

Establishing a New Pharmacy: Capital Requirements and Business Plan/Loan Package

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Learning Objectives

- List the advantages and disadvantages of establishing a new pharmacy
- Project annual first year sales based on expected prescription volume
- Estimate approximate first year costs for inventory and fixtures
- Determine the funds necessary to cover accounts receivable and expenses in the initial months of operation
- Differentiate between debt and equity financing
- List the three major sections of the business plan

Learning Objectives

- List and describe the specific sections of the business plan
- List and explain seven uses of the business plan
- Develop an appropriate mission statement for a pharmacy
- Develop pro forma income statements & balance sheets for the 1st year of operation of a community pharmacy
- Describe the proposed marketing plan for a new pharmacy

Module Summary

- Advantages/disadvantages
- Capital requirements
- Development of a business plan/loan package

Establishing a New Pharmacy

- Advantages
 - New fixtures and equipment
 - Model inventory
 - Set own policies
 - Personnel of choice
 - Not pay for goodwill
 - Lower prices

Establishing a New Pharmacy

- Disadvantages
 - More risks (more unknowns)
 - Profit lag time
 - Establish goodwill

Establishing a New Pharmacy

- Projected first year sales volume (see Figure 1)
 - Initial Rx volume = 15/day 5 days a week
 - \$30.00 average prescription price
 - 3:1 prescription to “out-front” sales mix

Establishing a New Pharmacy

- 15% increase in sales with increase decreasing 1% every other month
- First year sales volume approximately \$255,000

Inventory

- Largest investment
- Cost of goods sold 75%, therefore total for year = \$193,800
- If inventory turnover is 4, average inventory $\$193,800/4$ or \$48,450

Inventory

- Wholesaler may assist in selection and financing
- Customary to pay 1/3 down (\$16,000) and finance remainder

Fixtures

- Average cost is approximately \$10 per square foot
- $\$10 \times 2,500 = \$25,000$
- Purchase: pay $\frac{1}{4}$ down or \$6,250 and finance remainder

Leasing Fixtures

- Monthly payment approximately \$24 per \$1,000 or $\$24 \times 25 = \600 per month
- Usually requires a few months in advance, e.g., four or \$2,400

Initial Expenses

- Should have approximately three months expenses initially (see Figure 2)
- $\$7,000 \times 3 = \$21,000$

Accounts Receivable and Third Parties

- Need to have at least two months
- If accounts receivable and third parties 50%, (this would amount to $\$255,000/12$) x 50% or approximately $\$10,625$ per month x 2 = $\$21,250$

Equipment (\$5,000)

- Computer
- Furniture
- Miscellaneous

Summary of Initial Capital Needed

Inventory	\$16,000
Fixtures	\$2,400
Expenses (3 months)	\$21,000
Accounts Receivable/Third Party	\$21,250
Equipment / Furniture	\$5,000
Total	\$65,650

Total Capitalization

Inventory	\$48,000
Fixtures	\$ 25,000
Expenses (3 months)	\$ 21,000
Accounts Receivable/Third Party	\$ 21,250
Equipment / Furniture	\$ 5,000
Total	\$120,250

Financing

- Equity financing
- Debt financing

Business Plan

A business plan is a written document that provides a detailed description of a business operation and documents past performance, current status, future goals and means of achieving those goals.

Components of the Business Plan

- Summary of loan request
 - (unless an existing business)
- Mission statement or statement of purpose
- Description of the business
- Marketing plan

Components of the Business Plan

- Physical description of the business
- Financial data and documents
- Supporting documentation

Major Categories of Information

- A description of the business, its owners and primary management personnel
- The products or services provided and a description of the market to be affected (target market and potential market)

Major Categories of Information

- An analysis and plan of how the products or services will be marketed, produced or performed and sold
- What is needed to achieve the plan and anticipated results

Why Develop a Business Plan?

- Helps owners define market province
- Provides owners with clear path to Follow
- Improves efficiency and effectiveness
- Serves as an educational tool
- Assists in appraisal
- Essential in obtaining loans

Why Develop a Business Plan?

- “Marketing myopia”
- Not narrowly defined

Why Develop a Business Plan?

- Provides owners with clear path to follow
 - Cheshire cat
 - Rocky road not wrong road

Why Develop a Business Plan?

- Improves efficiency and effectiveness
 - Goals provide for focus
 - “Anything measure improves”
 - With set goals – evaluate effectiveness of control mechanisms

Why Develop a Business Plan?

- Serves as educational tool
 - After written and during
 - Learn about internal and external factors
 - Share with all in enterprise

Why Develop a Business Plan?

- Assists in decision making
 - Best time to make decision is before you have to
 - Evaluate among several alternatives
 - Make decisions consistent with goals (mission)

Why Develop a Business Plan?

- Assists in appraisal
 - Compare performance year to year
 - Compare performance and goals
 - Appraisal of business as well as departments and individuals

Why Develop a Business Plan?

- Essential in obtaining loans
 - Capital limited – loans important
 - Debt financing versus equity financing
 - Difficult to obtain financing > 50%
 - Establishes confidence for success
 - Increases likelihood of loan

Major Sections of the Business Plan

- Cover sheet
- Summary of the loan request (unless an existing business)
- Table of contents
- Mission statement or statement of purpose

Major Sections of the Business Plan

- Description of the business
- Marketing plan
- Physical description of the business

Major Sections of the Business Plan

- Financial data and documents
- Sales forecast
- Expense projections
- Cash flow projections
- Financial statements

Major Sections of the Business Plan

- Curriculum vitae
- Personal financial statements
- The lease

Cover Sheet

- Serves as title page
- Name of company and demographics
- Owner names
- Prepare and date

Summary of Loan Request

- Amount of loan requested
- Personal guarantees
- Collateral and market value
- Debt to equity ratio
- Special conditions

Table of Contents

- Complete outline
- Pages where located

Mission Statement or Statement of Purpose

- Concise description of market province
- Reflect personal and professional philosophy
- Avoid “marketing myopia”
- Indication of how business will accomplish

Description of Business

- Legal structure
- Product mix
- Service mix
- Location analysis

Description of the Business' Legal Structure

- Sole proprietorship, partnership or corporation
- Shareholders listed with interest
- Special corporation information

Description of the Business' Product Mix

- List of products
- Congruent with mission

Description of the Business' Service Mix

- Delivery
- Counseling
- Medication monitory
- Home health care

Description of the Business' Service Mix

- DME
- Ostomy
- After hours Rx
- Senior citizens' discount

Description of the Business'

Location Analysis

- Wholesalers may assist
- Determination of market potential
- Documentation that site will support

Description of the Business' Organizational Structure

- Mot independents simple
- Names and positions
- Duties and responsibilities

Description of the Business' Insurance

- Types
- Coverages
- Companies involved

Description of the Business' Security

- Theft
- Burglary
- Shoplifting
- Pilferage

Marketing Plan

- Potential market
- Target market
- Competition
- Advertising and promotion

Physical Description of the Business

- Blueprint
- Floor plans
- Detailed narrative
- Special considerations

Financial Data and Documents

- Sales forecasts
- Expense projections
- Cash flow projection and budget
- Financial statements

Financial Data and Documents Expense Projections

- NCPA Pharmacia Digest
- Owner lower initial salary?

Financial Data and Documents, Cash Flow Projection and Budget

- Cash in and out of business
- Lending institution interested

Financial Data and Documents

Financial Statements

- Income statement
- Balance sheet

Supporting Documentation

- Curriculum vitae
- Personal financial statements
- Lease

Supporting Documentation Curriculum Vitae

- Current
- Evaluation by lending institution of potential for success
- Indicates ability to repay

Supporting Documentation Personal Financial Statements

- Forms available from bank
- Important for personal guarantee

Supporting Documentation Lease

- Copy should be included
- Any special provisions highlighted

Summary

The business plan:

- Provides a clear understanding of the mission and business purpose
- Maximizes the managerial efficiency of an ongoing business
- Absolutely essential for a new business in obtaining capital