

FINANCE

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New payment structures for pharmacies - it's time to reflect on their impact and plan again.

Business is a constantly evolving cycle of reflecting on historical financial data in order to try and plan for the future.

It is almost a year since Minister Mary Harney announced her overhaul of the payment structures for pharmacies. There is, therefore no time like the present to assess the impact of these new measures on pharmacy businesses – devising, adapting or rethinking the business strategy for the next twelve months.

The measures Minister Harney introduced included a reduction in the mark-ups on the Drugs Payments Schemes (DPS) and the Long Term Illness Scheme (LTI) from 50% to 20% and the introduction of a new common dispensing fee structure based on

a sliding scale, which saw pharmacies being paid €5 per item for the first 20,000 items dispensed, €4.50 per item for the next 10,000 items and €3.50 per item for the remaining items.

How has this impacted on pharmacy businesses? There is less cash in the bank - so how should this be addressed? Are Minister Harney's measures strangling businesses or are there other elements to the business that need addressing? The following are a number of key items, which should be reviewed in the business and, now is an opportune time to do it.

Assess the impact of the payment overhaul

It is vitally important to assess, in real terms, how much the payment overhaul has impacted not just on income but also on the bottom line (i.e. net profit). Produce, or get an accountant to produce, a set of management accounts. With

a set of management accounts in hand, sit down and see exactly how the new payment structures are affecting the business.

When Minister Harney introduced the new measures, most pharmacy owners across the county sat down and looked at the potential impact of the new structures on income and devised a plan to reduce overheads to counteract the unavoidable reduction in income. In the short term, cutting overheads is one of the quickest methods of counteracting falling income.

How has this worked, and does the reality appear as envisaged? When I sat down with my clients last year to assess the impact, we completed a working to see how the new fee structures would impact on their income. It is now time to see how close this estimate was to reality. If there are sizeable deviations from what was forecast, then take an urgent look at the costs of the business and devise a strategy to reduce them. Also consider alternative ways of generating income – this is usually a more medium term solution – so, in the short term, when credit is so scarce, business owners must keep sufficient cash in the business to meet overheads.

Produce a plan of action for the next twelve months

Even if not in a position to benchmark this year against last year's forecasts, a set of management accounts should still



be produced and a plan of action devised for the coming year. If having assessed the impact of the government cost cutting measures on income and gross profit, it is clear that income is down €50,000 for the year, then quite simply, if costs are not addressed this €50,000 comes directly out of pharmacists' pockets.

Are costs set in stone? Is there room for negotiation with the landlord on rent? What about wages - are wage costs in line with the current economic climate? There are alternatives to pay cuts - perhaps staff can work a couple of extra hours a week as an alternative to a pay cut?

I recommend producing a set of projections for the coming year. Factor in these cost cutting measures. This will give an idea of the level of turnover needed to achieve the desired result. The next step is to plan how this level of turnover is to be achieved. Are there ways and means for the pharmacy owner to get more people to visit the shop? Can marketing and promotion be improved? What about encouraging staff to promote the pharmacy better - don't just sell to customers, encourage staff to advise them on products and add value, this can perhaps be reflected in some of their salary via bonuses.

A set of projections will act as the benchmark against which results can be measured on a monthly basis. It is vitally important that each pharmacy has a very good handle on the numbers and reviews the results *at least* on a quarterly basis.

Don't bury your head in the sand!

Some pharmacies do not need to produce management accounts to know that both the impact of Minister Harney's cost cutting measures, together with the current economic environment, are having a very negative impact on their businesses. If the reader takes anything from this article it should be the following message - 'Don't ignore people, keep them informed.'

I am dealing every day with businesses that are in trouble. But difficult as it is to face and discuss matters with the people, who are owed money, it is vital to keep them informed - do it in a professional and strategic way, have a plan to deal with the issue and offer some solution to the issue rather than ignoring it or not addressing it.

If in financial difficulty, any pharmacy owner should contact their accountant. Together devise an approach to hopefully



get the business out of difficulty. One of the most important creditors is the **Revenue Commissioners** - contact Revenue and let them know the business is having cash flow issues. Keep returns up to date and do the utmost to make payments. If this is not possible, ask the accountant to negotiate some form of instalment arrangement to allow Revenue payments to be made over a period of time until the business is back on its feet.

Contact the landlord. Explain the situation and see if they will extend six or twelve months of reduced rent to get the business through the current depressed spending environment and get back to profitability. Brian McEnery discussed renegotiating leases in the April issue - there are options available if approached correctly.

Contact the bank. Try to renegotiate revised terms on loans, stretching payments out over a longer period. However, bear in mind that in the current environment, a renegotiation with any bank will invariably involve an increase in the bank margin on the revised terms.

You've got to play with the cards you have been dealt

Pharmacies have now had almost a year to restructure their businesses to cope with the reduction in incomes brought about by

Minister Harney's cuts. There is no rowing back on these measures so each pharmacist needs to ensure that they cut their cloth to measure, reducing overheads to match the decline in income. Being informed is the first and key step to survival in business in this turbulent environment. Keep reflecting on the numbers and benchmarking them against projections. Now is the time for pharmacy owners to review the current state of play and put together a strategy for the year to come. By doing this, it will focus attention on what is important, generating income and curtailing costs.

Ken Kilmartin is the Audit Director with Horwath Bastow Charleton in Limerick. His primary focus is dealing with a diverse range of family owned businesses, including businesses in the hospitality sector, pharmacy sector, manufacturing, property, venture capital funds, retail and distribution sectors, Irish subsidiaries of overseas firms, and professional services' firms.

He also provides tax planning and due diligence investigations to some of Horwath Bastow Charleton's leading clients and has worked with companies on business acquisitions and disposals. Ken also advises his clients on restructuring and implementing cost cutting measures, acting as an intermediary where necessary with banks, Revenue, landlords, etc.

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