Don’t just manage the risk

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‘Don’t manage risk, exploit opportunities. Cost-cutting is not a business model and it alone (especially the wrong kind) won’t save you. Invest your precious resources now where you can create significant leverage, velocity, or economies of scale. Don’t trip over dollars to pick up pennies.’ [1]

Smart pharmacy owners are revolutionising their dispensary layout, processes and systems. Last month (Value by outcome, not cost, *AJP* June 2008; p66) I explained the compelling rationale and the time and cost savings that result from such an exercise.

But what of the cost to realise that benefit?

COST VS BENEFIT

The work I have done, and from the data provided by those who have implemented it, prove that the benefits far outweigh the costs for all but the small-volume dispensaries.

Set out below in Table One are the cost and benefit calculations I have done for pharmacies with three different daily script volumes.

Assumptions and details follow:

COST

Cost of $50,000 includes new dispensary fixtures, installing stock flow systems that hold lines generating 80% of the script volume dispensed, under-bench drawers and gravity-feed drawers (sloping drawers or flat drawers) that hold the slow-moving and bulky lines. Carousel and automation cost covers equipment plus all other requirements included above.

I assume finance is by a commercial hire purchase facility with a $1 balloon.

Maintenance varies depending on the level of IT and moving parts.

SAVINGS

For the smaller-volume pharmacies, I have calculated savings (wages and on-costs) per script of 58c, while for the large-volume pharmacies I used 81c (refer to my last *AJP* column). It’s important to realise and acknowledge that most of these savings won’t be made by simply putting a machine in the dispensary and expecting the net benefits to materialise. Certainly the picking time will be cut, or completely removed in the case of automation.

The full savings and benefits will be realised by embracing all improvement opportunities included in the Table One models as follows:

- **changing staff mix and duties of the pharmacist as discussed last month;**
- **streamline dispensary layout;**
- **install counters or pods;**
- **remove barriers to pharmacist/ customer interaction;**
- **revolutionise dispensary procedures;**
- **remove old stock shelves and counters, thus freeing up retail-selling space; and**
- **make sure customers can see the system as it adds ‘retail theatre’.**

TABLE ONE: Cost benefit model

	Storage/Processes	Carousel	Automation
	150 Rx/day	300 Rx/day	510 Rx/day
Cost—equip, install, furniture	$50,000	$75,000	$210,000
Finance instalments five years 9.5%	$12,500	$19,000	$53,000
Maintenance	$500	$1,000	$10,000
Total annual cost savings/benefit:	$13,000	$20,000	$63,000
Time saved—cost/Rx	$27,000	$54,000	$129,000
Retail income—space freed	$8,000	$12,000	$20,000
Total annual savings	$35,000	$66,000	$149,000
Net annual benefit	$22,000	$46,000	$86,000

GENERATE RETAIL INCOME

Retail sales and, hence, gross profit dollars income would increase from the space freed up by the smaller storage and dispensary footprint. Space freed would largely be valuable wall space that allows a pharmacy to improve their S3 categories offer (within the legal bounds) and, in particular, the S2 and medicine categories, which are starved for space and selling area in the great majority of pharmacies. Each square metre of retail (non-dispensary) floor space produces $2,045 gross profit dollars and $5,679 of sales.[2]

NET BENEFIT

The net benefit benefits vary between $22,000 and $86,000 per annum, while dispensary stock turn will increase to 26 times per annum, compared with the current 18.5 times.[2]

Of course, in reality, pharmacy circumstances will vary and therefore the solution should be tailored to suit.

However, the case for revolutionising the dispensary is compelling from both the financial and customer offer perspectives.

TIME IS EVERYTHING

Justifying the net benefit just by the potential cost savings fails to capitalise on the real benefits available due to time savings, which I will discuss next month.

DOMINANT BRANDS ESTABLISHED IN DECLINING MARKETS

While smart pharmacy owners capitalise on these sorts of initiatives, most others plan to pull back the wrong kind of overheads, particularly staff, marketing and capital expenditure. Owners do this because it’s easy and theoretically risk-free. Yet the reverse is the case.

Therefore they should adopt the opposite attitude and allocate investment dollars into initiatives focused on profit-making departments and activities, while reducing focus on the loss makers.

‘More dominant brands are established in declining markets than in advancing markets’ according to Mike Myatt[1] which means the smart owners won’t be the ones whose eroding businesses feed the growth of the warehouse pharmacies.

1. Myatt M. Recognising the need for change. Business Management; Management Strategies. 13 June 2008.

2. JR Pharmacy 2008 client base benchmark series