

Business Focus

Health-centre pharmacy – the holy grail?

With “retail pharmacy” focussing less on the “retail” and more on the “pharmacy”, the health-centre pharmacy appears to be the ideal way to secure the future of your business. **David Parker** highlights aspects to be considered when contemplating such a venture



The health-centre pharmacy is not a new concept and is the logical end-game to the mad scramble by pharmacies to be located as close as possible to a major source of prescriptions. It is certain that, on the right terms and in the right circumstances, a health-centre pharmacy can be a very profitable affair. No other set-up offers such a secure and uncontested flow of business, low opening hours and predictable stock-requirements and work-flows. In fact, such is the attraction of the health-centre pharmacy that all the large multiples make them a key part of their strategy and the newly established Assura group is dedicated to the creation of this type of operation. However, before leaping into bed with your local practice it is worth a moment's reflection.

Better location?

The common supposition is that being on-site with GPs is the best location. Although often the case, it is not always so. For patients with an acute complaint who make a visit to the surgery, an on-site pharmacy is the obvious choice, but these account for only one in four of prescriptions written. The remainder are for ongoing, repeat medication. Almost all surgeries allow, and pharmacies operate, a prescription collection service.

Because of this, the patient has no absolute need to visit the surgery and is able to collect medication from the location that is most convenient to them.

Rather than making a journey to an out-of-town medical-centre for the sole purpose of collecting a prescription, patients may well find it more convenient to collect theirs from the pharmacy in their local parade, at the supermarket or in the High-Street, along with some other shopping. The development of prescription collection services has partially eroded the positional advantage of being co-located with the prescriber.

Electronic transmission of prescriptions threatens to erode this further still, allowing the patient complete choice with respect to where their prescription is dispensed. Thus, the well-established health-centre pharmacy based in the

centre of a residential community offers a better long-term location than a new development on the outskirts of town.

An alternative?

GPs have long been aware of the clamour from pharmacists to be close to them. Although they rarely have a full understanding of the financial benefits this may bring, it is rare that a practice will offer to accommodate a local pharmacy without demanding a share of the anticipated spoils. Depending on the size of the surgery and the level of competition, the rents can reach frightening levels. Many practices will, in addition, demand a substantial premium or “key-money” from prospective co-habitants. Add to this the costs of refitting your new premises and legal fees as well as the cost associated with the disposal of your old premises and you are committed to a tidy sum.

Before making such an important investment, it is worth exploring the alternatives available to you. Is there a second-hit location that is almost as good as or even better than the surgery site? Realistically, this needs to be extremely close to the surgery or significantly more convenient in some other respect, if it is to be as obvious a choice for patients. Nevertheless, squeezing a pharmacy onto the site of an existing medical centre can often mean compromising space, access or visibility. This, along with the rancour with which most pharmacists will surrender hard-earned goodwill, can make second-hit locations a very attractive proposition.

Your motivation to co-locate with GPs should also be proportional to the level of competition that exists for the potential space. If you are already well located, and nobody else can realistically minor relocate to the surgery site, then the advantage is limited and the GP holds limited powers of coercion. Identify at an early stage who else could have an interest in “leap-frogging” you and whether a minor relocation is a realistic possibility for them.

What to pay?

Assuming that, after due consideration, you feel that a move to the healthcentre is the right one, how do you go about evaluating the

opportunity and what should you offer to the GPs or developer?

At risk of stating the obvious, the answer to the latter, as with any negotiation, is “something less than the maximum you can afford but a smidgen more than the minimum they will accept”. So let's begin by looking at what the maximum is that you can afford.

The commonly accepted way to evaluate this type of opportunity follows very simple logic. It measures the difference in financial terms between two scenarios:

1. The “Do it” scenario where you follow through with your opportunity to relocate. (This scenario should also reflect any defensive action that a competitor may take in response.)
2. The “Do nothing” scenario, where you do not take up the opportunity. (This scenario may include the eventuality that a competitor takes on the opportunity.)

This exercise should be carefully worked through to reflect to the very best of your knowledge, the potential outcomes. Two full profit and loss statements should be built up side by side to reflect each scenario. How many items will you dispense? What will happen to your OTC sales? And what will be the resultant staffing requirement? The difference between these two bottom lines is the maximum you can afford to give away in any negotiations with GPs. Be sure to base any projections on concrete prescribing data from the practice. Bear in mind any prescriptions written at branch surgeries and do not be over-aggressive in your assumptions on capture. You will not capture 100 per cent of these items or even 90 per cent.

So far as the minimum offer you can realistically get away with is concerned, the answer is a little more complex. In the straightforward event that you are the only pharmacy that can minor relocate, then the minimum offer a GP is likely to accept will be at least what it has cost him/her to provide the space. For a new build this may be a capital outlay of up to £2,000 per square metre. For existing space, it will cost him at least his marginal rent.

In the more likely scenario that there are two or more pharmacies competing for the space, then the minimum offer that is likely to be accepted is a few pieces of gold more than your competitors have offered. Although they will of course never tell you what they have offered, do not let panic run riot with your wallet. Your competitor, like you, receives about 90p an item for dispensing prescriptions. He, like you, will probably make a bit more on his buying margin. He, like you, will certainly need to employ staff to dispense them, and will expect enough to be left at the end of the day to feed his family. You have all the information you need to evaluate what their offer could reasonably be and hopefully to trump it.

Unless, of course, they have read this article!

David Parker is a specialist in pharmacy business transfer and development. He can be contacted by e-mail at david@davidparkerconsulting.co.uk (tel 0789 423 4873)