

HOW WORKING LESS CAN IMPROVE YOUR PROFIT PICTURE

The most worrisome fears over Ontario's Bill 102 have been assuaged by the amendments made before it passed; however, one lesson remains for pharmacy business owners across Canada: change is here to stay. As a pharmacist owner, you must adapt the financial affairs of your pharmacy to current trends.

The types of cost-cutting measures being considered and often implemented by government and other payers are a double-edged sword for the profession. One edge is the reduction of profits for pharmacists. The second is the ensuing devaluation of the pharmacy operation. That matters to all owners, but particularly to Canadian pharmacy owners and managers who expect to retire in the next few years.

We have observed in recent years that productivity relates directly to the number of open hours. Shorter hours mean less wages, better productivity and better profits.

Cunningham client stats for 2009 indicate that wages as a percent of gross profit average 48%. But for stores ranking in the upper quartile of profitability, wages average 41%.

You can calculate your own wage cost by normalizing your wages/benefits from financial statements and dividing this by the gross profit times 100%. To normalize wages, adjust the owner's salary to a reasonable wage of, say, \$125,000.

Here's an example. Assume normal wages are \$500,000 and gross profit is \$1 million. The wage cost as a percent of gross profit is 50% ($\$500,000/\$1 \text{ million} \times 100\%$).

Here are a few examples of independent pharmacies' opened hours and their effect on wages as a percentage of gross profit:

Effect of hours on wages

Store hours (weekly)	Wages as % of gross profit
54	34%
64	41%
76	55%

Owners believe they must be open longer hours to provide service to customers. Rebates help to finance this luxury, which, on its own, is a pretty good profit strategy.

But here's the financial impact of excess hours: If you are open 9:00 to 9:00 Monday to Friday, 9:00 to 6:00 on Saturday and 10:00 to 5:00 on Sunday, the open hours total 76. Revise this to 9:00 to 7:00 Monday to Friday, 10:00 to 5:00 on Saturday and closed Sundays, the total open hours is 57.

The estimated wages for the 19 excessive hours amount to about \$1,425 per week of \$74,100 per year. The average gross profit per script is about \$16. If the gross profit per script decreases, to \$13 per script, then the break-even point is about 110 scripts. We are confident that with proper planning, you will not lose 110 scripts per week by changing store hours.

Now, we are not suggesting that you immediately reduce your stores hours. First, you should analyze your sales of scripts and frontshop product in those excess hours. You may be surprised to find that the amount you are paying out in wages during those outside hours far exceeds the gross profit on sales during those hours.

Here are some comments from pharmacists who reduced store hours, taken from an article in *Pharmacy Post* ("How to work less and have more").

From an owner in downtown Toronto: "It's been a winning strategy in terms of job satisfaction and profitability – sales have continued to climb and business was up 18% over the previous year."

And from a pharmacist in the Langley, B.C., whose hours are now Monday to Friday 10:00 to 6:00 (one night he is open until 7:30), with the pharmacy shut down for the entire weekend: "I may have lost a few patients, but our reputation and our business is growing."

Shorter hours will reduce stress on pharmacist/owners and improve your personal lifestyle. They may also increase the profit picture for your pharmacy, making your business more valuable.