

The 100 hr pharmacy c

The prospect of a 100 hour pharmacy was gloomy from the outset, but with drastic cuts in Category M purchase profits and huge costs in setting up such a large scale operation, there could only be one way out for business owners who own such a venture and don't see any light at the end of tunnel. David Parker writes...

The changes to the control of entry regulations in 2005, precipitated by the OFT investigation were, to most business owners, a very welcome dilution of that office's full recommendations. In fact in tangible terms, apart from the 100-hour exemption, the changes represented a dilution of homeopathic proportions.

Nevertheless, shortly after the changes were announced there was a rash of 100-hour applications and it felt like the cat was well and truly amongst the pigeons. Two years later, and the panic from existing owners has begun to subside. It has become clear to the majority that the gift of a 100-hour contract, rather than being a licence to print money, is often a guarantee to lose a healthy chunk.

This is, to some extent, a shame. After all, a stated objective of the changes was to improve access to pharmaceutical services out of hours and, although the 100 hour pharmacy may be regarded as a menace to exist-



If the 100 hour pharmacy is not working for you, the best solution is to end the project and start afresh

years old, so that must be a big number"

"Cheers mate that'll do!"

But regardless of the random number, many young pharmacists saw the 100-hour contract as their route to business ownership and, having been granted a 100 hour contract, eagerly jumped at the chance to run their own pharmacy. And run they soon had to! There was no period of grace; a few weeks settling in, finding your feet, getting to know your new business. From day one there were 100 hours of wage costs flooding out of the business, and precious little coming in. Despite the fact that some of the first 100-hour pharmacies have been trading for two years now, it can

be fact that a pharmacist was required to be present for 100 hours per week meant that a turnover of close to £500k was required to fund his/her wages alone. Add to this the other staff costs, rent rates, heat, light etc and a turnover of close to £1m was necessary just to break out of loss. Broadly speaking this translated to around 6,000 items sold each and every month.

Of course some operators of 100-hour pharmacies work many of the hours themselves, and thus see some of the costs as absorbable. However, this can only be palatable in the short term if you are convinced that you are ultimately going to earn more money than you did as a locum or an employee beforehand.

So imagine the scenario, you are a bright young pharmacist who is simply unable to get on the ownership ladder but 100-hours offers you the opportunity to get into business for nothing. Well almost nothing; you sign up to a lease, you spend some hard-earned thousands on a fit-out and you buy some stock, but all in a good cause. Then commercial reality hits home. You realise that unless you want to work all of the hours you are given then the cash coming in will be much less than the cash going out. Pretty soon you have done the maths that you should have done before you opened the business and realised that the not so meagre target of 6,000 items will see you in profit. But with hard work, long hours and some significant losses later there is light at the end of the tunnel when, out of the blue, comes a new drug tariff that slashes a large slice off the bottom line and as a result moves

“Good management of staff costs and opening hours can mean the difference between healthy profits and regular loss”

ing business owners, you can understand the public appeal of those willing to put in the long hours to deliver a service when everyone else is tucked up in their bed. Quite why the DOH came up with 100 hours I have never quite understood but I expect, when drafting the regulations, the conversation between the relevant civil servants went something like this:

"Hey Bob, these new extended-hours pharmacies need to be open longer than all the others, do you know any big numbers?"

"Hmm let me think Well the Queen sends you a birthday card when you are 100

be assumed that many of them, under standard operating costs, would still be running at a loss.

As any pre-existing owner would have been aware, by far the greatest cost line on his/her P&L is the staff-costs. In fact good management of staff costs and opening hours can mean the difference between healthy profits and regular loss. As most pharmacies only open for around 45 hours per week, it does not require complex arithmetic to establish that staffing a pharmacy for 100 hours per week, many of them unsociable, can cost at least twice as much.

Until recently therefore, the unavoida-

concept...two years on

the goalposts to 7,000 items.

So, what next? Well for those that are already beyond the 7,000 item mark, congratulations; you have passed the starting-post and are now earning more than you would be if you were working for someone else and are hopefully delivering better access to pharmaceutical care to boot. But for the rest, it is surely time to step out of the trees and review the dream of business ownership. Ask yourself the simple question, "can, or will, the break-even threshold ever be reached and if so at what cost and over what period of time?"

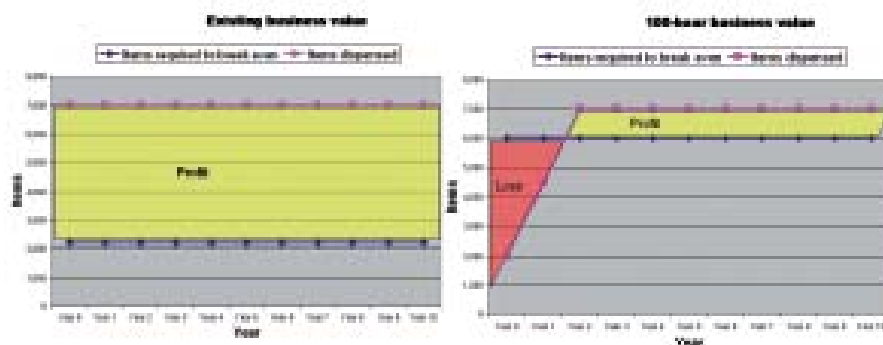
It is important to appraise the situation from a scientific or analytical standpoint rather than an emotional one. After all, the time, effort and money that you have invested are all sunk costs; they are gone, they are no more.

For the loss-making 100-hour business, this is almost certainly the best exit strategy. It may dent the pride slightly; but is far preferable to blindly trading on and incurring loss after loss

What really matters is what you can make of the future. Equally important is not to let pride drive you to persevere where all common sense says you should cut and run. If the answer to the above question is not a resounding "yes" then, rather than throw good time and money after bad, it is perhaps the time to consider a



You can still walk away knowing you took a risk which did not work out, a characteristic of most entrepreneurs, says David Parker



A 100 hour pharmacy venture can drain your funds considerably and take much longer to re-coup as these tables show

noble retreat.

So in the event that you decide that you have given the opportunity the "fair crack" it deserved, what are the options open to you?

years to reach this level and has significant losses in the early years, offset to some degree by modest profits later on. The existing business starts and finishes in significant profit.

Liquidation

Although this is certainly not the fairy-tale ending that anyone would hope for when embarking on a business venture, for the loss-making 100-hour business, this is almost certainly the best exit strategy. It may dent the pride slightly; but is far preferable to blindly trading on and incurring loss after loss.

And from an entrepreneurial point of view the venture could actually be considered a resounding success. After all, the best entrepreneurs are those that expose themselves to significant opportunity at limited or measured risk. Apart from your own hard graft, your risk and investment has been significantly less than it would have been if you had bought an existing business outright. Therefore if you can escape with a good part of that investment intact, you can consider yourself an entrepreneur.

Practically speaking the important assets and liabilities to liquidate are:

1. Stock
2. Property
3. Staff
4. Fixtures and fittings

By pressing the right buttons, with a bit of imagination and the right contacts, all of these can be liquidated at little or no loss and you could find yourself back at square one; and square one is not always a bad place to be!

Selling up

I'm afraid the news is not good here. I am not aware of a single example of a 100-hour pharmacy being sold on the open market, much less one that is running at a loss.

For only when a business starts to make profit will it have a value to anyone. Thus the classical turnover ratios that are heard in the market do not apply in any way to 100-hour contracts. Based on its lower profitability, the additional headache and greater vulnerability, a 100-hour pharmacy of anything less than £1m turnover will have little or no resale value. Above this the theoretical value will climb with turnover but much less steeply than for a standard contract.

The graphs below aim to illustrate the relative values of a classical business versus the 100-hour venture. The value of each can be linked to the aggregated area between its trading curve and the break-even line (for illustration purposes both show a business dispensing 7,000 items per month). The 100hour business takes 2

David Parker Consulting Ltd is a specialist in business sales, acquisitions and development. For more information visit www.davidparkerconsulting.co.uk call 0789 423 4873 or email david@davidparkerconsulting.co.uk

