy practices, and for others with an interest in the $60 billion independent pharmacy marketplace. It contains financial information obtained from a randomly selected sample of independent pharmacies throughout the United States and was assessed for accuracy by researchers representing several academic institutions.

The *2002 NCPA-Pharmacia Digest* features more information and graphics to better illustrate the information it contains. The contents of this report were based upon suggestions provided by independent community pharmacy owners and managers. Within each section of the *Digest*, detailed tables and figures summarize the 2001 financial data provided on independent community pharmacies. The information in each section is presented in several formats to allow for useful comparisons by owners and managers of similar pharmacies.

Additionally, the *Digest* continues to include the following sections: Prescription Sales, Over-the-Counter (OTC) Sales, and Technology. These sections were added to provide a more complete description of the activities of independent community pharmacies. The Prescription Sales section gives an overview of the top prescription medications dispensed by independent pharmacists. The OTC section describes opportunities available in OTC sales, and the technology section describes the use of technology by independent pharmacists.

The *Digest* personnel appreciate the efforts of the owners of pharmacies who provided financial data. Researchers from several academic institutions conducted the project and validated the data by reviewing each questionnaire and discussing those income and expense data that were outside normal parameters with participating pharmacy owners and managers. Some of the charts and tables in the *Digest* are based on data from fewer than the total number of participants since all respondents did not answer every question or provide data for the entire fiscal year.

NCPA and the researchers would also like to acknowledge IMS Health and the Hamacher Resource Group for their valuable contributions of both data and analysis to this year's *Digest*. This is the second year that these information companies have contributed to the *Digest,* and their assistance is greatly appreciated.

Both NCPA and Pharmacia are pleased to provide this comprehensive report to assist pharmacy owners and managers in evaluating the financial components of their individual pharmacies and look forward to continuing this partnership to provide useful information to independent community pharmacists.

Contents

Independent Pharmacy Today

The *NCPA-Pharmacia Digest* provides an annual overview of independent pharmacy in America, including a comprehensive review of the financial operations of the nation's independent pharmacies. This year's *Digest* findings reaffirm that independent community pharmacy continues to be a powerful force in the pharmaceutical marketplace in the United States.

Here are a few of the highlights of this year's Digest:

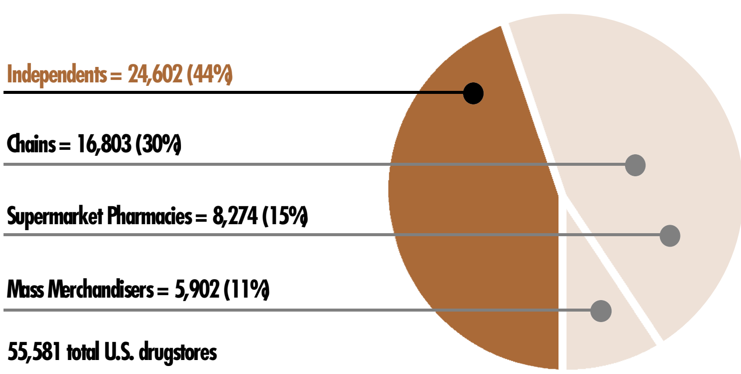
- Independent pharmacy is a $60 billion marketplace, including $53 billion in annual prescription sales.
- Independent pharmacies dispense 1.32 billion prescriptions annually, representing 42 percent of the retail prescription drug market.
- The average independent community pharmacy dispenses 51,245 prescriptions annually, or 164 per day.
- Total sales in the average independent pharmacy reached nearly $2.5 million, an increase of 8.0 percent over last year.
- Total prescription sales, which account for nearly 85 percent of the average independent pharmacy's sales, topped $2 million, an increase of 6.6 percent over last year.
- The number of independent pharmacies in the United States has held steady for the past three years at more than 24,500. Independents had 24,602 outlets in 2001 — 44 percent of the nation's 55,581 drugstores.

Independent pharmacies are increasingly diverse in character, but they are all pharmacist-owned, privately held businesses. They are single-store operations, independent chains, independent franchises, and independent pharmacist-owned supermarket pharmacies. Increasingly, independents are operating multiple pharmacies. NCPA research shows that 21 percent of independent owners own two or more pharmacies.

Besides a strong market presence, independent pharmacies play a vital role in preserving the health and well-being of their patients and their communities as a whole. Independent pharmacies are among the nation's most accessible health care centers, and in many communities, especially in rural areas, they are the cornerstone of the community's health care system. In survey after survey, consumers rate independent pharmacies as the best at providing high-quality service.

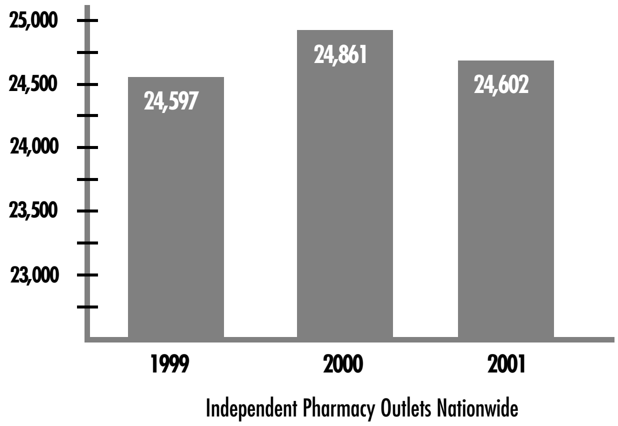
- According to Ortho Biotech's *2001 Retail Pharmacy Digest*, "customers using independent pharmacies were significantly more satisfied with their pharmacy overall," than any other retail outlet. "In general, customers of the nation's 25,000 independent community and chain pharmacies were most highly satisfied with the pharmacy they

Figure 1 Independent Pharmacies: 44% of Total U.S. Drugstores



Source: National Council for Prescription Drug Programs and NCP A research

Figure 2 Independent Pharmacy Outlets Nationwide



used most often to fill and refill prescriptions," the survey reported. "They were also more likely to return to their pharmacy to fill and refill prescriptions and more likely to recommend their pharmacy to a friend or family member to have their prescription filled and refilled."

- When asked which type of pharmacy offers the best service, locally owned neighborhood pharmacies were rated tops by 39 percent of consumers in the quarterly AmeriSource Index released in July 2001. Independents were followed by chain pharmacies, supermarket pharmacies, and mass merchandisers.

Independent pharmacies are also continuing to expand the scope and diversity of the patient care services they provide. Independent pharmacies are the nation's pharmacy innovators in providing disease management services to patients with chronic health conditions such as diabetes, asthma, hypertension, and high cholesterol.

- Nearly 15,000 community and chain pharmacists have completed disease management programs accredited by NCPA's National Institute for Pharmacist Care Outcomes.

- The National Institute for Standards in Pharmacist Credentialing (NISPC), of which NCPA is a founding member, has credentialed nearly 1,400 pharmacists nationally in anticoagulation, asthma, diabetes, and dyslipidemia management.

- "Overall, independent pharmacies were ranked highest in addressing the needs of diabetes households," according to the Novo Nordisk "Diabetes Treatment Pharmacy Satisfaction Report 2002."

- Independents consult with physicians 7.8 times daily on prescription drug therapy, according to the *Digest*. Physicians in turn accept the pharmacist's generic product recommendations 75 percent of the time and 72 percent of the time for other therapeutic interchange recommendations.

Independent community pharmacies are leading the way in community pharmacy practice. They are leaders in customer service. They are leaders in providing patient care services. They are financial leaders in their communities. They are leading the way into new frontiers of pharmacy practice in the new millennium.

Financial Executive Summary

From its inception, the *Digest* has presented an annual picture of the financial status of participating independent community pharmacies. The pharmacy environment remains quite dynamic and volatile, creating a competitive marketplace for a pharmacy. As national health care expenditures continue to increase, the value of medications and pharmacists in reducing and preventing hospital stays is increasingly recognized. Prescription drug procurement costs continue to grow for the pharmacist stemming from increases in the number of higher-priced drugs and prescription volume in general. And, gross margins have declined steadily for more than a decade and hit a new low of 23 percent this year. A principal contributor to this phenomenon has been the proliferation of third-party payers and the decreasing reimbursement rates included in these contracts. Even though gross margins have declined precipitously, the profit margin (as a percentage of sales) continues to remain around three percent due to streamlining of operations and more efficient management. Due to this environment, today's owner and manager must be familiar with their pharmacy's financial situation. The *2002 Digest*, as with every *Digest* before, provides additional information that can be a resource to the owner and add to the success of the business.

Income and Expenses

For the 52nd consecutive year, participating *Digest* pharmacies reported record sales – with an average of $2,480,929 (Table 1). Total sales grew by 8.0 percent during 2001 and that result follows growth of 16.7 percent observed in 2000.

The cost of goods sold as a percentage of sales also increased resulting in a gross margin that was 23.0 percent of total sales. While sales increased and gross margin decreased as a percentage of sales, gross margin dollars increased to $571,626.

Prescription sales revenues increased 6.6 percent from the previous year. In the typical *Digest* community pharmacy, prescription income accounted for 84.2 percent of total sales. This represents a new record in total prescription revenue. The

Table 1 Current National Trends – Income/Expense Statement

	2001	%Sales	2000	%Sales	Amount and Percent of Change	
Sales						
Prescription Sales	$ 2,088,606	84.2%	$ 1,959,333	85.3%	$ 129,273	6.6%
Other Sales	392,323	15.8%	337,339	14.7%	54,984	16.3%
Total Sales	$ 2,480,929	100.0%	$ 2,296,672	100.0%	$ 184,257	8.0%
Cost of goods sold	1,909,303	77.0%	1,761,620	76.7%	147,683	8.4%
Gross margin	$ 571,626	23.0%	$ 535,052	23.3%	$ 36,574	6.8%
Expenses						
Proprietor's salary	$ 109,024	4.4%	$ 100,909	4.4%	$ 8,115	8.0%
Employee's wages	201,490	8.1%	180,192	7.8%	21,298	11.8%
Rent	30,528	1.2%	30,125	1.3%	403	1.3%
Utilities	12,639	0.5%	12,400	0.5%	239	1.9%
Prescription containers	9,269	0.4%	9,071	0.4%	198	2.2%
Delivery Costs	6,984	0.3%	4,249	0.2%	2,735	64.4%
Computer	7,589	0.3%	5,577	0.3%	2,012	36.1%
Advertising	13,304	0.5%	13,162	0.6%	142	1.1%
All other expenses	92,886	3.7%	105,312	4.6%	-12,426	-11.8%
Total expenses	$ 483,713	19.4%	$ 460,997	20.1%	$ 22,716	4.9%
Net profit (before taxes)	$ 87,913	3.5%	$ 74,055	3.2%	$ 13,858	18.7%
Proprietor's withdrawals	109,024	4.4%	100,909	4.4%	8,115	8.0%
Total income (before taxes)	$ 196,937	7.9%	$ 174,964	7.6%	$ 21,973	12.6%

average *Digest* pharmacy recorded decreases in gross margin and total expenses as percentages of sales, with the **net profit before taxes increasing to $87,913, representing 3.5 percent of sales**.

Total expenses as a percentage of sales decreased in 2001. The average proprietor's or manager's salary was 4.4 percent of sales. Employees' wages increased from 7.8 to 8.1 percent of sales. Rent decreased, from 1.3 to 1.2 percent of sales. The increase in net profit dollars when added to the salary drawn by the proprietor/manager resulted in a **total proprietor's income of $196,937** and this represented another record for the *Digest*. Proprietor's total income in 2001 was 7.9 percent of total sales.

Demographics

Table 2 indicates that total inventory dollars increased over the previous year, and inventory, expressed as a percentage of sales, decreased from 8.2 to 7.8 percent. Prescription inventory dollars decreased from 5.9 percent to 5.6 percent of sales. Merchandise inventory, excluding prescription items, decreased from 2.3 percent to 2.2 percent of sales. **The average inventory turnover rate increased from 9.3 to 9.8 times.** The sales to inventory ratio for the prescription department was 15.0 and for other departments it was 7.1, indicating that inventory control in the prescription department was better than in other departments.

Space in the average independent community pharmacy increased to 3,127 square feet during 2001. Sales productivity per square foot of floor area increased to $793.

The number of prescriptions increased to 51,245 and **the average patient charge increased to $40.76 per prescription**. The share of new prescription activity was 48.5 percent of total prescriptions dispensed. Prescription sales per pharmacy hour open increased 6.3 percent during 2001 and the average number of hours open remained steady. The percentage of total prescriptions covered by Medicaid and

Table 2 Digest Demographics

Averages per Pharmacy	2001		2000		Amount and Percent of Change	
Value of inventory at cost and as a percentage of sales1						
Prescription Inventory	$ 139,200	5.6%	$ 136,689	5.9%	$ 2,511	1.8%
Other Inventory	55,101	2.2%	51,954	2.3%	3,147	6.1%
Total Inventory	$ 194,301	7.8%	$ 188,643	8.2%	$ 5,658	3.0%
Annual rate of inventory turnover		9.8 times		9.3 times		
Size of area and sales per square foot						
Prescription Sales per square foot	725 sq. ft.	$ 2,881	716 sq. ft.	$ 2,736	9 sq. ft.	1.3%
Other Sales per square foot	2,402 sq. ft.	$ 163	2,391 sq. ft.	$ 141	11 sq. ft.	0.5%
Total Sales per square foot	3,127 sq. ft.	$ 793	3,107 sq. ft.	$ 739	20 sq. ft.	0.6%
Number of prescriptions dispensed						
New prescriptions	24,829	48.5%	24,848	48.7%	-19	-0.1%
Renewed prescriptions	26,416	51.5%	26,155	51.3%	261	1.0%
Total prescriptions	51,245	100.0%	51,003	100.0%	242	0.5%
Prescription charge		$ 40.76		$ 38.42		
Number of hours and days per week						
Hours open per week		56 hours		56 hours		
Days open per week		6 days		6 days		
Sales activity per hour open						
Prescription sales per hour		$ 715.53		$ 672.85	$ 42.68	6.3%
Other sales per hour		$ 134.41		$ 115.84	$ 18.57	16.0%
Number of prescriptions dispensed per hour		17.6		17.5	0.1	0.6%
Percentage of total prescription covered by:						
Medicaid		23.5%		21.0%		
Other third-party		52.6%		54.0%		

other third-party programs continues to increase, rising to 76.1 percent from 75 percent last year. However, the percentage of non-Medicaid third-party prescriptions declined from 54 percent to 52.6 percent.

Balance Sheet

Table 3 summarizes the balance sheet data for participating pharmacies. Data from Table 3 indicates that **the average investment in inventory was $205,762** and this represented 44.9 percent of the total assets of the pharmacy. The second largest asset investment was in accounts receivable at $100,717, then cash at $83,044, followed by the net or book value of fixtures and equipment at $46,786, and finally by prepaid expenses of $22,423. Total liabilities for the average pharmacy in Table 3 were $188,004 and the net worth or investment by the owner(s) was $270,728. The value for assets and net worth increased for the average *2002 Digest* pharmacy when compared with the average *2001 Digest* pharmacy.

Table 3 Current National Trends – Balance Sheet

Averages per Pharmacy	2001	Percent of Assets	Percent of Sales	2000	Percent of Assets	Percent of Sales	Amount and Percent of Change	
Assets								
Current assets								
Cash	$ 83,044	18.1%	3.4%	$ 73,584	17.0%	3.2%	$ 9,460	12.9%
Accounts receivable	100,717	22.0%	4.0%	98,179	22.7%	4.3%	2,538	2.6%
Inventory	205,762	44.9%	8.3%	198,086	45.8%	8.6%	7,676	3.9%
Total current assets	389,523	84.9%	15.7%	369,849	85.4%	16.1%	19,674	5.3%
Fixed assets	$ 46,786	10.2%	1.9%	$ 45,209	10.4%	2.0%	$ 1,577	3.5%
Other assets								
Prepaids	$ 22,423	4.9%	0.9%	$ 17,886	4.1%	0.8%	$ 4,537	25.4%
Total assets	$ 458,732	100%	18.5%	$ 432,944	100.0%	18.9%	$ 25,788	6.0%
Liabilities								
Current and accrued liabilities								
Accounts payable	$ 80,121	17.5%	3.2%	$ 79,897	18.5%	3.5%	$ 224	0.3%
Notes payable (within 1 year)	20,231	4.4%	0.8%	19,240	4.4%	0.8%	991	5.2%
Accrued expenses and other liabilities	26,306	5.7%	1.1%	22,191	5.1%	1.0%	4,115	18.5%
Total current liabilities	$ 126,658	27.6%	5.1%	$ 121,328	28.0%	5.3%	$ 5,330	4.4%
Long term liabilities								
Notes payable (after 1 year)	$ 61,346	13.4%	2.5%	$ 64,287	14.8%	2.8%	$ -2,941	-4.6%
Total liabilities	$ 188,004	41.0%	7.6%	$ 185,615	42.9%	8.1%	$ 2,389	1.3%
Net worth	$ 270,728	59.0%	10.9%	$ 247,329	57.1%	10.8%	$ 23,399	9.5%
Total liabilities and net worth	$ 458,732	100.0%	18.5%	$ 432,944	100.0%	18.9%	$ 25,788	6.0%
Net working capital	$ 262,865		10.6%	$ 248,521		10.8%	$ 14,344	5.8%

Sales Volume Summary

Strengthening sales is usually one of the major objectives in successful pharmacies throughout the United States. However, it is equally important to control operating expenses and merchandise costs so that favorable net profit and return on investments are realized. Sales volume, operating expenses, and net profits vary among different types of pharmacies; therefore, it is important to match the data from similar pharmacies to the pharmacy that is being evaluated. Table 4 illustrates the differences in selected operating statistics relative to sales volumes for various pharmacies.

During 2001, as the sales volume in pharmacies increased, the gross margin as a percentage of total revenue experienced a general decline. The percentage of gross margin for the lowest volume pharmacies was 33.2 percent and 22.7 percent for the highest volume pharmacies. Prescription sales as a percentage of total sales fluctuated around the *Digest* average as total revenue increased. However, in the case of pharmacies reporting sales over $4 million, 80.5 percent of their total sales was derived from the prescription department while the average *Digest* pharmacy reported 84.2 percent of total sales from the prescription department.

Data from Table 4 indicate that the average number of prescriptions dispensed ranged from 8,217 to 100,784 as average sales went from $359,667 to $5,487,943. The average prescription charge ranged from $35.09 to $43.83. The number of hours a pharmacy was open ranged from 49 to 66 and pharmacies in all sales categories reported being open an average of either five or six days per week. The inventory turnover rate increased as sales increased with the highest volume pharmacies reporting an average inventory turnover rate of between 9.0 and 12.1 and the lowest sales category reporting a turnover rate between 4.0 and 6.3.

Expenses

As sales increased in Table 4, total expenses in dollars increased in each sales category and declined as a percentage of sales, from 30.9 percent in pharmacies with less than $500,000 in sales to 19.0 percent in pharmacies with sales between $2.5 million and $4 million. Total expenses as a percentage of sales were highest in pharmacies with less than $500,000 in sales.

Compensation

The total wage package (manager's salary plus employees' wages) accounted for over 50 percent of the total expenses in each sales category reported in Table 4, and had a major impact on net profit. The manager's salary rose from $47,583 in the lowest-volume pharmacies to $185,454 in pharmacies with over $4 million in sales. However, the manager's salary decreased from 13.2 percent of total revenue in low volume pharmacies to 3.4 percent in the highest volume pharmacies. Employees' wages showed the opposite trend; they ranged from 5.9 percent of total sales in pharmacies with sales of under $500,000 to 9.4 percent in those pharmacies with sales volumes of greater than $4 million. This increased expenditure for employees' wages in higher dollar volume pharmacies may relate to the need for a larger staff to manage a pharmacy that operates longer hours. The increased prescription activity in high volume pharmacies, with the corresponding increase in the number of hours pharmacists are employed, could be contributing factors to the higher employees' wage figure as a percentage of sales.

Miscellaneous Operating Expenses

As a percentage of sales, this expense category shows no definitive trend as sales increase. However, it is important for the pharmacy manager to examine each individual expense in this category since these expenses ranged from 3.6 percent to 5.1 percent.

Net Profit

Table 4 indicates that pharmacies with total revenues between $1.5 million and $4 million were most capable of maintaining a net profit between 3.3 and 3.8 percent of sales. Further discussion of net profit appears on page 31 of the *Digest*. Table 4 provides a

Figure 3 Total Sales

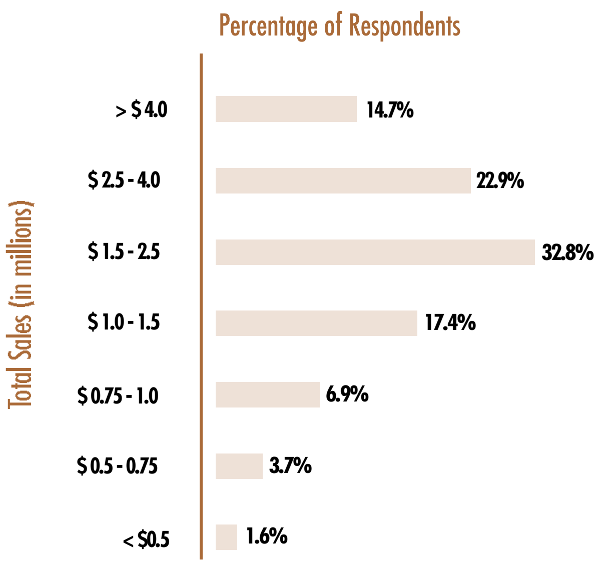


Table 4 Summary of Sales Volume in 2001

Averages per Pharmacy	Total Sales Under $500,000		Total Sales $500,000 to $749,999		Total Sales $750,000 to $999,999	
Sales						
Prescription Sales	$ 299,413	83.2%	$ 571,382	89.3%	$ 729,587	82.8%
Other Sales	60,254	16.8%	68,778	10.7%	151,230	17.2%
Total Sales	$ 359,667	100.0%	$ 640,160	100.0%	$ 880,817	100.0%
Cost of goods sold	240,416	66.8%	440,269	68.8%	653,301	74.2%
Gross margin	$ 119,251	33.2%	$ 199,891	31.2%	$ 227,516	25.8%
Expenses						
Proprietor's salary	$ 47,583	13.2%	$ 58,235	9.1%	$ 59,881	6.8%
Employee's wages	21,209	5.9%	47,766	7.5%	64,058	7.3%
Rent	12,432	3.5%	12,891	2.0%	12,631	1.4%
Utilities	3,637	1.0%	6,311	1.0%	7,790	0.9%
Prescription containers	1,548	0.4%	2,452	0.4%	3,707	0.4%
Delivery Costs	1,738	0.5%	4,009	0.6%	3,044	0.3%
Computer	2,875	0.8%	3,274	0.5%	5,479	0.6%
Advertising	1,952	0.5%	7,543	1.2%	4,119	0.5%
All other expenses	18,379	5.1%	29,615	4.6%	41,724	4.7%
Total expenses	$ 111,353	30.9%	$ 172,096	26.9%	$ 202,433	22.9%
Net profit (before taxes)	$ 7,898	2.2%	$ 27,795	4.3%	$ 25,083	2.8%
Proprietor's withdrawals	47,583	13.2%	58,235	9.1%	59,881	6.8%
Total income (before taxes)	$ 55,480	15.4%	$ 86,030	13.4%	$ 84,963	9.6%
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	$ 38,000	10.6%	$ 56,306	8.8%	$ 82,341	9.3%
Other Inventory	22,718	6.3%	13,352	2.1%	29,168	3.3%
Total Inventory	$ 60,718	16.9%	$ 69,658	10.9%	$ 111,509	12.6%
Annual rate of inventory turnover		4.0%		6.3%		5.9%
Size of area and sales per square foot						
Prescription Sales per square foot	433 sq. ft.	$ 691	545 sq. ft.	$ 1,048	565 sq. ft.	$ 1,291
Other Sales per square foot	1,136 sq. ft.	$ 53	1,361 sq. ft.	$ 51	1,533 sq. ft.	$ 99
Total Sales per square foot	1,570 sq. ft.	$ 229	1,906 sq. ft.	$ 336	2,098 sq. ft.	$ 420
Number of prescriptions dispensed						
New prescriptions	4,158	50.6%	6,751	48.6%	10,049	48.3%
Renewed prescriptions	4,059	49.4%	7,126	51.4%	10,742	51.7%
Total prescriptions	8,217	100.0%	13,877	100.0%	20,791	100.0%
Prescription charge		$ 36.44		$ 41.17		$ 35.09
Number of hours and days per week						
Hours open per week		49		50		50
Days open per week		5		6		6
Sales activity per hour open						
Prescription sales per hour		$ 117.95		$ 220.29		$ 280.49
Other sales per hour		$ 23.74		$ 26.52		$ 58.14
Number of prescriptions dispensed per hour		3.2		5.4		8.0
Percentage of total prescription covered by:						
Medicaid		21.9%		17.8%		24.3%
Other third-party		37.3%		46.4%		49.1%

Total Sales $1,000,000 to $1,499,999		Total Sales 1,500,000 to $2,499,999		Total Sales $2,500,000 to $4,000,000		Total Sales Over $4,000,000	
$ 1,084,982	84.9%	$ 1,725,684	87.3%	$ 2,683,561	85.1%	$ 4,417,450	80.5%
193,233	15.1%	250,901	12.7%	468,190	14.9%	1,070,493	19.5%
$ 1,278,215	100.0%	$ 1,976,585	100.0%	$ 3,151,751	100.0%	$ 5,487,943	100.0%
969,215	75.8%	1,527,452	77.3%	2,435,494	77.3%	4,240,195	77.3%
$ 309,000	24.2%	$ 449,133	22.7%	$ 716,257	22.7%	$ 1,247,748	22.7%
$ 75,525	5.9%	$ 99,583	5.0%	$ 127,217	4.0%	$ 185,454	3.4%
85,908	6.7%	142,651	7.2%	254,315	8.1%	516,308	9.4%
18,996	1.5%	26,911	1.4%	34,874	1.1%	60,612	1.1%
8,839	0.7%	10,584	0.5%	14,988	0.5%	23,317	0.4%
5,000	0.4%	7,719	0.4%	12,180	0.4%	20,155	0.4%
3,370	0.3%	5,378	0.3%	8,626	0.3%	15,054	0.3%
5,110	0.4%	6,847	0.3%	8,074	0.3%	14,470	0.3%
6,748	0.5%	9,354	0.5%	17,247	0.5%	30,694	0.6%
46,544	3.6%	72,765	3.7%	118,750	3.8%	201,664	3.7%
$ 256,040	20.0%	$ 381,724	19.3%	$ 596,271	19.0%	$ 1,067,728	19.6%
$ 52,960	4.1%	$ 67,409	3.4%	$ 119,986	3.8%	$ 180,020	3.3%
75,525	5.9%	99,583	5.0%	127,217	4.0%	185,454	3.4%
$ 128,485	10.0%	$ 166,992	8.4%	$ 247,203	7.8%	$ 365,474	6.7%
$ 94,054	7.4%	$ 122,149	6.2%	$ 167,352	5.3%	$ 242,934	4.4%
33,775	2.6%	47,830	2.4%	62,357	2.0%	111,103	2.0%
$ 127,829	10.0%	$ 169,979	8.6%	$ 229,709	7.3%	$ 354,037	6.4%
	7.6%		9.0%		10.6%		12.1%
576 sq. ft.	$ 1,884	718 sq. ft.	$ 2,402	790 sq. ft.	$ 3,395	971 sq. ft.	$ 4,547
1,572 sq. ft.	$ 123	2,122 sq. ft.	$ 118	3,082 sq. ft.	$ 152	3,771 sq. ft.	$ 284
2,148 sq. ft.	$ 595	2,840 sq. ft.	$ 696	3,872 sq. ft.	$ 814	4,742 sq. ft.	$ 1,157
14,222	49.5%	20,208	47.9%	30,842	47.4%	50,293	49.9%
14,529	50.5%	21,960	52.1%	34,238	52.6%	50,491	50.1%
28,751	100.0%	42,168	100.0%	65,080	100.0%	100,784	100.0%
	$ 37.74		$ 40.92		$ 41.23		$ 43.83
	53		55		58		66
	6		6		6		6
	$ 396.02		$ 607.88		$ 889.87		$ 1,280.19
	$ 70.53		$ 88.38		$ 155.25		$ 310.23
	10.5		14.9		21.6		29.2
	26.2%		21.9%		24.0%		24.4%
	47.6%		53.4%		55.7%		56.9%

detailed picture of the average Digest pharmacy based on sales volume, and will be referred to in the remaining sections of the report.

Patient Care Services

Based on the sales volume categories represented in Table 4, each category has been profiled to provide a general picture of the patient care services offered in the average *Digest* pharmacy. Table 5 provides a percentage breakdown for the patient care services offered and also includes *2002 Digest* averages to assist in comparison. Patient care services are discussed in more detail on page 25.

Patient charge accounts, compounding, and delivery were the most offered services across all sales volume categories. Regardless of the sales volume, charge accounts, compounding, delivery services were important in all participating pharmacies. Several other service areas were also offered by most pharmacies and across all sales volume categories. Nutrition, durable medical goods, and herbal medicine services were regularly offered across all sales categories. Based on the number of product suppliers, patient interest, and training programs available for pharmacists who wish to learn about these areas, nutrition, DME, and herbal services are some of the most popular patient care services available in pharmacies.

Ostomy, long-term care, and hospice were service areas that showed an increasing percentage as sales volume increased. The ability to provide these services may be dependent upon the availability of a pharmacist to consult or large capital investments for inventory and pharmacies with larger sales volumes appear to have the opportunity to sell these type of services on a more regular basis than smaller volume pharmacies.

Pharmacies with sales over $4 million averaged the largest number of services provided to patients. In general, *Digest* data demonstrate a trend that an increase in sales volume is followed by an increase in the number of patient services offered in independent pharmacies.

Disease State Specialty Services

Independent community pharmacies are assuming a larger role in the development of disease state specialty services. These specialty services provide patients suffering from a particular condition with additional attention that focuses on the management of the condition and care of the patient. Various disease manage-

Table 5 Summary of Patient Care Services by Sales Volume

	Under $500,000	$500,000 to $750,000	$750,000 to $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,500,000	$2,500,000 to $4,000,000	Over $4,000,000	2002 Digest Overall Average
Patient Charge Accounts	82 %	80 %	85 %	81 %	91 %	86 %	92 %	86 %
Delivery	73	88	83	74	86	83	88	84
Compounding	91	88	85	85	83	78	86	82
Nutrition	73	64	72	69	76	79	80	74
Durable Medical Goods	64	48	49	64	72	66	82	68
Herbal Medicine	36	52	47	53	54	49	48	51
Speak/Sponsor Speakers for Local Organizations	18	40	34	31	42	47	49	40
Hospice	18	24	28	31	43	42	46	39
Long-term Care	9	32	36	39	39	43	45	39
Health Screening	9	20	28	37	36	37	50	37
Homeopathic Medicine	36	32	38	30	42	35	41	37
Ostomy	36	12	23	31	39	37	57	37
Veterinary Pharmacy	18	28	26	22	26	13	32	25
Conduct Patient Education Programs	9	12	28	19	20	25	33	24
Pain Management	27	24	21	18	21	22	30	24
Schedule Patient Appointments	0	20	15	17	16	17	26	18
Home Infusion	0	12	6	3	5	6	13	7

ment programs are currently offered by pharmacies nationally. Pharmacies participating in the *2002 Digest* survey were asked to identify the specialty services they offer and whether a separate fee was charged to patients for each service. Table 6 focuses on eight specific areas of service reported and is arranged by sales volume. These services are discussed in more detail on page 25.

Blood pressure monitoring was identified as the most offered specialty service across the sales volume categories. Pharmacies with a sales volume over $4 million reported that 59 percent provided this service and 24 percent of those offering the service charged a separate fee. Diabetes training was offered more often than asthma training, although the percentage of providers who charged a separate fee was very similar. For the first time, participating pharmacists were asked to indicate whether they provided a lipid monitoring service. As sales volume increased, the number of pharmacies providing lipid monitoring increased. Overall, approximately 11 percent offered lipid services, and of these 72 percent were charging a separate fee for the service.

While being a preventive measure rather than a disease management service, immunizations were offered by a number of independent community pharmacies. Although a relatively modest percentage of pharmacies reported providing immunizations, a large percentage indicated that they charged a separate fee for this service. For example, 14 percent of pharmacies with a sales volume between $1 million and $1.5 million offered immunizations and 88 percent of those pharmacies charged a separate fee.

A relatively small percentage of pharmacies, regardless of sales volume, offered anticoagulation monitoring or AIDS specialty services. There are a number of factors that contribute to this finding. The percentage of patients with conditions requiring these services relative to the other disease states identified is low. In addition, the monitoring of outpatient anticoagulation therapy has only recently begun taking place in the pharmacy setting. Furthermore, the development of AIDS specialty services in independent community pharmacies continues to increase due to advancements in treatment and increases in outpatient opportunities. Response to the *Digest* survey also indicates that AIDS services are often being accompanied by additional services such as pain management and nutritional support.

Table 6 Summary of Disease State Management Services and Separate Fee Charged

	Under $500,000	$500,000 to $750,000	$750,000 to $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,500,000	$2,500,000 to $4,000,000	Over $4,000,000	2002 Digest Overall Average
Blood Pressure Monitoring	45 %	32 %	38 %	54 %	57 %	65 %	59 %	56 %
Separate Fee	40	38	28	19	18	12	24	19
Diabetes Training	45	32	28	38	42	40	59	45
Separate Fee	0	38	15	33	19	27	22	22
Asthma Training	36	16	19	26	23	21	32	27
Separate Fee	0	25	11	32	19	33	31	23
Immunizations	18	4	4	14	11	19	23	15
Separate Fee	0	0	100	88	76	72	83	75
Osteoporosis	18	16	2	10	11	13	17	12
Separate Fee	0	5	100	50	46	67	71	52
Lipid Monitoring	9	0	6	11	12	10	16	11
Separate Fee	0	0	100	77	73	73	88	72
AIDS Services	9	4	0	3	1	6	8	5
Separate Fee	0	0	0	50	0	22	13	19
Anticoagulation Monitoring	0	4	0	2	4	2	2	3
Separate Fee	0	0	0	0	38	33	50	25

Summary by Square Feet

Independent community pharmacies are different from one another in many ways. As demonstrated previously, pharmacy practices may be categorized based upon total sales volume (Table 4). Sales volume is an important identifier that independent pharmacy practitioners can use to rapidly compare their practice to similar pharmacies. Another useful area of comparison is the total square footage of the practice facility. How does a 1,500 square foot pharmacy compare to other stores of similar size? Table 7 provides an opportunity

Table 7 Summary of Square Footage in 2001

Averages per Pharmacy	Total Square Feet Under 1,000		Total Square Feet 1,000 to 1,750		Total Square Feet 1,751 to 2,250	
Sales						
Prescription Sales	$ 1,525,345	92.5%	$ 1,775,587	84.4%	$ 2,036,065	89.6%
Other Sales	124,122	7.5%	327,584	15.6%	235,692	10.4%
Total Sales	$ 1,649,467	100.0%	$ 2,103,171	100.0%	$ 2,271,757	100.0%
Cost of goods sold	1,300,087	78.8%	1,633,439	77.7%	1,742,621	76.7%
Gross margin	$ 349,380	21.2%	$ 469,732	22.3%	$ 529,137	23.3%
Expenses						
Proprietor's salary	$ 89,710	5.4%	$ 94,896	4.5%	$ 112,444	4.9%
Employee's wages	95,055	5.8%	155,584	7.4%	158,509	7.0%
Rent	15,785	1.0%	24,765	1.2%	22,763	1.0%
Utilities	6,142	0.4%	8,659	0.4%	10,502	0.5%
Prescription containers	5,094	0.3%	7,120	0.3%	7,858	0.3%
Delivery Costs	3,963	0.2%	6,031	0.3%	6,930	0.3%
Computer	5,551	0.3%	6,129	0.3%	7,762	0.3%
Advertising	6,950	0.4%	7,695	0.4%	10,224	0.5%
All other expenses	50,135	3%	69,936	3.3%	88,032	3.9%
Total expenses	$ 278,385	16.8%	$ 380,815	18.1%	$ 425,024	18.7%
Net profit (before taxes)	$ 70,995	4.3%	$ 88,917	4.2%	$ 104,113	4.6%
Proprietor's withdrawals	89,710	5.4%	94,896	4.5%	112,444	4.9%
Total income (before taxes)	$ 160,705	9.7%	$ 183,813	8.7%	$ 216,556	9.5%
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	$ 105,891	6.4%	$ 113,928	5.4%	$ 132,272	5.8%
Other Inventory	13,807	0.8%	24,486	1.2%	39,090	1.7%
Total Inventory	$ 119,698	7.2%	$ 138,414	6.6%	$ 171,362	7.5%
Annual rate of inventory turnover	10.9		11.8		10.2	
Size of area and sales per square foot						
Prescription Sales per square foot	484 sq. ft.	$ 3,148	668 sq. ft.	$ 2,658	670 sq. ft.	$ 3,040
Other Sales per square foot	265 sq. ft.	$ 468	728 sq. ft.	$ 450	1,308 sq. ft.	$ 180
Total Sales per square foot	749 sq. ft.	$ 2,200	1,396 sq. ft.	$ 1,507	1,978 sq. ft.	$ 1,148
Number of prescriptions dispensed						
New prescriptions	19,227	50.9%	19,890	47.7%	24,594	48.0%
Renewed prescriptions	18,550	49.1%	21,791	52.3%	26,633	52.0%
Total prescriptions	37,777	100.0%	41,681	100.0%	51,227	100.0%
Prescription charge	$ 40.38		$ 42.60		$ 39.75	
Number of hours and days per week						
Hours open per week	51		53		53	
Days open per week	6		6		6	
Sales activity per hour open						
Prescription sales per hour	$ 577.46		$ 646.22		$ 743.83	
Other sales per hour	$ 46.99		$ 119.22		$ 86.11	
Number of prescriptions dispensed per hour	14.3		15.2		18.7	
Percentage of total prescription covered by:						
Medicaid	27.9%		23.9%		23.8%	
Other third-party	47.5%		52.8%		52.7%	

for comparison on this basis by illustrating the differences in selected operating statistics for pharmacies participating in the *2002 Digest* survey.

During 2001, as the total square footage of participating pharmacies increased, the gross margin as a percentage of total revenue also tended to increase. The gross margin percentage ranged from a low of 21.2 percent to a high of 24.5 percent. However, prescription sales as a percentage of total sales decreased as square footage increased. Pharmacies over 5,000 square feet derived 73.5 percent of their total sales from the prescription department while the average *Digest* pharmacy reported 84.2 percent of total sales from prescriptions.

Data from Table 7 indicate that the number of prescriptions dispensed ranged from 37,777 in pharmacies with less than 1,000 square feet to 67,029 in pharmacies with over 5,000 square feet. Average sales went from $1,649,467 in the smallest pharmacies to $3,779,758 in those with the largest number of square

Total Square Feet 2,251 to 3,000		Total Square Feet 3,001 to 5,000		Total Square Feet Over 5,000	
$ 2,126,161	87.8%	$ 2,302,227	84.8%	$ 2,779,786	73.5%
296,548	12.2%	413,650	15.2%	999,972	26.5%
$ 2,422,709	100.0%	$ 2,715,877	100.0%	$ 3,779,758	100.0%
1,871,253	77.2%	2,088,962	76.9%	2,854,688	75.5%
$ 551,456	22.8%	$ 626,915	23.1%	$ 925,070	24.5%
$ 103,912	4.3%	$ 124,923	4.6%	$ 128,153	3.4%
200,038	8.3%	222,736	8.2%	385,305	10.2%
25,534	1.1%	32,407	1.2%	64,909	1.7%
12,442	0.5%	14,787	0.5%	23,951	0.6%
9,028	0.4%	10,814	0.4%	16,442	0.4%
10,010	0.4%	5,228	0.2%	10,146	0.3%
7,215	0.3%	8,727	0.3%	11,487	0.3%
11,916	0.5%	15,967	0.6%	28,431	0.8%
87,822	3.6%	105,487	3.9%	159,840	4.2%
$ 467,917	19.4%	$ 541,076	19.9%	$ 828,664	21.9%
$ 83,539	3.4%	$ 85,839	3.2%	$ 96,406	2.5%
103,912	4.3%	124,923	4.6%	128,153	3.4%
$ 187,451	7.7%	$ 210,762	7.8%	$ 224,559	5.9%
$ 141,204	5.8%	$ 153,849	5.7%	$ 185,387	4.9%
45,525	1.9%	71,268	2.6%	141,046	3.7%
$ 186,729	7.7%	$ 225,117	8.3%	$ 326,433	8.6%
10.5		9.3		8.7	
731sq. ft.	$ 2,910	819 sq. ft.	$ 2,812	947 sq. ft.	$ 2,935
1,954 sq. ft.	$ 152	3,215 sq. ft.	$ 129	7,415 sq. ft.	$ 135
2,685 sq. ft.	$ 902	4,033 sq. ft.	$ 673	8,362 sq. ft.	$ 452
25,381	48.3%	25,928	47.8%	33,068	49.3%
27,137	51.7%	28,282	52.2%	33,961	50.7%
52,518	100.0%	54,211	100.0%	67,029	100.0%
$ 40.48		$ 42.47		$ 41.47	
56		60		64	
6		6		6	
$ 725.57		$ 739.47		$ 841.49	
$ 101.20		$ 132.86		$ 302.71	
17.9		17.4		20.3	
24.3%		22.4%		19.5%	
53.0%		52.0%		57.3%	

feet. The number of hours a pharmacy was open ranged from 51 to 64 and pharmacies in all size categories reported being open either five or six days per week. The inventory turnover rate generally decreased as square footage increased, with the largest pharmacies reporting an average inventory turnover rate of 8.7 times and the smallest size category reporting a turnover rate between 10 and 11 times.

Expenses

The data in Table 7 also demonstrates that as the physical size of pharmacies increases, total expenses in dollars and as a percentage of sales, also rises from 16.8 percent in pharmacies under 1,000 square feet in area to 21.9 percent in pharmacies larger than 5,000 square feet.

Compensation

The total wage package (manager's salary plus employees' wages) accounted for, on average, over 60 percent of the total expenses in the categories reported in Table 7 and had a major impact on net profit. The manager's salary rose from $89,710 in the smaller pharmacies to $128,153 in pharmacies with over 5,000 square feet. However, the manager's salary decreased from 5.4 percent of total revenue in small pharmacies to 3.4 percent in the largest. Employee's wages showed the opposite trend, ranging from 5.8 percent of total sales in pharmacies under 1,000 square feet to 10.2 percent in pharmacies larger than 5,000 square feet. This increased expenditure from employees' wages in larger pharmacies may relate to the need for a greater number of staff to manage a pharmacy of large size. The increased prescription activity in larger pharmacies, with the corresponding increase in the number of hours the pharmacy is open, could also be contributing factors to the higher employees' wage figure as a percentage of sales.

Miscellaneous Operating Expenses

As one might expect, rent, in actual dollars and as a percentage of sales, generally increased as square feet expanded. Miscellaneous operating expenses also increase, as a percentage of sales, as square footage increases. It is important for pharmacy managers to examine each individual expense in this category which ranged from 3.0 percent to 4.2 percent of sales. This difference of 1.0 percent is nearly one-third of the net profit earned in the average *Digest* pharmacy.

Net Profit

Table 7 provides a detailed picture of the average *Digest* pharmacy net profit, based on total square footage. The data indicates that, in general, pharmacies with 1,751 and 2,250 square feet were most capable of maximizing owner's income as a percentage of sales. Further discussion of net profit appears on page 31 of the *Digest*.

Patient Care Services

As patient services were profiled by sales volume categories in Table 5, Table 8 profiles patient services offered by *Digest* pharmacies by square footage categories. Table 13 (page 25), provides a comparison of

Table 8 Summary of Patient Care Services by Square Foot

	Under 1,000	1,000 to 1,750	1,750 to 2,250	2,250 to 3,000	3,000 to 5,000	Over 5,000	2002 Digest Overall Average
Patient Charge Accounts	76%	80%	88%	88%	93%	89%	86%
Delivery	78	84	80	88	86	84	84
Compounding	82	80	84	80	85	78	82
Nutrition	59	72	70	77	80	81	74
Durable Medical Goods	46	61	64	74	75	81	68
Herbal Medicine	38	47	55	53	55	57	51
Speak/Sponsor Speakers for Local Organizations	29	38	38	41	46	45	40
Hospice	28	32	42	44	48	35	39
Long-term Care	46	33	38	37	40	45	39
Health Screening	25	34	33	43	36	50	37
Homeopathic Medicine	27	35	36	46	39	39	37
Ostomy	17	31	31	43	45	49	37
Veterinary Pharmacy	19	28	21	24	28	24	25
Conduct Patient Education Programs	17	23	24	24	27	27	24
Pain Management	16	24	19	28	27	27	24
Schedule Patient Appointments	8	21	16	15	22	20	18
Home Infusion	3	4	5	8	12	8	7

2000 and 2001 data. The Patient Care Services section (also page 25), discusses these data in more detail.

As in the patient services profile arranged by total sales, patient charge accounts, compounding, and delivery were the most offered services across all sizes of pharmacies. Several other services were offered by a majority of pharmacies in all size categories. Nutrition and DME were offered almost as often as compounding.

Many of the services were offered more often as square footage grew. For example, DME, herbal medicine, ostomy, and health screenings were offered more in larger stores than smaller stores. The data indicate that larger facilities tend to offer services more often than smaller pharmacies, most likely due to the need for a large space to house the inventory necessary to provide successfully the services.

Pharmacies over 5,000 square feet in size averaged the largest number of patient services. A general trend emerged in the data collected from pharmacies participating in the 2002 *Digest* survey indicating that those with larger available square footage were able to provide a larger number of patient care services.

Disease State Specialty Services

For each square footage category, Table 9 reports the disease state specialty services offered by *Digest* pharmacies along with the percentage of those pharmacies also charging a separate fee for the service. When compared to the overall averages, the data in Table 9 indicate similar propensities toward providing disease state specialty services, regardless of pharmacy size. Blood pressure monitoring was identified as the most frequently offered specialty service across the size categories. Seventy-three percent of pharmacies over 5,000 square feet in size reported providing this service with 12 percent of these charging a separate fee. In contrast, 44 percent of pharmacies under 1,000 square feet in size offered blood pressure monitoring while 10 percent charged a separate fee. Similarly, larger pharmacies were more likely to offer lipid management services. Interestingly, more pharmacies charge for lipid services and immunizations than other services. Diabetes training was offered more often than asthma training, however, the percentages of providers who charged a separate fee for these services were very similar.

Immunization, a preventive care service, was provided by only a modest percentage of pharmacies across all size categories; however, most pharmacies indicating that they provide this service reported that a separate fee was charged. For example, 17 percent of pharmacies with between 2,250 and 3,000 square feet offered immunizations, and 79 percent of these pharmacies charged a separate fee. A relatively small percentage of pharmacies, regardless of size, offered anticoagulation monitoring or AIDS specialty services. This may result from the fact that far fewer patients suffer from these conditions than the other disease states identified by the *Digest* survey.

Specialty care services are discussed in further detail beginning on page 25.

Table 9 Summary of Disease State Management Services and Separate Fee Charged

	Under 1,000	1,000 to 1,750	1,750 to 2,250	2,250 to 3,000	3,000 to 5,000	Over 5,000	2002 Digest Overall Average
Blood Pressure Monitoring	44%	45%	56%	57%	63%	73%	56%
Separate Fee	10	24	25	14	26	12	19
Diabetes Training	36	42	34	48	52	53	45
Separate Fee	14	23	24	17	33	14	22
Asthma Training	22	30	21	29	28	27	27
Separate Fee	10	18	33	21	36	17	23
Immunizations	7	9	14	17	18	23	15
Separate Fee	71	82	71	79	81	63	75
Osteoporosis	9	11	8	14	13	19	12
Separate Fee	22	40	63	62	55	60	52
Lipid Monitoring	8	8	8	10	17	13	11
Separate Fee	75	71	88	60	79	64	72
AIDS Services	5	6	0	2	8	3	5
Separate Fee	0	42	0	67	0	0	19
Anticoagulation Monitoring	1	3	3	3	4	3	3
Separate Fee	0	33	0	50	29	0	25

Prescription Drug Sales

Top Drug Products Dispensed in Independent Community Pharmacies

Utilization of prescription drug products continues to increase. Nearly 3 billion prescriptions were dispensed in the United States in 2001, an increase of 6% from 2000. Likewise, the average *Digest* pharmacy in 2001 dispensed 164 prescriptions per day on average. To better describe the prescription activity in independent community pharmacies, the following identifies the top prescription drug products dispensed in independent pharmacies in 2001.

Top Prescription Products Dispensed

Table 10 provides the top 10 prescription products dispensed by independent pharmacies in 2001. These products represent 8.7% of the 1.32 billion dispensed. Thus, the remaining 91.3% are for a variety of drug products, indicating independent pharmacies are dispensing a wide range of products.

Although nearly 50% of prescriptions dispensed by independent pharmacies are generic, only two medications listed in the top 10 are generic. The other eight products are available as brand name. This suggests that independent pharmacies are dispensing generics when available; however, newer, advanced products represent a significant percent of the market share.

Opportunities for Patient Healthcare Prevention and Management Services

Independent community pharmacies are engaged in the dispensing of millions of prescriptions for products to treat chronic illnesses, creating an opportunity for disease state management. Patients with diabetes mellitus, hypertension, hyperlipidemia, osteoporosis and other chronic conditions benefit from patient care services whereby the pharmacist educates the patient about the disease, their drug therapy and other lifestyle modifications, and appropriate disease monitoring. Additionally, because of the convenience and the widespread distribution of independent community pharmacies, more pharmacists are providing preventive care services such as immunizations in their pharmacy. Independent community pharmacists are engaging in helping patients prevent, control, and manage their patient's health care needs, and billing for these services, as detailed in the Patient Care Services section.

Future Outlook

With the increased utilization of medications, the overall aging of the population, and the development of advanced therapies, the opportunities for independent community pharmacy to grow will continue. Independent pharmacists are accessible and in a key position to dispense medications, provide counseling, and monitor drug therapy, with the expectation of improving clinical and economic outcomes.

Table 10 Top Prescription Products

	Volume (millions)	% Share
Lipitor	17.41	1.32%
HYCD/APAP	14.96	1.13%
Premarin	13.52	1.02%
Synthroid	13.05	0.99%
Norvasc	10.99	0.83%
Prilosec	9.79	0.74%
Celebrex	9.57	0.73%
Furosemide	9.05	0.69%
Vioxx	8.48	0.64%
Prevacid	8.12	0.62%

Over-the-Counter Sales

The self-care revolution of the past few decades, encouraged by the availability of safe and effective over-the-counter (OTC) drugs, has certainly not slowed. The sales of OTC drugs remain a vital part of the average independent pharmacy's product mix. Three opportune areas for independent pharmacists include health and beauty items, private label items, and diabetes products.

Health and Beauty Is a Major Contributor to Independent Pharmacy Sales

Point-of-sale data collected from QS/1 from 59 independent pharmacies for four weeks in February and March 2002 showed some interesting findings. For example, health and beauty care, which includes OTCs and toiletries, is the most important non-prescription department in independent pharmacies. An extrapolation based on this four-week sample, indicated that these 59 pharmacies rang up a total of non-prescription sales of $1,395,765. Of that total, health and beauty care accounted for 40 percent of sales. Figure 4 contrasts the percentages of health and beauty care sales generated by seven major departments in independent pharmacies with those reported primarily from chains during the first quarter of 2002 (data from Information Resources Inc).

Successful retailers remain cognizant of changes in subcategory sizes, because big increases or decreases signal the need to adjust merchandising space. Table 11 shows subcategories that registered dramatic gains or losses during the last year. Moreover, the following ten products had a positive impact on sales in their subcategories.

- Alka-Seltzer+ Cold Effervescent 20 (Bayer Inc.)
- Head & Shoulders 13.5oz 2-in-1 C/C,Cls/Cln,Refresh,Dry Scalp(Procter& Gamble)
- Nyquil Cherry Cough 6oz (Procter & Gamble)
- Pediacare L/A Cough+Cold 4oz (Pharmacia)
- Rogaine 3 x 2oz Men X/Strength (Pharmacia)
- Accu-Chek Active Strip 50 (Roche Diagnostics)
- Crest White Strips 56(Procter & Gamble)
- Depend Underwear 18 Super Sm/Md (Kimberly-Clark)
- Listerine Pocketpak 24, 7 (Pfizer)
- Monistat 1 Combo Pack (Personal Products)

Manufacturers spent a record 16.4 percent of gross sales on promotions, but 70 percent of chain retailers say they do not have time to execute the promotions accepted by corporate headquarters. Independents can capitalize on these deficiencies by taking full advantage of in-store promotions. To capitalize on these promotions, consider these four basic steps.

1. Get promising new items on the shelves while they are hot and get seasonal displays up on time.
2. Promptly set up displays in planned locations.
3. Monitor number and quality of displays.
4. Make sure prices on displayed items are competitive.

Table 11 Biggest Health and Beauty Winners and Losers in Drugstores

Advancers	% Change ($)	Decliners	% Change ($)
Moist towelettes	+44.9%	Lice treatments	-12.9%
Razors	+24.0%	Bath fragrance/bubble bath	-9.5%
Baby lotion	+23.3%	Vitamins (lettered)	-9.0%
Analgesics external	+20.5%	Hair growth products	-8.8%
Dental accessories	+20.0%	Men's fragrance gift sets	-7.2%
Depilatories	+37.5%	Facial moisturizers	-5.0%
Diet aids (candy/tablets)	+15.0%	Women's fragrance	-4.6%
Diet aids (liquid/powder)	+22.5%	Breath fresheners	-4.5%
Lip medications	+23.4%	Toothbrushes	-4.3%
Smoking cessation (gum)	+10.3%	Nasal strips	-4.1%

Source: Information Resources Inc.

Private Label Health and Beauty Care is Big Business for Pharmacies

Health and beauty care (HBC) produced sales of $16.5 billion for drugstores in 2002. Of that amount, private label products generated $2.28 billion, or 13.8 percent of all drugstore health and beauty care sales. Figure 5 provides the largest private label categories in drugstores. Even when gross dollar sales decrease in categories with expanding private label segments, retailers reap benefits such as increased profits, decreased inventory investment and better value for customers.

Table 12 provides a description of what percent of each category consists of private label sales. Knowing private-label market shares helps retailers gauge how much space they need for private label products in each subcategory. Additionally, to maintain a satisfactory in-stock position on popular private-label OTCs, retailers usually need to allocate extra facings to top items such as the following:

1. Low Strength Regimen Aspirin Tablets 120
2. Tussin Cough Syrup DM 4oz
3. Enteric Aspirin Regular Strength Tab 100
4. Hydrocortisone Cream 1% 1oz
5. Pseudoephedrine 30mg Tab 24
6. Stool Softener 100mg Cap 60
7. Saline Nasal Spray 45ml
8. Tussin Cough Syrup DM 8oz
9. Triple Antibiotic Ointment 1oz.
10. Antidiarrheal Caplets 12

Source: Hamacher Resource Group
Summarized Velocity Records 52-weeks Ending June 6, 2002

Because of the growing value of private label products, analysts at Hamacher Resource Group recognize private-label products as category bestsellers and emphasize their value as profit producers. Analysts recommend that retailers merchandise private label products to the right of their branded equivalents.

Additional tips for giving private label items maximum exposure:

- Create displays of private label products whenever you promote equivalent national brands.
- Maintain the everyday pricing relationship between private label and branded products by reducing private label prices during branded product promotions.
- Use signs to attract customers' attention to private label savings.
- Increase private label stocking levels during equivalent branded product promotions.

These strategies will encourage trial of your private label offerings and help your store make the most of private-label opportunities.

Opportunities in Diabetes Care Products

According to the National Center for Chronic Disease Prevention and Health Promotion (CDC), 17 million Americans have diabetes, and over 200,000 die every year from the disease and related complications. That makes diabetes the country's sixth leading cause of death. In addition to its mortality rate, diabetes directly and indirectly costs the nation almost $100 billion per year. The annual average cost to care for a person with diabetes in 1997 was $10,071 compared to $2,699 for a person without the disease.

The great news for pharmacists is that diabetes care is an area where pharmacists can make a positive contribution to the health and well being of some of their most important patients. And the diabetes care department makes a powerful contribution to the financial health of the pharmacy. Annual retail sales of blood glucose test strips top $1.5 billion.
Information collected by Hamacher Resource Group shows the relative importance of each diabetes care segment, as shown in Figure 6. Obviously, products related to blood glucose testing make up the heart of

Table 12 Private Label Dollar Share OTC Category

Subcategory	Private LabelDollar Share	Subcategory	Private LabelDollar Share
Epsom salts	97.3%	Laxative tablets	28.3%
Cotton balls/swabs	45.6%	Motion sickness/anti-emetic	27.8%
Hair growth products	34.6%	Pregnancy test kits	27.3%
Adult incontinence products	31.2%	Sleep aid tablets	26.6%
Bath/body scrubbers	30.9%	Hemorrhoidal remedies	25.6%
Anti-smoking patches	30.4%	Mineral supplements	24.8%
Anti-smoking gum	23.8%		

Source: Information Resources Inc.
Drug Outlets Private Label Overview 52 weeks Ending Dec. 30, 2001

the department, but ancillary products make significant sales and profit contributions. What is equally important is the message a full selection of diabetes care products sends to patients. Stocking accessories such as travel kits and OTC products that patients with diabetes can use safely tells them that you understand their special needs and consider them important.

There is plenty of opportunity for growth. More than 1.5 million people with diabetes do not test their blood glucose, millions who test do so less frequently than their physicians recommend, and nearly 6 million people have not been diagnosed yet. Independent pharmacists are a major resource for patients with diabetes, but keeping pace with the market will take more effort as chains contend more aggressively for the business. The following suggestions may help you serve your diabetes patients better.

1. Make shopping easier by building comprehensive, well-organized plan-o-grams.
2. Try placing testing supplies in front of the pharmacy.
3. Enrich your diabetes care department with products such as sugar-free candies and OTC products, nutritional drinks and bars formulated exclusively for diabetes patients, special vitamin and mineral supplements, foot care and skin care products.
4. Help patients manage their diabetes through educational programs ranging from distributing brochures to providing nutritional advice from dietitians.
5. Support your local American Diabetes Association (ADA) and the Juvenile Diabetes Research Foundation (JDRF).
6. Combine educational information with savings on testing supplies to create ads diabetes patients will respond to. Try a coupon book that offers both savings on key products and tips for living well with diabetes
7. Stock and promote new, technologically advanced diabetes care items.

Opportunities are expanding in diabetes care products, and for independent community pharmacies to capitalize on these opportunities, they need to offer up-to-date information and the best product assortment in town.

Figure 4 Most Important HBC Categories for Independent Pharmacies vs. All Drugstores

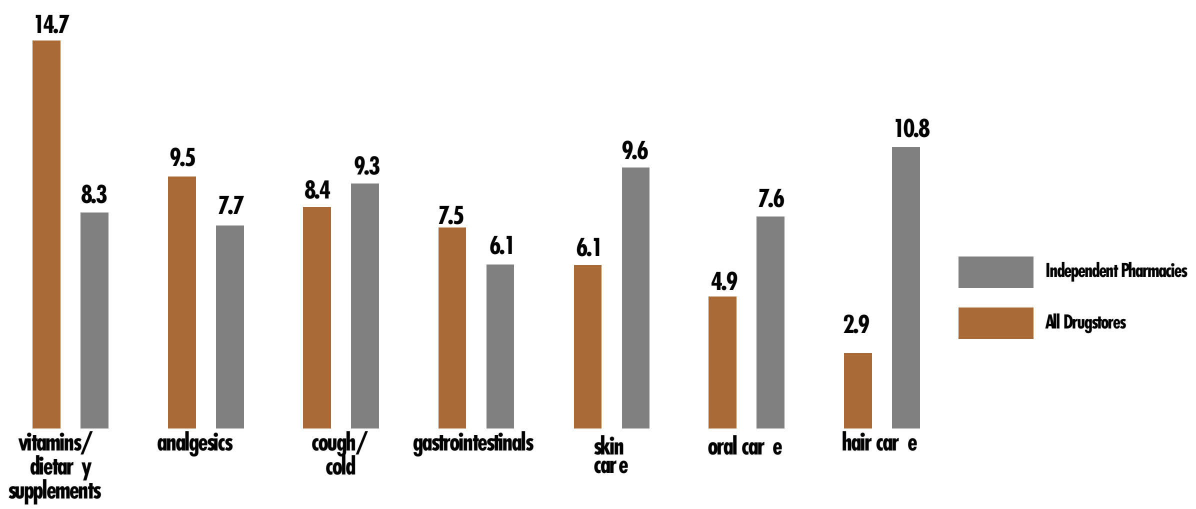


Figure 5 ✻ Largest Private Label Categories in Drugstores

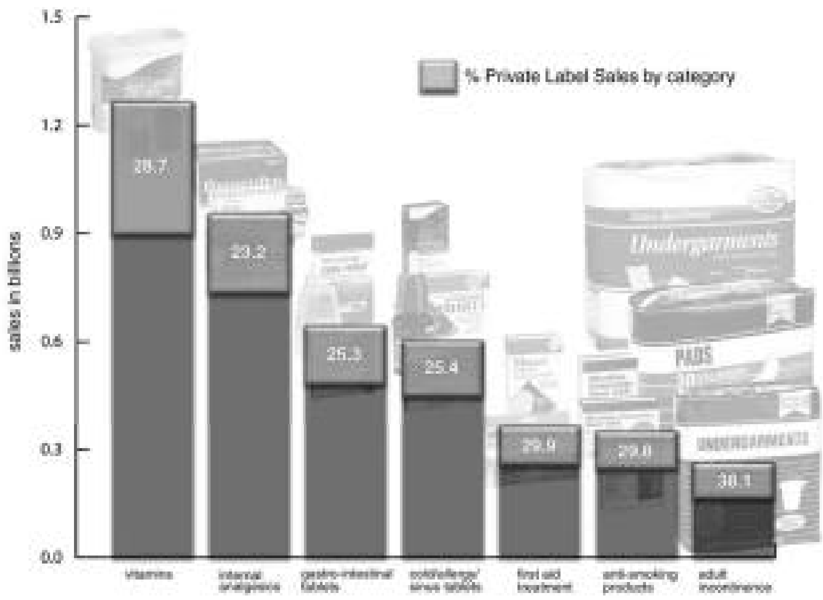
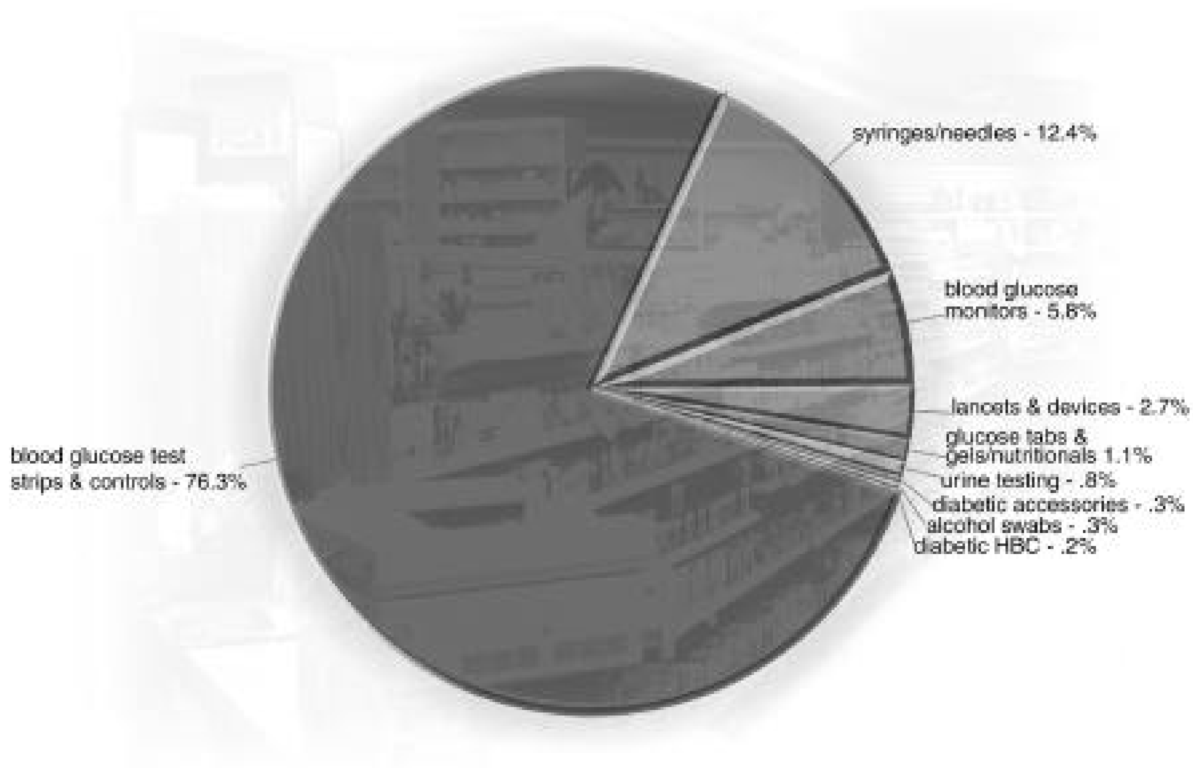


Figure 6 ✻ Diabetes Care Subcategories in Independent Pharmacies



Source: Hamacher Resource Group

Patient Care Services

One of the hallmarks of independent community pharmacy has long been the service that patients receive. In this era of pharmacist care and the pressure to receive compensation for pharmacy-related services, the independent pharmacy is positioned to benefit from providing these critical patient care services.

The *2002 Digest* reports the percentage of participants providing various patient care services in their practice sites in Table 13. These percentages are listed for both 2000 and 2001 to assist in comparison to the previous year.

The most offered service in the average *Digest* pharmacy is patient charge accounts. Compounding and delivery were also widely offered. Specialty compounding pharmacies have been established and many pharmacists are significantly increasing the number of prescriptions they compound. Three service areas that have remained consistently near the top of the list of services offered in independent pharmacies are nutrition (dietary aids, vitamins, minerals), durable medical goods, and herbals. Nutrition products were available in 74 percent of the *Digest* pharmacies providing this data, 68 percent offer durable medical goods, and 51 percent offer herbals. These areas are very popular topics in current continuing education (CE) programs at both state and national levels. Public interest continues to grow in these areas as well, spurred in part by expanded coverage in the media.

Disease State Specialty Services

As reported earlier, there is a great deal of attention being focused on the issue of compensating pharmacists for pharmacy-related services. The *Digest* refers to these offerings as disease state specialty services. This type of service generally requires specialty training in a particular area, such as diabetes. Table 14 reports the number of participants who offer these types of services, as well as designates the percentage of those who also charge a separate fee for the service offered.

Table 14 reports that the top four specialty services offered were blood pressure monitoring, diabetes training, asthma training, and immunizations. These four services have been featured by various CE and certificate programs offered throughout the country. In general, approximately 21 percent of pharmacies actually charge an additional fee for the top three specialty services offered. Those fees include cash fees charged directly to the patient and fees billed to a third-party program for specialty services provided to the patient.

It is interesting to note that the percentages of fees being charged for immunizations and lipid monitoring are significantly greater than the other specialty

Table 13 Summary of Patient Care Services Offered

	Percentage of Respondents	
	2001	2000
Patient Charge Accounts	86%	NA
Delivery	84	86%
Compounding	82	83
Nutrition	74	66
Durable Medical Goods	68	66
Herbal Medicine	51	63
Speak/Sponsor Speakers for Local Organizations	40	41
Hospice	39	39
Long-term Care	39	41
Health Screening	37	41
Homeopathic Medicine	37	41
Ostomy	37	39
Veterinary Pharmacy	25	27
Conduct Patient Education Programs	24	26
Pain Management	24	23
Schedule Patient Appointments	18	19
Home Infusion	7	8

services. Approximately 15 percent of participating pharmacies provide immunizations and 11 percent provide lipid monitoring services. Recipients of immunizations have long been familiar with paying a fee to the local health department or physician's office for this service. Also, immunizations are often one-time or annual events designed for prevention while diabetes and asthma are chronic conditions that are managed through a lifetime. Lipid monitoring often requires the use of a lipid diagnostic machine and supplies. For the pharmacy to cover the expense of the machine and supplies, the pharmacist is likely to charge the patient.

The percentage of *Digest* pharmacies that offered AIDS services in 2001 increased from 2000 and the percentage of those charging a separate fee for these services increased significantly, from 11 percent to 19 percent. These services will continue to grow due to increases in out-patient care and the availability of new treatment regimens.

Interactions with Other Health Care Professionals

An independent community pharmacist is a vital link between the patient and the entire health care system. Pharmacists fulfill a major need in most communities because of the unique accessibility and the knowledge about medications that these professionals possess and share with their patients. Pharmacists also fulfill an important role on the health care team by serving as a link between the physician and patient. Table 15 provides a glimpse of the types of interactions that participating pharmacists have with other health professionals.

In 2001, pharmacists in the average *Digest* pharmacy discussed a patient's drug therapy with a physician or other health care professional 7.8 times per day. In addition, the *2002 Digest* survey indicates that recommendations regarding generic substitutions and therapeutic adjustments are readily accepted by the prescriber.

Table 14 Summary of Disease State Specialty Services Offered

	Percentage of Pharmacies Offering Service		Percentage of Pharmacies Charging a Separate Fee for Service	
Disease State Specialty Service	2001	2000	2001	2000
Blood Pressure Monitoring	56%	57%	19%	18%
Diabetes Training	45%	41%	22%	25%
Asthma Training	27%	27%	23%	26%
Immunizations	15%	17%	75%	79%
Osteoporosis	12%	NA	52%	NA
Lipid Monitoring	11%	NA	72%	NA
AIDS Services	5%	3%	19%	11%
Anticoagulation Monitoring	3%	3%	25%	46%

Table 15 Pharmacist Interactions with Other Health Care Professionals

	Average Percentage of Pharmacies	
Type of Interaction	2001	2000
Discussion with physician or other health care professional regarding patient's drug therapy	7.8 times/day	6.0 times/day
Recommendations to physicians regarding use of generic products in place of branded products	89.8%	89.1%
Percentage of generic product recommendations accepted	75.3%	74.6%
Percentage of prescriptions dispensed generic	48.0%	51.0%
Recommendations to physicians regarding therapeutic interchanges	72.1%	66.9%
Percentage of therapeutic interchange recommendations accepted	51.5%	46.9%

Technology

The use of technology in independent community pharmacy practice continues to increase. The use of computers in pharmacy practice has been primarily for dispensing functions, automated patient records, and third-party transactions. The *2002 Digest* Technology section provides more detail on the types of technology utilized by independent community pharmacies. Table 16 provides an overview of the technological capabilities of participating pharmacies.

One area of increasing activity is the use of the internet. A majority of respondents reported having internet access at the pharmacy (79%), at home (93%), and at both sites (73%). In conjunction with internet access, most respondents reported that they had an email address at the pharmacy (73%), at home (91%), and at both sites (64%). Approximately 37 percent have a pharmacy website. Pharmacy websites are used for both accepting refill orders and selling OTC products.

The use of various technologies was reported by respondents. With the increasing affordability of some technologies, as well as the increased volume and need for strict inventory control, one area of increased usage has been in point-of-sale systems. Similar to last year, 25 percent of respondents have implemented a point-of-sale system in their practice. Only a few participating *Digest* pharmacists are currently using automated dispensing equipment and integrated voice response systems.

While not commonly referred to as technology, the use of pharmacy technicians has increased. *Digest* pharmacies reported that 89 percent utilize pharmacy technicians and on average, employ 3.1 technicians.

Table 16 Technological Capabilities

		2001	2000
Internet Connectivity			
Internet access	At the pharmacy	79%	76%
	At home	93%	84%
	Both	73%	66%
Email access	At the pharmacy	73%	70%
	At home	91%	82%
	Both	64%	59%
Technologies in Use			
Have a pharmacy website		37%	47%
Accept refill orders on website		62%	NA
Sell OTC products on website		43%	NA
Have an Integrated Voice Response (IVR) system (Automated phone system)		10.7%	NA
Have a Point Of Sale (POS) system		25%	28%
Have automatic dispensing equipment (automatic counter, robotics, etc.)		10.6%	NA
Have automated compounding equipment		6.5%	NA
Technician Utilization			
Pharmacy technician utilization		89%	89%
Pharmacy technician employment rate		3.1%	2.8%

Third-Party Prescriptions

According to Figure 7, third-party activity continued its five-year trend by climbing to 76 percent of the total prescription volume for the average *Digest* pharmacy in 2001 (Table 2). This represents a 1 percent increase over the previous year. Based on sales volumes (Table 4), the total third-party activity of the total prescription volume ranged from 59 percent for pharmacies with total sales under $500,000 to 81 percent in pharmacies over $4,000,000 in total sales.

Interestingly, the number of non-Medicaid third party prescriptions declined for the first time since the *Digest* began measuring this number. This may be due to increased scrutiny of private third party contracts by pharmacy owners as reimbursement from these contracts continues to shrink.

In 2001, over 80 percent of *Digest* pharmacies reported their average gross margins on Medicaid and other third-party prescriptions (Table 17). The average gross margin on Medicaid prescriptions was 19.6 percent and the gross margin on other third-party prescription was 16.3 percent.

An attempt was made to determine the average third-party transmission charge per prescription. The average of $0.15 was reported for each third-party prescription transmission.

Data from pharmacies that reported low (less than 50 percent) and high (75 percent to 99 percent) third-party prescription volume as a percentage of total sales are represented in Table 18. When pharmacies with a high volume of third-party prescriptions are compared to pharmacies with a lower third-party volume, it was shown that pharmacies with a higher volume of third-party prescriptions experienced lower gross margin and lower income as a percentage of sales.

Figure 7 Third-Party Prescriptions — Five-Year Trend

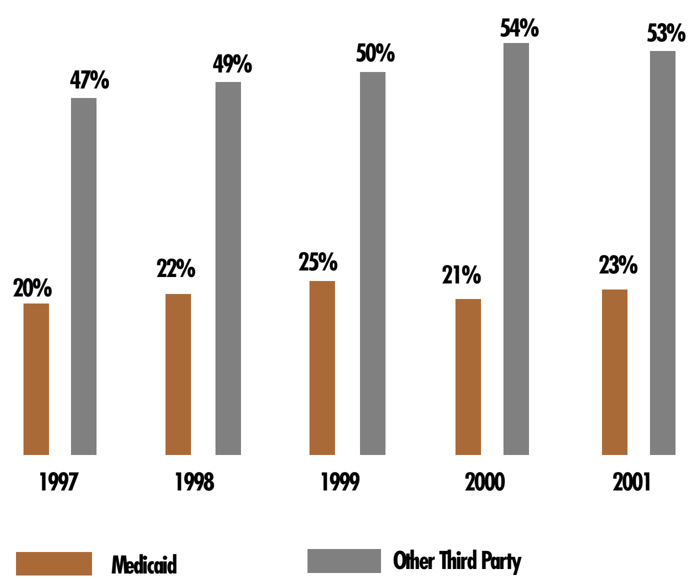


Table 17 Summary of Third-Party Prescription Activity

Averages per Pharmacy		2001	2000
Medicaid	Percentage of Total Prescriptions	23.5%	20.2%
	Average Gross Margin	19.6%	16.9%
Other Third-Party Programs	Percentage of Total Prescriptions	52.6%	50.9%
	Average Gross Margin	16.3%	13.3%
Average Third-Party Transmission Charge per Prescription		$ 0.15	$ 0.14
Participation with Any Group(s) in Managing a Formulary		11.4%	16.2%
Member of a Local or Regional Network that contracts with third parties on your behalf		50.7%	NA

Table 18 Financial Summary Based on Third-Party Prescription Activity

Averages per Pharmacy	Pharmacies with Low Third-party Activity		Pharmacies with High Third-party Activity	
Sales				
Prescription Sales	$ 1,493,908	84.9%	$ 2,275,479	83.6%
Other Sales	266,435	15.1%	445,517	16.4%
Total Sales	1,760,343	100.0%	2,720,996	100.0%
Cost of goods sold	1,274,178	72.4%	2,111,111	77.6%
Gross margin	$ 486,165	27.6%	$ 609,885	22.4%
Expenses				
Proprietor's salary	$ 110,010	6.2%	$ 110,669	4.1%
Employee's wages	169,203	9.6%	220,390	8.1%
Rent	28,722	1.6%	33,048	1.2%
Utilities	12,692	0.7%	13,298	0.5%
Prescription containers	6,876	0.4%	9,536	0.4%
Delivery Costs	8,155	0.5%	7,154	0.3%
Computer	6,322	0.4%	8,159	0.3%
Advertising	12,181	0.7%	14,822	0.5%
All other expenses	89,742	5.1%	100,915	3.7%
Total expenses	$ 443,903	25.2%	$ 517,991	19.0%
Net profit (before taxes)	42,262	2.4%	91,894	3.4%
Proprietor's withdrawals	110,010	6.2%	110,669	4.1%
Total income (before taxes)	$ 152,272	8.6%	$ 202,563	7.5%
Number of prescriptions dispensed				
New	18,707	51.4%	26,062	48.6%
Renewed	17,686	48.6%	27,552	51.4%
Total	36,393	100.0%	53,615	100.0%
Average prescription charge		$ 41.05		$ 42.44
Third-party prescriptions	37%	(1% - 50%)	84%	(75% - 100%)

Rent

During 2001, rental expenses for the average *NCPA-Pharmacia Digest* independent community pharmacy decreased minimally compared to 2000, falling from 1.3 to 1.2 percent of sales (Table 1). While rent, as a percentage of sales, has tended to decrease slightly over the past 10 years (Table 19), the average *Digest* rental rates have historically remained approximately 1.5-2.0 percent of sales. The long-term nature of rental agreements probably accounts for the consistency of the rate over time. Rental agreements are usually based on sales, square footage, or a fixed rate. If an adequate net profit is to be maintained, rent and other expenses should be proportional to sales volume.

According to *Digest* participants, the majority of pharmacies paid 2.5 percent of total sales or less for rent. A total of 95 percent of participants indicated that they spent 3.5 percent or less of total sales on rental expenses, and 98 percent spent 4.5 percent of sales or less for rent.

Generally, rent as a percentage of sales decreased slightly as sales volume increased (Table 4). However, rent, both as a percentage of sales and in actual dollars, increased as the square footage of the pharmacy increased (Table 7). The average *Digest* pharmacy reported their rent as $9.76 per square foot.

Figure 8 illustrates that this year the Mountain States reported the highest rental rates as a percentage of total sales. The lowest rental rate as a percentage of total sales was reported in the Southern States.

Figure 8 Rent by Geographic Region

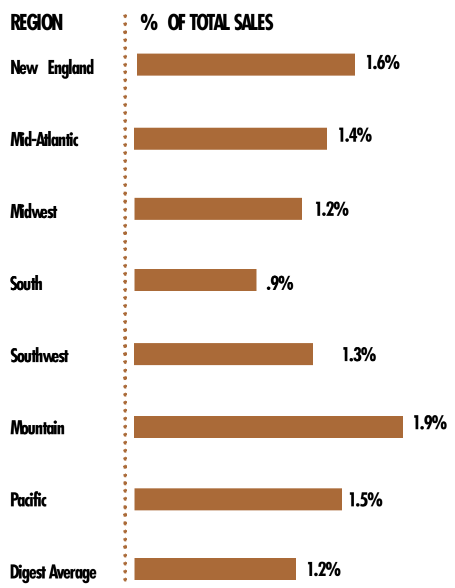


Table 19 Rental Percentages by Annual Sales Volume

Rent as a Percentage of Sales	Percentage of Pharmacies	Accumulated Percentage
Less than 1.5%	68%	68%
1.5% to 2.5%	19%	87%
2.5% to 3.5%	8%	95%
3.5% to 4.5%	3%	98%
Greater than 4.5%	2%	100%

Net Profit

Net operating profits are critical for the maintenance and growth of all business units and professional practices. According to the data in Table 20, 87 percent of the participating pharmacies reported a positive net profit during 2001. The profits of almost all of the pharmacies reporting a net profit were modest, and this has been the case for many years.

During the 2001 fiscal year, 13 percent of the reporting pharmacies sustained a loss, 28 percent reported a profit of less than 2 percent of sales, 33 percent reported a profit that was greater than 2 percent but less than 5 percent of sales and 26 percent of the *Digest* pharmacies reported profits in excess of 5 percent of sales. As reflected in Table 7, the profit values as a percentage of sales gradually decreased as the size of the pharmacy decreased.

The percent of pharmacies reporting that they operated at a loss in the *2002 Digest* survey increased to 13 percent from last year's reported 12 percent. Based upon data reported in Table 20, maintaining an adequate profit structure continues to be a challenge for 41 percent of independent community pharmacy managers.

The net profit reported by participating pharmacies, based on their geographic location, appears in Figure 9. Pharmacies in the Southwest and Pacific states averaged the highest net profit, 4.0 percent of sales, compared to the other regions (Table 22).

Figure 9 Net Profit by Geographic Region

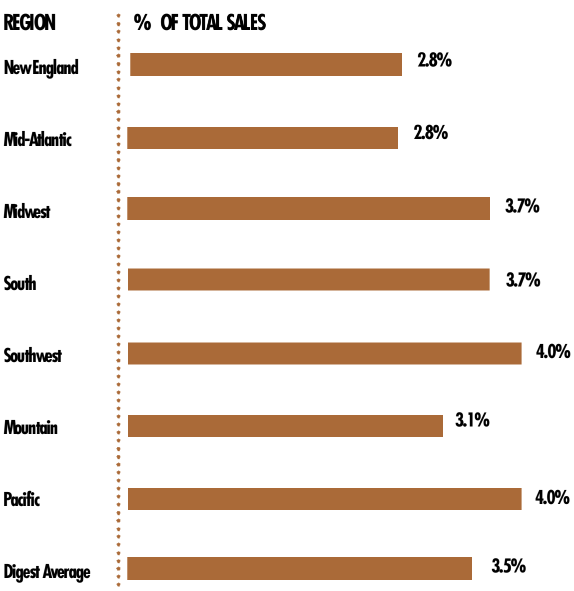


Table 20 Net Profit According to Sales Volume

Net Profit as a Percent of Sales	Percentage of Pharmacies	Accumulated Percentages
Operating at a loss	13%	13%
Less than 2%	28%	41%
2% to 5%	33%	74%
5% to 7.5%	12%	86%
7.5% to 10%	8%	94%
10% and over	6%	100%

Inventory

The largest investment in the average independent community pharmacy is in inventory and its control has a marked effect on the financial condition of the pharmacy. A successfully implemented inventory control program includes the following: purchasing of goods commensurate with sales, seasonal variations, monitoring for shrinkage, and adjusting to changing patterns in consumer purchases. The challenge of effective inventory management is to support an upward trend in sales while maintaining the inventory at the lowest level consistent with sufficient service.

One way of assessing an inventory control program is by means of the turnover rate, i.e. the average number of times inventory is sold and replaced during the year. As reported in Table 2, the average inventory turnover rate increased in 2001, rising to 9.8. This increase continues the upward trend of the inventory turnover rate over the past seven years (Figure 10).

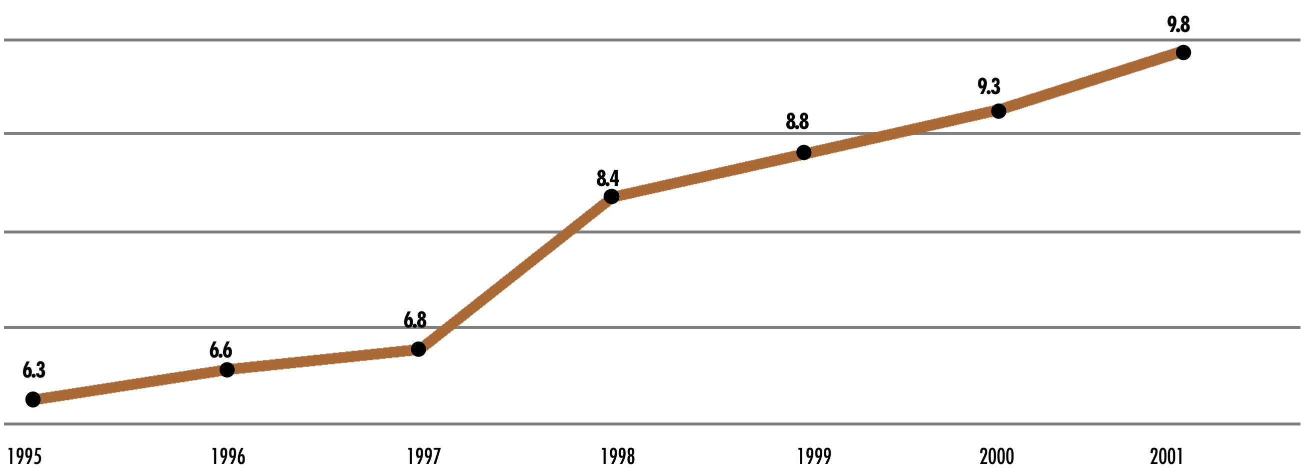
The turnover rate tends to increase as total sales increase, despite the rise in the dollar investment of inventory (Table 4). However, as the size of the pharmacy increases, the inventory turnover rate tends to decrease while the dollar investment in inventory rises (Table 7).

Relative to the acquisition of inventory, 76.2 percent of *Digest* participants reported membership in a retail-buying group.

Table 21 Turnover Comparison (Percent of Sales)

	High Turnover	Low Turnover
Total sales (in dollars)	$ 2,807,466	$ 1,502,666
Total sales	100.0%	100.0%
Prescription Sales	85.2%	76.5%
Cost of goods sold	77.6%	72.5%
Gross margin	22.4%	27.5%
Employee's wages	8.0%	8.8%
Rent and miscellaneous expenses	6.6%	9.0%
Total expenses (less proprietor's salary)	14.5%	17.8%
Total income (proprietor's salary plus net profit)	7.9%	9.7%
Total Inventory	6.2%	28.5%
Inventory turnover	13.6 times	4.4 times
Are you currently a member of a buying group?	76.2%	

Figure 10 Inventory Turnover Rate — Seven-Year Trend



Geographic Summary

Geographic location may have an influence on the operating data of pharmacies (Table 22). It has been suggested that sales and expenses are affected by factors such as cost of living, population density, competition, pharmacy personnel, and third-party prescription activity, which vary according to region.

The highest average prescription charge ($50.55) was reported in the Mountain States. The lowest ($40.09) was reported by the New England States. The Pacific region reported the highest total wage package, 14.4 percent of total sales for 2001.

The Southwestern States reported the lowest sales volume in 2001. Pharmacies in the South reported the highest ratio of prescription sales to total sales. The region reporting the highest gross margin (26.4 percent) was the Pacific region. The Southwest and Pacific States also reported the highest net profit, at 4.0 percent of total revenue. The South region reported the highest number of prescriptions, in contrast to the Mountain States, which dispensed the lowest number of prescriptions in any region. The Geographic Summary shows several differences in operating data by regions. It is suggested that a manager first compare financial data with statistics in "The Heart of the *NCPA-Pharmacia Digest*," Appendix II. The regional information may then be used to examine variations from the averages and use them to adjust budgetary projections. Figure 11 represents the average number of total prescriptions covered by all third-parties by geographic regions.

Figure 11 Total Third-Party Prescriptions by Geographic Region

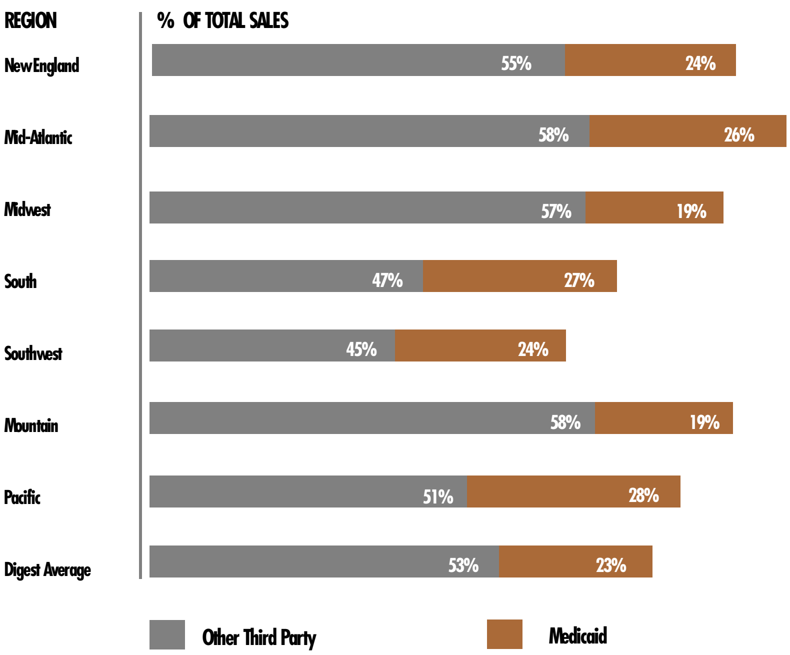


Table 22 Financial Summaries by Geographic Region

	New England States (CT, MA, ME, NH, RI, VT)	Middle Atlantic States (DE, DC, MD, NJ, NY, PA)	Midwestern States (IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI)	Southern States (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV)	Southwestern States (AZ, NM, OK, TX)	Mountain States (CO, ID, MT, NV, UT, WY)	Pacific States (AK, CA, HI, OR, WA)	NCPA-Pharmacia Digest average**
Total sales (in dollars)	$ 2,333,378	$ 2,407,888	$ 2,356,417	$ 2,766,565	$ 2,058,243	$ 2,643,447	$ 2,635,338	$ 2,480,929
Prescription Sales	75.9%	81.4%	84.8%	88.1%	84.9%	75.4%	80.3%	84.2%
Gross margin	23.7%	20.4%	23.1%	22.6%	23.4%	23.7%	26.4%	23.0%
Total wage package	13.1%	11.2%	12.3%	12.4%	12.3%	13.4%	14.4%	12.5%
Rent	1.6%	1.4%	1.2%	0.9%	1.3%	1.9%	1.5%	1.2%
Total Expenses	20.9%	17.6%	19.3%	18.9%	19.4%	20.7%	22.4%	19.4%
Net Profit	2.8%	2.8%	3.7%	3.7%	4.0%	3.1%	4.0%	3.5%
Average inventory at cost	9.6%	7.5%	11.4%	6.9%	7.8%	8.4%	8.5%	7.8%
Annual prescriptions	44,181	45,602	47,708	61,373	43,247	39,409	48,352	51,245
Pharmacy prescription charge	$ 40.09	$ 43.00	$ 41.90	$ 39.72	$ 40.39	$ 50.55	$ 43.77	$ 40.76
Hours open per week	65	59	56	55	54	60	51	56
Medicaid prescriptions	23.6%	26.0%	19.0%	26.5%	24.0%	18.9%	27.7%	23.5%
Other third-party prescriptions	54.9%	58.1%	57.2%	46.5%	45.2%	57.8%	50.5%	52.6%

Operating Trends

One of the strengths of the *NCPA-Pharmacia Digest* report is that the data collected each year provides the opportunity to identify trends and 2001 is no exception. Total sales continued its trend by increasing 8.0 percent over the previous year, nearly eclipsing $2.5 million for the first time in *Digest* history (Figure 12).

In Table 23, pharmacy operating data are shown as percentages of sales for each year during the past decade. Cost of goods sold has risen from 70.9 percent to 77.0 percent of total sales, resulting in a decrease in the gross margin percentage from 29.1 percent to 23.0 percent.

Over the past decade, total expenses have generally decreased in relation to total sales. With the exception of 1992, net profit has ranged from 2.9 percent to 3.6 percent of total revenue. Inventory at cost has decreased over the last 10 years from 12.1 percent of sales in 1991 to 7.8 percent of sales in 2001.

The 10-year trend for proprietor's salary has shown a general decline as a percentage. However the past 5 years has shown proprietor's salary plateauing near 5 percent. Even with this trend, the actual dollar amount of proprietor's salary has continued to increase. Proprietor's salary coupled with net profit represents the proprietor's total income from the business and this has increased to a record $196,937 for 2001.

Figure 12 Total Sales Volume (in thousands) — Ten-Year Trend

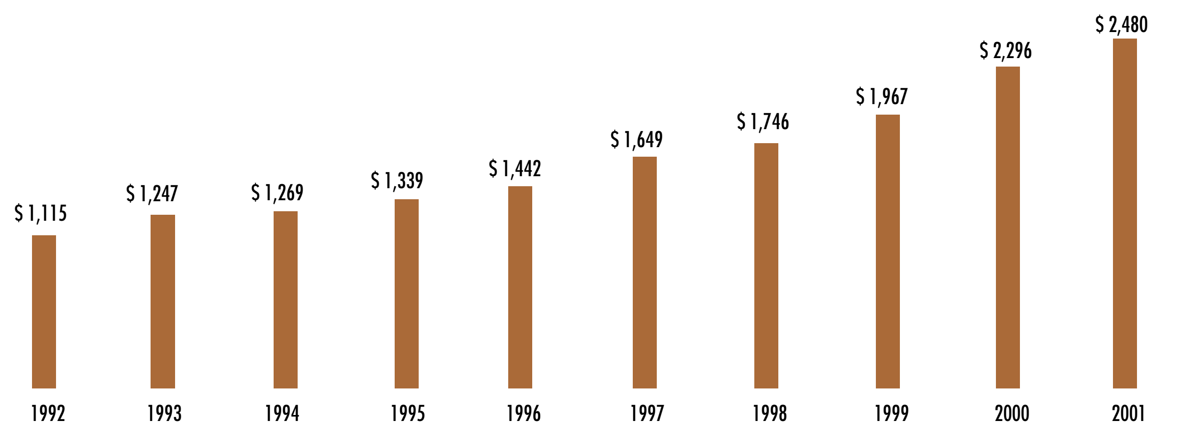


Table 23 Averages of Pharmacy Operations — Ten-Year Trends

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Total Expenses	Net Profit	Inventory at Cost
1992	$ 1,115,048	71.5%	28.5%	5.4%	8.7%	2.1%	26.6%	1.9%	12.4%
1993	$ 1,247,956	70.7%	29.3%	5.5%	9.6%	2.1%	26.3%	3.0%	11.7%
1994	$ 1,269,071	71.9%	28.1%	5.1%	10.1%	1.9%	25.1%	2.9%	11.4%
1995	$ 1,339,824	72.4%	27.6%	5.2%	9.5%	1.8%	24.5%	3.1%	11.4%
1996	$ 1,442,583	73.7%	26.3%	4.8%	8.8%	1.7%	23.3%	3.0%	11.1%
1997	$ 1,649,052	74.4%	25.6%	4.8%	8.3%	1.7%	22.5%	3.1%	10.9%
1998	$ 1,746,785	75.1%	24.9%	5.0%	8.2%	1.6%	21.8%	3.1%	9.0%
1999	$ 1,967,787	76.0%	24.0%	4.9%	7.9%	1.4%	20.4%	3.6%	8.6%
2000	$ 2,296,672	76.7%	23.3%	4.4%	7.8%	1.3%	20.1%	3.2%	8.2%
2001	$ 2,480,929	77.0%	23.0%	4.4%	8.1%	1.2%	19.4%	3.5%	7.8%

Pharmacy Location

The operating statistics of *NCPA-Pharmacia Digest* pharmacies according to location are shown in Table 24. Respondents are grouped according to rural (population of 50,000 or less) or metropolitan (population over 50,000) locations. Out of the total number of pharmacies, 70 percent reported their location as a rural area.

When comparing rural and metropolitan pharmacies, there are more similarities than differences. However, the average *Digest* metropolitan pharmacy had a higher inventory turnover rate and prescription charge than their rural counterpart. The average *Digest* rural pharmacy tended to be larger and have a higher prescription volume.

Table 24 Summary of Pharmacy Operations by Location

Averages per Pharmacy	Rural Pharmacies (Population 50,000 or under)		Metropolitan Pharmacies (Population > 50,000)	
Sales				
Prescription Sales	$ 2,060,378	85.0%	$ 2,163,620	82.7%
Other Sales	$364,861	15.0%	452,247	17.3%
Total Sales	$ 2,425,239	100.0%	$ 2,615,867	100.0%
Cost of goods sold	1,876,249	77.4%	1,988,440	76.0%
Gross margin	$ 548,990	22.6%	$ 627,427	24.0%
Expenses				
Proprietor's salary	$ 109,276	4.5%	$ 109,493	4.2%
Employee's wages	190,976	7.9%	225,300	8.6%
Rent	26,999	1.1%	40,155	1.5%
Utilities	12,717	0.5%	12,295	0.5%
Prescription containers	9,505	0.4%	8,814	0.3%
Delivery Costs	4,500	0.2%	12,653	0.5%
Computer	7,491	0.3%	7,828	0.3%
Advertising	13,725	0.6%	12,154	0.5%
All other expenses	89,457	3.7%	103,973	4.0%
Total expenses	$ 464,646	19.2%	$ 532,665	20.4%
Net profit (before taxes)	$ 84,344	3.5%	$ 94,762	3.6%
Proprietor's withdrawals	109,276	4.5%	109,493	4.2%
Total income (before taxes)	$ 193,620	8.0%	$ 204,255	7.8%
Value of inventory as cost and as a percentage of sales				
Prescription Inventory	$ 137,554	5.7%	$ 147,584	5.6%
Other Inventory	92,107	3.8%	41,318	1.6%
Total Inventory	$ 229,661	9.5%	$ 188,902	7.2%
Annual rate of inventory turnover		8.2 times		10.5 times
Size of area and sales per square foot				
Prescription Sales per square foot	2,966 sq.ft.	$ 695	2,674 sq.ft.	$ 809
Other Sales per square foot	137 sq.ft.	$ 2,667	261 sq.ft.	$ 1,731
Total Sales per square foot	721 sq.ft.	$ 3,362	1,030 sq.ft.	$ 2,540
Number of prescriptions dispensed				
New prescriptions	24,514	48.1%	24,610	50.0%
Renewed prescriptions	26,432	51.9%	24,603	50.0%
Total prescriptions	50,946	100.0%	49,213	100.0%
Prescription charge		$ 40.44		$ 43.96
Number of hours and days per week				
Hours open per week		56		55
Days open per week		6		6
Sales activity per hour open				
Prescription sales per hour		$ 707.55		$ 756.51
Other sales per hour		$ 125.3		$ 158.13
Number of prescriptions dispensed per hour		17.5		17.2
Percentage of total prescription covered by:				
Medicaid		22.0%		27.8%
Other third-party		53.6%		49.8%

Financial Planning for Independent Pharmacies

The primary financial objective of a pharmacy owner is to earn an adequate return on the funds invested in the pharmacy practice. Pharmacy owners and managers should review balance sheet data from the standpoint of a capital investor by relating income to funds invested and evaluating the overall liquidity and profitability of the pharmacy. Financial ratios developed from the annual financial statements can be used to measure the solvency, efficiency, and profitability of the pharmacy practice.

The ability to evaluate and analyze the financial components of the practice by interpreting accounting records may be one of the keys to successful management. Ratios calculated from financial information can serve as general indicators of performance over a given period of time. It is usually very useful to compare a pharmacy's past financial ratios with its most recent ratios in order to best determine general trends. The financial ratios in the following charts reflect the national averages reported for participating pharmacies.

An accurate income and expense statement reflects the net profit an economic unit has earned during an accounting period, but financial statements can be used to identify specific problem areas and even potential problem areas. A pharmacist may properly analyze financial statements and prepare a meaningful budget for the practice for the next year by:

1. Calculating a number of financial ratios.
2. Properly segmenting the ratios compiles.
3. Comparing these ratios with ratios for the same pharmacy during recent years.
4. Comparing these ratios with a similar group of pharmacies as reported in the *NCPA-Pharmacia Digest.*
5. Writing a financial ratio analysis report which describes the financial problems in all major areas of managerial control.
6. Listing specific financial objectives.

As mentioned above, the first step is calculating the financial ratios, followed by compiling and comparing the ratios to previous years and the *Digest* averages. The following section will define a number of useful ratios, give an acceptable range for each ratio and properly segment the ratios so that a description of three major areas of financial management – solvency, efficiency, and profitability – can be given.

Chart 1 Definition and Usual Range of Solvency Ratios

Ratio			Usual Range	2001	2000
A.	Current Ratio =	Current Assets / Current Liabilities	>2	3.1	3.0
B.	Acid Test Ratio =	Cash + Accounts Receivable / Current Liabilities	>1	1.5	1.4
C.	Current Liabilities / Inventory		<50%	65%	64%
D.	Total Liabilities / Net Worth		<100%	69%	75%
E.	Fixed Assets / Net Worth		25 – 50%	17%	18%
F.	Long-Term Liabilities / Net Working Capital (Net Working Capital = Current Assets – Current Liabilities)		<50%	23%	26%

Solvency

Solvency describes the firm's overall ability to pay its legal liabilities or debts. The major ratios used to describe the solvency of the firm include the current ratio, acid test ratio or quick ratio, current liabilities to inventory, total liabilities to net worth, fixed assets to net worth and long term liabilities to net working capital. These ratios have been illustrated in Chart 1, along with the usual range, the average *2002 Digest* pharmacy ratio, and the previous year's ratio.

The *current ratio* is defined as current assets divided by current liabilities. Current assets are operationally defined as cash plus accounts receivable plus inventory, and current liabilities include all liabilities due within one year. The *acid test ratio* is similar, but deletes inventory because inventory is the least liquid of the current assets. A current ratio of at least two should be maintained to assure the manager of a safe margin in case of a sudden drop in sales or increase in expenses. Not more than 50 percent of this investment should be made in inventory, as indicated by the acceptable minimum of at least one for the acid test ratio.

Total liabilities to net worth should be less than one when measuring the solvency of the pharmacy. This means that the investor should own at least 50 percent of the total assets of the firm. When creditors own more than 50 percent of the assets, the owner may have difficulty obtaining a loan, even for major and unexpected emergencies. Fixed assets are those with an expected life greater than one year. Usually fixed assets in a pharmacy are the fixtures and equipment necessary for maintaining the practice. As these assets depreciate, they need to be replaced.

Long-term liabilities are usually used to provide fixed assets. The more often future monies are committed to pay for these assets, the more difficult it becomes to borrow short term or long term money for emergency situations. A value of less than 0.5 is desirable when comparing long-term liabilities to net working capital (current assets minus current liabilities).

If a manager has a problem in controlling cash, accounts receivable, inventory, liabilities, or fixed assets, the problem will be identified after calculating these solvency ratios.

Efficiency Ratios

It is important for the manager to utilize all of the assets, including pharmacy personnel, in an efficient and effective manner. A number of ratios have been developed to assist owners and managers in measuring the success of the pharmacy from a financial perspective. These ratios include inventory control, accounts receivable, accounts payable, net working capital with regard to sales and the age of the fixtures and equipment.

The largest single asset investment in a pharmacy is in inventory and the most direct measure of inventory control is the *inventory turnover rate*. This ratio is defined as the cost of goods sold during a 12-month period divided by the average investment in inventory for the period. This cost of goods sold is found by adding net purchases to the beginning inventory and subtracting the ending inventory. The cost of goods sold is shown on an income and expense statement. As a general rule, if the number of shortages (or out of stock situations) does not increase, the higher the inventory turnover rate, the better. Net sales to aver-

Chart 2 Definition and Usual Range of Efficiency Ratios

Ratio			Usual Range	2001	2000
A.	Inventory Turnover Rate =	Cost of Goods Sold / Average Inventory	5 – 10	9.8	9.3
B.	Net Sales / Average Inventory		6 – 12	12.8	12.2
C.	Accounts Receivable = Collection Period	Accounts Receivable / (Annual Credit Sales/365)	30 – 40 days	NA	NA
D.	Accounts Payable = Collection Period	Accounts Payable / (Annual Purchases/365)	15 – 25 days	15.3 days	16.6 days
E.	Net Working Capital = Turnover Rate	Net Sales / Net Working Capital	5 – 12	9.4	9.2

age inventory is a measure similar to turnover rate. However, this ratio does not measure inventory control as directly as the inventory turnover rate and should be used when the sales information is available and the cost of goods sold cannot be determined.

One measure of credit management efficiency is the accounts receivable collection period. This ratio measures the degree of control over charge sales by dividing ending accounts receivable outstanding by daily credit sales. A value exceeding 40 days should be of concern to managers because excess capital tied up in accounts receivable cannot be used to pay creditors or withdrawn from the economic unit by the investors.

The accounts payable collection period, defined as the ending accounts payable outstanding divided by daily purchases, describes how efficiently the manager is paying creditors for merchandise. Traditionally, a value greater than 30 days indicated that the 2 percent cash discount offered by some suppliers may not have been taken for some merchandise received. Since wholesalers and manufacturers often require payments to be made at least twice monthly, this ratio has decreased.

The net working capital turnover rate, defined as net sales divided by net working capital, describes how efficiently the pharmacy manager is utilizing the net working capital to support the sales volume of the pharmacy. An over-investment in net working capital is a waste of valuable resources and it will be difficult, or impossible, to maintain the pharmacy if an inadequate investment is made in net working capital.

Profitability

The next major area for our discussion is profitability and a number of ratios concerning this important topic have been included in Chart 3.

The traditional ratio examined by community pharmacy managers concerning profitability is the net profit to net sales. One major advantage of this ratio is that it can be compared with other pharmacies similar in nature and the owner or manager may use this as a guideline.

For the investor, return on net worth is probably the most important ratio for measuring profitability. This ratio, defined as the net profit divided by net worth, describes the amount of profit earned per dollar invested by the owner(s). An investor may earn 5 percent to 8 percent with very little risk. As the risk increases, e.g., in a business such as a community pharmacy, the expected return must increase or investors would not be interested in assuming the risk. The net profit to total assets describes the economic unit's earning ability, regardless of whether the investment is made by the owner or creditors. The net profit to average inventory is important because inventory is the greatest investment in the traditional community pharmacy and the inventory is the working asset, i.e., the asset used to make the necessary profit for the economic unit to exist.

Net profit to net working capital is useful in measuring profitability when a large portion of the operating funds is provided through long-term borrowings and when permanent capital is abnormally low in relation to sales.

Chart 3 Definition and Usual Range of Profitability Ratios

Ratio			Usual Range	2001	2000
A.	Net Profit (before taxes) / Net Sales		2 – 4%	3.5%	3.2%
B.	Return on Net Worth =	Net Profit / Net Worth	15 – 30%	32.5%	30.0%
C.	Return on Total Assets =	Net Profit / Total Assets	>10%	19.2%	17.1%
D.	Net Profit / Average Inventory		>20%	45.3%	39.3%
E.	Net Profit / Net Working Capital		>20%	33.4%	29.8%

The Heart of the NCPA-Pharmacia Digest

This section contains 10 categories of financial averages arranged according to annual sales volume and daily prescription activity.

A generally accepted accounting format has been used to display the operating data so that comparisons can be made with the figures for any pharmacy.

Table A Total Sales Under $750,000

Averages per Pharmacy	Under 60 Prescriptions Daily		YOUR NUMBERS HERE	60 and Over Prescriptions Daily		YOUR NUMBERS HERE
Sales						
Prescription Sales	$ 474,519	87.4%		$ 722,216	96.9%	
Other Sales	68,716	12.6%		22,958	3.1%	
Total Sales	$ 543,235	100.0%		$ 745,174	100.0%	
Cost of goods sold	368,313	67.8%		564,338	75.7%	
Gross margin	$ 174,922	32.2%		$ 180,836	24.3%	
Expenses						
Proprietor's salary	$ 56,097	10.3%		36,000	4.8%	
Employee's wages	39,422	7.3%		43,545	5.8%	
Rent	13,093	2.4%		6,930	0.9%	
Utilities	5,572	1.0%		3,797	0.5%	
Prescription containers	2,110	0.4%		2,620	0.4%	
Delivery Costs	3,373	0.6%				
Computer	3,137	0.6%		3,265	0.4%	
Advertising	6,030	1.1%		3,031	0.4%	
All other expenses	27,609	5.1%		4,924	0.7%	
Total expenses	$ 156,443	28.8%		104,112	14.0%	
Net profit (before taxes)	$ 18,479	3.4%		76,724	10.3%	
Proprietor's withdrawals	56,097	10.3%		36,000	4.8%	
Total income (before taxes)	$ 74,576	13.7%		112,724	15.1%	
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	$ 52,323	9.6%		34,500	4.6%	
Other Inventory	$ 16,423	3.0%		1,497	0.2%	
Total Inventory	$ 68,746	12.6%		35,997	4.8%	
Annual rate of inventory turnover		5.4 times			15.7 times	
Size of area and sales per square foot						
Prescription Sales per square foot	515 sq. ft.	$ 922		447 sq. ft.	$ 1,618	
Other Sales per square foot	1,303 sq. ft.	$ 53		1,115 sq. ft.	$ 21	
Total Sales per square foot	1,818 sq. ft.	$ 299		1,562 sq. ft.	$ 477	
Number of prescriptions dispensed						
New prescriptions	5,767	49.8%		9,218	42.4%	
Renewed prescriptions	5,816	50.2%		12,538	57.6%	
Total prescriptions	11,583	100.0%		21,756	100.0%	
Prescription charge		$ 40.97			$ 33.20	
Number of hours and days per week						
Hours open per week		50 hours			46 hours	
Days open per week		6 days			6 days	
Sales activity per hour open						
Prescription sales per hour		$ 182.51			$ 301.93	
Other sales per hour		$ 26.43			$ 9.60	
Number of prescriptions dispensed per hour		4.5			9.1	
Percentage of total prescription covered by:						
Medicaid		18.4%			30.0%	
Other third-party		43.9%			34.5%	

Table B ✻ Total Sales $750,000 to $1,000,000

Averages per Pharmacy	Under 75 Prescriptions Daily		YOUR NUMBERS HERE	75 and Over Prescriptions Daily		YOUR NUMBERS HERE
Sales						
Prescription Sales	$ 684,536	78.8%		$ 835,779	91.9%	
Other Sales	184,060	21.2%		73,845	8.1%	
Total Sales	$ 868,596	100.0%		$ 909,624	100.0%	
Cost of goods sold	639,373	73.6%		686,132	75.4%	
Gross margin	$ 229,223	26.4%		$ 223,492	24.6%	
Expenses						
Proprietor's salary	$ 57,804	6.7%		$ 64,775	7.1%	
Employee's wages	62,010	7.1%		68,883	7.6%	
Rent	12,308	1.4%		13,392	1.5%	
Utilities	7,686	0.9%		8,035	0.9%	
Prescription containers	3,476	0.4%		4,285	0.5%	
Delivery Costs	2,951	0.3%		3,298	0.4%	
Computer	5,812	0.7%		4,478	0.5%	
Advertising	4,333	0.5%		3,515	0.4%	
All other expenses	46,070	5.3%		31,731	3.5%	
Total expenses	$ 202,450	23.3%		$ 202,392	22.4%	
Net profit (before taxes)	$ 26,773	3.1%		$ 21,100	2.3%	
Proprietor's withdrawals	57,804	6.7%		64,775	7.1%	
Total income (before taxes)	$ 84,577	9.8%		$ 85,875	9.4%	
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	$ 79,522	9.1%		$ 88,985	9.8%	
Other Inventory	$ 33,575	3.9%		$ 18,779	2.1%	
Total Inventory	$ 113,097	13.0%		$ 107,764	11.9%	
Annual rate of inventory turnover		5.7 times			6.4 times	
Size of area and sales per square foot						
Prescription Sales per square foot	512 sq. ft.	$ 1,337		690 sq. ft.	$ 1,211	
Other Sales per square foot	1,735 sq. ft.	$ 106		1,057 sq. ft.	$ 70	
Total Sales per square foot	2,247 sq. ft.	$ 387		1,746 sq. ft.	$ 521	
Number of prescriptions dispensed						
New prescriptions	7,964	46.1%		14,963	51.4%	
Renewed prescriptions	9,307	53.9%		14,126	48.6%	
Total prescriptions	17,271	100.0%		29,089	100.0%	
Prescription charge		$ 39.64			$ 28.73	
Number of hours and days per week						
Hours open per week		51 hours			49 hours	
Days open per week		6 days			6 days	
Sales activity per hour open						
Prescription sales per hour		$ 258.12			$ 349.40	
Other sales per hour		$ 69.40			$ 30.87	
Number of prescriptions dispensed per hour		6.5			12.2	
Percentage of total prescription covered by:						
Medicaid		21.3%			31.3%	
Other third-party		50.6%			46.0%	

Table C ✻ Total Sales $1,000,000 to $1,500,000

Averages per Pharmacy	Under 115 Prescriptions Daily		YOUR NUMBERS HERE	115 and Over Prescriptions Daily		YOUR NUMBERS HERE
Sales						
Prescription Sales	$ 1,057,037	84.0%		$ 1,257,894	89.5%	
Other Sales	200,674	16.0%		147,194	10.5%	
Total Sales	$ 1,257,711	100.0%		$ 1,405,088	100.0%	
Cost of goods sold	954,908	75.9%		1,057,739	75.3%	
Gross margin	$ 302,803	24.1%		$ 347,349	24.7%	
Expenses						
Proprietor's salary	$ 73,528	5.8%		$ 87,884	6.3%	
Employee's wages	86,504	6.9%		82,223	5.9%	
Rent	19,454	1.5%		16,034	1.1%	
Utilities	9,189	0.7%		6,689	0.5%	
Prescription containers	4,980	0.4%		5,115	0.4%	
Delivery Costs	3,356	0.3%		3,460	0.2%	
Computer	5,092	0.4%		5,257	0.4%	
Advertising	6,846	0.5%		6,002	0.4%	
All other expenses	47,360	3.8%		41,710	3.0%	
Total expenses	$ 256,309	20.3%		$ 254,374	18.2%	
Net profit (before taxes)	$ 46,494	3.7%		$ 92,975	6.6%	
Proprietor's withdrawals	73,528	5.8%		87,884	6.3%	
Total income (before taxes)	$ 120,022	9.5%		$ 180,859	12.9%	
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	$ 93,831	7.5%		$ 94,769	6.7%	
Other Inventory	35,631	2.8%		23,167	1.7%	
Total Inventory	$ 129,462	10.3%		$ 117,936	8.4%	
Annual rate of inventory turnover		7.4 times			9.0 times	
Size of area and sales per square foot						
Prescription Sales per square foot	574 sq. ft.	$ 1,842		591 sq. ft.	$ 2,128	
Other Sales per square foot	1,691 sq. ft.	$ 119		834 sq. ft.	$ 177	
Total Sales per square foot	2,265 sq. ft.	$ 555		1,425 sq. ft.	$ 986	
Number of prescriptions dispensed						
New prescriptions	12,774	47.6%		23,180	57.1%	
Renewed prescriptions	14,058	52.4%		17,448	42.9%	
Total prescriptions	26,832	100.0%		40,628	100.0%	
Prescription charge		$ 39.39			$ 30.96	
Number of hours and days per week						
Hours open per week		53 hours			51 hours	
Days open per week		6 days			6 days	
Sales activity per hour open						
Prescription sales per hour		$ 383.54			$ 474.32	
Other sales per hour		$ 72.81			$ 55.50	
Number of prescriptions dispensed per hour		9.7			15.3	
Percentage of total prescription covered by:						
Medicaid		23.2%			43.5%	
Other third-party		49.7%			35.2%	

Table D Total Sales $1,500,000 to $2,000,000

Averages per Pharmacy	Under 140 Prescriptions Daily		YOUR NUMBERS HERE	140 and Over Prescriptions Daily		YOUR NUMBERS HERE
Sales						
Sales	$ 1,473,421	86.0%		$ 1,647,931	89.6%	
Other Sales	239,108	14.0%		191,649	10.4%	
Total Sales	$ 1,712,529	100.0%		1,839,580	100.0%	
Cost of goods sold	1,322,741	77.2%		1,453,714	79.0%	
Gross margin	$ 389,788	22.8%		385,866	21.0%	
Expenses						
Proprietor's salary	$ 98,436	5.7%		90,432	4.9%	
Employee's wages	120,360	7.0%		130,392	7.1%	
Rent	23,947	1.4%		20,161	1.1%	
Utilities	9,458	0.6%		10,602	0.6%	
Prescription containers	6,605	0.4%		7,376	0.4%	
Delivery Costs	4,935	0.3%		3,798	0.2%	
Computer	5,799	0.3%		7,762	0.4%	
Advertising	8,438	0.5%		10,075	0.5%	
All other expenses	$ 65,514	3.8%		59,565	3.2%	
Total expenses	343,492	20.0%		340,163	18.4%	
Net profit (before taxes)	$ 46,296	2.7%		45,703	2.5%	
Proprietor's withdrawals	98,436	5.7%		90,432	4.9%	
Total income (before taxes)	$ 144,732	8.4%		136,135	7.4%	
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	109,379	6.4%		111,249	6.1%	
Other Inventory	42,499	2.5%		30,137	1.6%	
Total Inventory	151,878	8.9%		141,386	7.7%	
Annual rate of inventory turnover		8.7 times			10.3 times	
Size of area and sales per square foot						
Prescription Sales per square foot	696 sq. ft.	$ 2,117		790 sq. ft.	$ 2,086	
Other Sales per square foot	2,069 sq. ft.	$ 116		1,633 sq. ft.	$ 117	
Total Sales per square foot	2,765 sq. ft.	$ 619		2,423 sq. ft.	$ 759	
Number of prescriptions dispensed						
New prescriptions	16,194	46.6%		24,490	50.3%	
Renewed prescriptions	18,582	53.4%		24,175	49.7%	
Total prescriptions	34,776	100.0%		48,665	100.0%	
Prescription charge		$ 42.37			$ 33.86	
Number of hours and days per week						
Hours open per week		53 hours			53 hours	
Days open per week		6 days			6 days	
Sales activity per hour open						
Prescription sales per hour		$ 534.62			$ 597.94	
Other sales per hour		$ 86.76			$ 69.54	
Number of prescriptions dispensed per hour		12.6			17.7	
Percentage of total prescription covered by:						
Medicaid		22.2%			18.0%	
Other third-party		52.1%			61.0%	

Table E ✻ Total Sales Over $2,000,000

Averages per Pharmacy	Under 200 Prescriptions Daily		YOUR NUMBERS HERE	200 and Over Prescriptions Daily		YOUR NUMBERS HERE
Sales						
Prescription Sales	$ 2,277,305	80.6%		$ 3,728,278	86.0%	
Other Sales	547,269	19.4%		606,031	14.0%	
Total Sales	$ 2,824,574	100.0%		$ 4,334,309	100.0%	
Cost of goods sold	2,176,284	77.0%		3,353,117	77.4%	
Gross margin	$ 648,290	23.0%		$ 981,192	22.6%	
Expenses						
Proprietor's salary	$ 113,977	4.0%		$ 161,110	3.7%	
Employee's wages	226,111	8.0%		384,999	8.9%	
Rent	39,433	1.4%		42,196	1.0%	
Utilities	14,967	0.5%		17,790	0.4%	
Prescription containers	10,568	0.4%		16,264	0.4%	
Delivery Costs	8,580	0.3%		10,770	0.2%	
Computer	7,790	0.3%		12,098	0.3%	
Advertising	14,092	0.5%		24,129	0.6%	
All other expenses	104,188	3.7%		161,449	3.7%	
Total expenses	$ 539,706	19.1%		$ 830,805	19.2%	
Net profit (before taxes)	$ 108,584	3.8%		$ 150,387	3.5%	
Proprietor's withdrawals	113,977	4.0%		161,110	3.7%	
Total income (before taxes)	$ 222,561	7.8%		$ 311,497	7.2%	
Value of inventory as cost and as a percentage of sales						
Prescription Inventory	$ 152,348	5.4%		$ 210,636	4.9%	
Other Inventory	72,755	2.6%		70,074	1.6%	
Total Inventory	$ 225,103	8.0%		$ 280,710	6.5%	
Annual rate of inventory turnover		9.7 times			12 times	
Size of area and sales per square foot						
Prescription Sales per square foot	743 sq. ft.	$ 3,065		911 sq. ft.	$ 4,093	
Other Sales per square foot	3,199 sq. ft.	$ 171		2,834 sq. ft.	$ 214	
Total Sales per square foot	3,942 sq. ft.	$ 717		3,745 sq. ft.	$ 1,157	
Number of prescriptions dispensed						
New prescriptions	24,206	48.2%		45,155	48.8%	
Renewed prescriptions	26,051	51.8%		47,318	51.2%	
Total prescriptions	50,257	100.0%		92,473	100.0%	
Prescription charge		$ 45.31			$ 40.32	
Number of hours and days per week						
Hours open per week		58 hours			61 hours	
Days open per week		6 days			6 days	
Sales activity per hour open						
Prescription sales per hour		$ 755.07			$ 1,175.37	
Other sales per hour		$ 181.46			$ 191.05	
Number of prescriptions dispensed per hour		16.7%			29.0%	
Percentage of total prescription covered by:						
Medicaid		22.3%			25.3%	
Other third-party		56.1%			54.3%	

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