

# Profile of Sole Community Pharmacists' Prescription Sales and Overall Financial Position

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## BACKGROUND

Sole community independent pharmacists provide essential services to residents of small towns and isolated communities. In an effort to document the role sole community pharmacies play in their local health care system and to monitor their financial and operational status we conducted a survey in 2008 of 401 community pharmacists that owned the only retail outlet in their community.<sup>1</sup> Pharmacist-owners in independent pharmacies located at least 10 miles from the next closest retail pharmacy were interviewed to determine their reliance on prescription sales and to understand their store's current financial position.

## KEY FINDINGS

- Prescription sales constituted over 80% of their store's revenue for 9 out of 10 respondents; for 6 out of 10, prescription sales represented more than 90% of their retail business.
- Medicare Part D (37%) and other commercial/third-party insurance (36%) made up the majority of prescription payor mix.
- Most respondents (70%) described their store's overall financial position as good or very good.
- Almost a third (32%) of respondents said that their financial position was worse than a year ago.
- Cash flow problems in the last 12 months were reported by 44% of respondents.

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1: For information on sole community pharmacists' involvement in their local health care system see "The Key Role of Sole Community Pharmacists in the Their Local Delivery System" available at [http://www.shepscenter.unc.edu/research\\_programs/rural\\_program/pubs/finding\\_brief/FB88.pdf](http://www.shepscenter.unc.edu/research_programs/rural_program/pubs/finding_brief/FB88.pdf)

## GENERAL CHARACTERISTICS

The majority (79%) of respondents interviewed were owners of one store which they had owned for an average of 17 years. These sole community pharmacies are fixtures in their communities with more than three-quarters (78%) being in operation for over 25 years. The pharmacy-related staff employed at these stores averaged 1.5 FTE pharmacists (including the pharmacist-owner) and 2.1 FTE pharmacy technicians.

## PROFILE OF PRESCRIPTION SALES

Table 1 summarizes the average number of prescriptions filled, prescription revenue, prescription cost of goods sold, and calculated prescription gross margin for the respondents' most recently completed fiscal year at the time of their interview. For most respondents this represented their 2007 fiscal year. The gross prescription profit must cover all direct expenses except for the actual cost of purchasing the drugs,

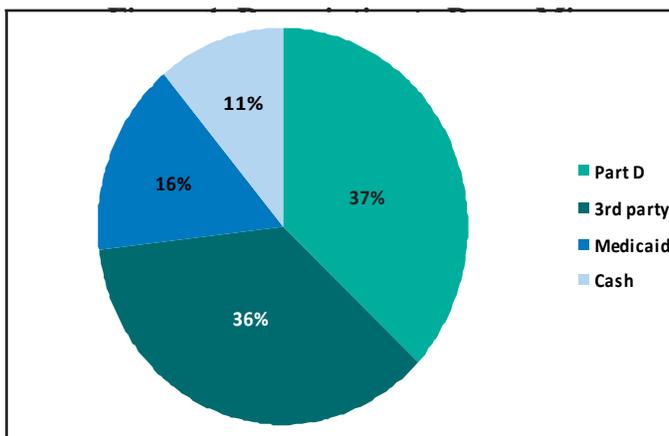
including packaging, pharmacist and pharmacy staff salaries, as well as overhead expenses such as rent or mortgage, utilities, and insurance. The average reported gross prescription profit is very close to the amount needed to break even: A 2007 study which looked at 23,152 retail pharmacists' cost of dispensing medications found that on average it costs a retail pharmacist \$10.50 per prescription to cover all operating expenses (excluding the cost of the drug dispensed) with urban pharmacies averaging \$10.61 per prescription and rural pharmacies averaging \$9.79.<sup>2</sup> For the 262 pharmacies for which the per prescription gross profit could be calculated, 44.7% (n=117) had a gross margin of less than \$9.79 per prescription.

**Table 1. Prescription Volume, Revenue, Cost of Drugs Dispensed and Gross Profit**

	Rx's Filled	Rx Revenue		Cost of Drugs Dispensed		Rx Gross Profit	
		Total	Per Rx	Total	Per Rx	Total	Per Rx
Mean	43,720	\$2,134,641	\$49.60	\$1,711,702	\$39.56	\$437,493	\$10.18
Median	38,000	\$1,896,000	\$48.64	\$1,500,000	\$38.58	\$380,000	\$10.15

Prescription sales constituted the majority of the store revenue for those interviewed.

Prescription sales were over 80% of revenue for 9 out of 10 respondents; for 6 out of 10, prescription sales represented more than 90% of their retail business. The payor mix for prescription sales is dominated by Medicare Part D and other commercial/third party insurance (Figure 1).



2. Grant Thornton LLP, "National study to determine the cost of dispensing prescriptions in community retail pharmacies".

## OVERALL FINANCIAL POSITION

Most respondents (70%) described their store's overall financial position as good or very good (see Figure 2). Those with higher total prescription gross profits were more likely to report overall financial positions of very good or good ( $p < 0.01$ ) (Table 2).

**Table 2. Reported Financial Position, Pharmacist FTEs and Total Gross Prescription Profit**

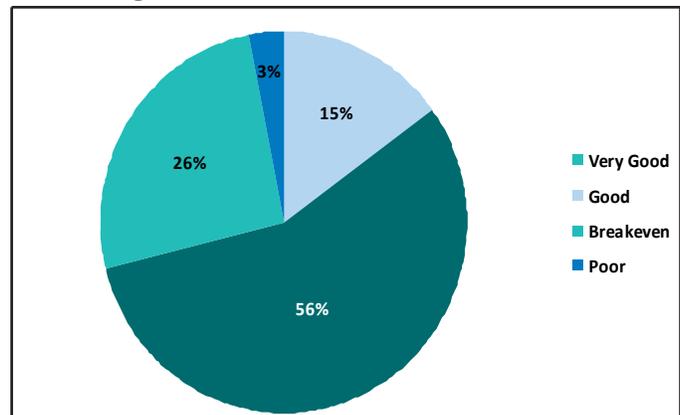
Total Gross Rx Profit	Reported Financial Position			Pharmacist FTEs	
	Very Good/ Good	Breakeven	Poor	Mean	Median
\$200,000 or less (n=50)	54%	34%	12%	1.22	1.08
\$200,001 - \$400,000 (n=102)	75%	24%	2%	1.32	1.20
\$400,001 - \$600,000 (n=59)	73%	24%	3%	1.64	1.60
\$600,001 - \$800,000 (n=27)	85%	15%	0%	1.59	1.43
\$800,001 or more (n=29)	90%	10%	0%	2.23	2.00
Grand Total	73%	23%	4%	1.49	1.25

Note: data on either margins or reported financial position were missing from 134 respondents.

Differences across categories for total gross Rx profit and financial position are significant at  $p < 0.01$ .

Although the majority of respondents felt their store's financial position was good, for many, conditions had deteriorated since the previous year. When asked if their pharmacy's financial position had changed over the last six months 32% reported a decline, 56% reported no change, and 12% reported an improvement in financial position. Cash flow problems in the last 12 months, another measure of financial instability, were reported by 44% of respondents. Those reporting a decline in financial position were also more likely to report experiencing cash flow problems ( $p < 0.01$ ). Low and/or decreasing reimbursement from all payer types was the primary reason given for worsening financial positions. Improved financial positions were attributed to increased number of patients and/or prescriptions and implementation of tighter inventory controls.

**Figure 2. Overall Financial Position**



**Table 3. Change in Financial Position and Cash Flow Problems**

Change in financial position from prior fiscal year:	Cash Flow Problems	
	No	Yes
Gotten Worse (n=126)	40%	60%
Stayed the Same (n=222)	60%	40%
Improved (n=48)	75%	25%

Note: data on either financial position or cash flow problems were missing from 5 respondents.

Differences across categories significant at  $p < 0.01$ .

Responses were also categorized by distance to next closest retail pharmacy as well as years owned to determine the impact these variables had on overall financial position but no statistically significant relationships were found.

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## DISCUSSION

With the implementation of Medicare Part D in 2006 there was concern about how this new reimbursement program would impact independent sole community pharmacies. The majority of the respondents to this study described their store's financial position as good or very good, demonstrating that many sole community pharmacies have been able to adapt and remain viable. However, almost a third of respondents reported a decline in their store's financial position and almost one-half experienced cash flow problems indicating a level of operational vulnerability still exists for a significant subset.

Given the time period during which the interviews were conducted, from February through November 2008, the impact of the economic downturn beginning in the Fall of 2008 is not fully reflected in these results. Because of these pharmacies heavy dependence upon prescription revenue if there is a decrease in their volume of prescriptions due to a local economic downturn, their financial stability would be substantially affected. Comments made during the interviews also indicated that individual pharmacists' perceptions of what constituted a good financial position varied. For some good meant having just enough cash to pay their bills most months while for others good meant their stores were making a consistent profit and providing a positive return on their investment.

The findings from this study document the dependence of sole community pharmacists on prescription sales. With Medicare Part D and commercial/third-party insurance constituting the majority of their prescription sales, changes in reimbursement and/or other program requirements by these payers will have a direct impact on the financial stability of sole community pharmacists.

## STUDY METHODS

A semi-structured interview protocol was used in this study. To be included in the survey, pharmacies had to be independently owned and located 10 miles or more from the next closest pharmacy. A subset of pharmacies likely to meet these study criteria were identified using data from the National Council for Prescription Drug Programs, Inc, which contains information about the 74,108 pharmacies in the U.S. with active provider numbers (used for payment). Using this dataset, pharmacies with the following characteristics were identified: independently owned (including franchise licenses); operating as a community retail pharmacy; the only pharmacy within its ZIP code; and the only pharmacy within a ten mile or more Euclidian buffer from the next closest pharmacy. Application of these criteria resulted in a final sample of 1,148 independently owned pharmacies. The pharmacy's eligibility to participate in this study was verified during the initial telephone contact by use of screening questions. The study goal was to complete 400 interviews. Attempts were made to contact the owners of all the pharmacies in the sample. No contact was made with 5 pharmacies (no answer or busy signal), for 151 pharmacies the pharmacist-owner was never reached in ten or more attempts, 43 stores were confirmed closed, and 68 did not meet the study criteria. Of the remaining 881 pharmacies, 401 participated for a response rate of 46%. Statistical significance of differences in reported financial positions among groups of respondents were calculated using chi-square tests.

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