MCKESSON

Budgeting for your pharmacy

Understanding the financial side of the business as an independent pharmacy owner can help you identify opportunities and risks that can impact your operations over time. Implementing a budget into your financial process can provide you with detailed insights into what your pharmacy buys, sells, and expenses.

A budget is simply a spending plan that considers your current and future income, as well as expenses.

Budgeting can help you put aside funds for your short and long-term financial goals, such as paying bills on time, or building an emergency fund for unexpected expenses. For pharmacy ownership, budgeting can help prepare you to open or acquire a new pharmacy.

Budgets are created for various reasons. A budget can be created to help set goals for growth and/or expense control, helping you prioritize what is implemented first. If you are considering a major investment to expand business or to make up for labor issues (ex: robotics), you may need to be able to plan for the additional cash outlay and ensure you can afford the maintenance contract.

It's important to adjust your budget over time as your goals and circumstances change. If you are missing your revenue and gross profit, how will you adjust your expenses?

How do you make a budget?

The structure of your budget will depend on your personal financial goals. It is important when creating a budget that you have one central place to track and record your spending.

As a start-up pharmacy, you should project everything that you believe will happen based on the execution of your business plan. As an existing pharmacy, you can leverage your existing financial and script data to project growth in revenue and expenses, or if you are seeing a decline, to control expenses as a percent of sales and implement new programs to drive profitable revenue.

Consider these questions when putting together your budget plan:

- How many scripts are you currently doing per day/week/month?
- How many scripts do you project you will do per day/week/month?
- How do you plan on increasing your script growth?
- How will you adjust accordingly if your script growth is not to plan?

To calculate your revenue, multiply your script count by your existing average price per script. Start-ups can calculate revenue using the NCPA average script price of $59.62. You can do the same to calculate the cost of goods. According to NCPA, the cost of goods for a start-up should be about 76.7%. You may consider working with an RxOwnership Start-up Specialist to plan your projections based on your area.

Once you have your revenue and cost of goods calculated, you can calculate your gross profit. To do so, subtract your cost of goods from your revenue. You can divide your gross profit by revenue to get your gross profit percentage.

Expenses to track in your budget can be categorized into fixed and variable expenses. When planning out your expenses for the period, it should be a percent of sales/revenue. NCPA Digest gives benchmarks for all.

Common examples of **fixed** expenses include:

- Rent
- Salaries (RPh salary)
- Insurance payments
- Property taxes
- Interest expenses
- Depreciation
- Loan payments

Common examples of **variable** expenses include:

- Utilities
- Credit card fees
- Hourly wages (technicians)
- Repairs and maintenance

Subtract all expenses from your gross profit to determine whether you are operating at a profit or a loss. If you are at a loss, what needs to be adjusted to achieve profitability? Is it revenue? Is it gross profit? What services can you add into your plan to catch up with your expenses? You can grow revenue that isn't profitable, so be careful of just looking at top line.

Overall, budgeting can be eye opening to expense control and revenue growth. Budgeting can allow you to plan out your year and measure your effectiveness of your plan. Be open to adjusting your budget plan and managing your expenses based on what you see in your financials monthly. Fixed costs will not change regardless of revenue growth or lack thereof. You have to continue to look at variable costs in your budget if you are not generating the revenue to plan. Look at your variable costs to see how you can control them, as they are all controllable.

Don't forget to always have a team to support you and to work with them when planning your year. As the old adage goes, failing to plan is planning to fail.

Having the right systems in place—from the right partners—not only improves profitability but decreases owner stress. To help take stress out of choosing the right systems, talk to an RxOwnership® advisor. They provide confidential, no-fee consultations covering every step in building or buying a pharmacy that is sustainable and profitable.

RxOwnership has helped more than 7,000 pharmacy owners since 2008 and can help you too. Contact RxOwnership today with your questions, with no risk or obligation.

Check out our new Pharmacy Insights short video series and follow RxOwnership on Twitter or LinkedIn to stay up to date with the industry news pharmacy owners need to know.

Sincerely,

Chris Cella, R.Ph. and the RxOwnership Team
www.RxOwnership.com
RxOwnership@McKesson.com
800.266.6781