

# Buyer beware

David Parker highlights what to look for when buying your first pharmacy business and how to distinguish a profitable buying opportunity from a not so profitable one.

Buying your first pharmacy business can be a terrifying experience. The good will values currently paid for on a modest pharmacy business make the silly money paid for an average house look like small change. Most people are not in a position to be able to fund the acquisition of their first pharmacy from their own equity, so will almost certainly need a substantial loan to put themselves in the bidding for a pharmacy contract.

Apart from the substantial headline numbers and the onerous borrowing requirements, the key factor that makes a pharmacy acquisition more worrying than that, say, of a house or a car, is that the purchase price is primarily a payment for goodwill. What you are buying is only the “opportunity” to be able to take over the existing customers and the turnover and profits of the current owner. Although in most circumstances, with a good handover and reasonable management, it will be “business as usual” buyers should be aware that what they are buying is an opportunity and not a right and as anyone who has invested in shares over the past ten years can tell you, “past performance is no guarantee of future”.

By highlighting this, the aim is not to worry or intimidate the potential buyer any more than he or she already is, but rather to encourage him or her to make an informed and structured appraisal of the target business. The following early investigations serve as a useful foundation:

## Why is the vendor selling?

When any item is offered for sale, whether

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it is a house, a car, or a business, a sale can only occur if the item is worth more to the buyer than it is to the seller. With a house or a car it is usually quite obvious why this may be. The young couple are selling their sports car because they have just had baby.



Pros and cons: Clues such as why the vendor is selling and how the business is performing could prove invaluable as you make a decision to buy

The mature couple are selling their five bed detached house because the kids have all left home.

The same should also be true of a business acquisition. Unless it is pretty clear to you why this particular business is worth

more to you, than it is to its existing owner, you should be pausing for thought. Simply asking the very obvious question “Why are you thinking of selling?” may be the most important piece of research you will undertake. I would not for a moment suggest that vendors generally have things to hide, but rather that each and every one of them will have a different reason for selling, of which some may make the business more valuable to you, and others may not.

If you were a young, energetic and clinically orientated pharmacist, and the existing

owner confessed, "I just can't be bothered with all this new contract malarkey!" you may feel very comfortable that you can extract more from the business than he will. There are dozens of other legitimate reasons for sale, some of which will suit you, your objectives and your lifestyle and others that most certainly won't. I don't propose that you approach every business with outright suspicion, there are doz-

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ens of legitimate reasons for sale, but it is important to at least ask the question and consider the answer appropriately.

### How is the business performing?

Buyers are often attracted to a business because it is performing well, because it runs like clockwork, because it is beautifully fitted out or is better located than any other pharmacy in town. This might, at first sight, appear to be quite reasonable. However, what is really important about the business is not how it is performing at the moment but how it will continue to perform under your ownership. Bear in mind that although you may pay for a business based on its existing performance, you reimburse your loans and pay your bills from its future performance. On this basis, given two businesses with similar turnover and profits, one that is efficiently run, beautifully appointed and well located, and a second that is untidy, poorly run and tucked away down a side street, the choice is easy. Whilst the first business could be a potential banana skin, the second one has opportunity written all over it. Although these businesses may sell for similar money, it is the ugly duckling that stands more chance



**To buy or not to buy: Purchasing a business is a risk at the best of times, but asking the right questions can often determine if the acquisition is a worthwhile one or not**

of delivering healthy returns long into the future.

As well as the superficial indicators of business performance, it is also a good idea to take a more analytical look at the existing business. How many pharmacies are there in the town? How many inhabitants are there locally and how many patients are there registered at each of the local surgeries? How many prescriptions do these surgeries generate? Based on this information you should be able to establish whether your target business is over-performing or whether it has potential to do even better.

### How are the competitors performing?

The reverse logic applies to the competing pharmacies in town. It is better to buy a business where the competitors are running at full tilt, than one that is surrounded by sleeping lions. These aggressive competitors can only soften over time, whilst the sleeping lions can become formidable new opponents.

### Personality business?

How reliant is the business on the

personality of the existing owner? A business where the owner has been in residence for decades, knows every customer by first name, mans the shop every hour that god sends and spends what little leisure time he has playing golf with one or other of the local GPs, will be a very hard act to follow. However, dynamic, charming or loveable you are, the very best you can hope for in the short term is that 100% of the customers that loved their previous pharmacist, will also love you.

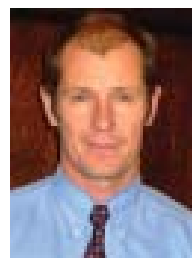
### Location, Location, Location

Everybody knows that location of pharmacies is key to their success. Once again I would highlight that the future is just as important as the present. Take the time to plot the location of all the local pharmacies and surgeries on a map (the NHS website offers this facility) and imagine not only the existing competitive situation but the potential future movers. What would the target business look like if one of the local surgeries were to up-sticks and move

elsewhere? Old and cramped premises or closed patient lists are clear signs that prescribers may be on the move at some point in the near future. Imagine likewise the possible moves of all competing pharmacies. Who could relocate and to where? Where may a new contract be a possibility? Creating this map will help you understand better whether a business is over or under performing and the risks or opportunities that relocations or new contracts may present.

There are of course many other elements of detail to include in the "due diligence" investigations that precede such an important investment. Nevertheless, those listed above can all, in the main, be investigated very quickly, at arms length and without any complex or confidential information requirements.

Get a warm feeling from those and you may well be on your way to owning a tidy little business.



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