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 ¼ 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

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$16,000</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$2,400</td>
</tr>
<tr>
<td>Expenses (3 months)</td>
<td>$21,000</td>
</tr>
<tr>
<td>Accounts Receivable/Third Party</td>
<td>$21,250</td>
</tr>
<tr>
<td>Equipment / Furniture</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$65,650</strong></td>
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</tbody>
</table>
## Total Capitalization

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$48,000</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$25,000</td>
</tr>
<tr>
<td>Expenses (3 months)</td>
<td>$21,000</td>
</tr>
<tr>
<td>Accounts Receivable/Third Party</td>
<td>$21,250</td>
</tr>
<tr>
<td>Equipment / Furniture</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$120,250</strong></td>
</tr>
</tbody>
</table>
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