

NEW ZEALAND 2021 PHARMACY BENCHMARKING SURVEY

INDUSTRY IN NEED OF ALCHEMY TO SURVIVE COVID WOES

“Everything that happens once can never happen again. But everything that happens twice will surely happen a third time”. This is a famous quote from the highly acclaimed Paulo Coelho novel *The Alchemist* (a very relevant title for the readers of this report).

The 2021 financial year had been described as a year like no other and for a long time that appeared to be true. Unfortunately, at the time of writing, Auckland moves into its 10th consecutive week of level 3 or 4 lockdowns and the current financial year has an all too familiar feel about it.

Let’s hope Coelho is proved wrong and we won’t be in for a third similar instalment and instead we can look forward to more normality by the time the 2023 financial year rolls around. We all want to leave the 2021 and 2022 ‘COVID financial years’ behind.

When it comes to financial analysis however, Coelho’s words ring true. While there will be the odd outlier, often when digging deeper into a set of data, patterns become clear, forming a useful tool for analysing past or forecasting future financial performance - financial benchmarking.

The data from the 170 pharmacies included in this our ninth annual survey provides a broad snapshot of the financial side of New Zealand’s Community Pharmacy industry. This information is vital when looking at the performance of any pharmacy business.

Comparing a business’s own results from period to period and against budgets is important and provides valuable information but having the ability to compare a business against its peers can lead to new insights,

efficiency gains, and so inspire a continual push of boundaries to innovate and evolve.

This is particularly so for the New Zealand Community Pharmacy industry where a complex and unique blend of high quality, patient focused professional medical care and a tailored, encouraging retail environment are required to succeed.

In an increasingly competitive marketplace, the difference between success and failure, survival or extinction, can be defined by decisions that might seem minor in isolation, but if thoughtfully made as part of a carefully considered plan, can make the difference. Whether it is a decision about what additional services might be offered, pricing, efficient staffing, automation, funding or another important factor, benchmarking can be a great tool to use in your analysis.

An Alchemist is described as “someone who transforms things for the better”. Whether your business is already a well-oiled machine, needs some fresh ideas, or you are looking to take it in a new direction, we are sure that information contained in this report will help you become the Alchemist your business requires.

While the report discloses some of our key findings, our Moore Markhams team has access to plenty more data and a vast array of knowledge built over years of specialisation in the field. Please get in touch so we may assist you specifically.

We hope you enjoy reading the report and we look forward to working together.



PHARMACY GUILD
OF NEW ZEALAND



Moore Markhams is endorsed as the preferred supplier of financial and accounting services for members of The Pharmacy Guild of New Zealand (Inc).

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Paulo Coelho

KEY PERFORMANCE INDICATORS (all as an average of % of total sales).

Overall KPIs	2021 Avg %	2020 Avg %	2019 Avg %	2018 Avg %	2017 Avg %	2016 Avg %	2015 Avg %	2014 Avg %	2013 Avg %
Number of pharmacies in survey	170	154	170	160	141	114	108	95	89
Gross profit	35.3	35.2	35.7	36.2	36.9	36.5	36.9	38.7	37.1
Mark-up	55.7	55.3	56.8	57.9	59.3	58.3	59.0	63.9	59.6
Dispensary sales	77.4	75.8	74.6	73.5	75.3	75.2	75.2	74.8	72.5
Retail sales	22.6	24.2	25.4	26.5	24.7	24.8	24.8	25.2	27.5
Cost of sales	64.7	64.8	64.3	63.8	63.1	63.5	63.1	61.3	62.9
Advertising	0.5	0.6	0.7	0.6	0.7	0.6	0.6	0.6	0.5
Computer expenses	0.6	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5
Interest expenses	0.7	1.0	1.1	1.0	1.0	1.1	1.1	1.1	0.9
Occupancy costs	3.7	3.5	3.6	3.6	3.6	3.5	3.5	3.9	3.4
Salaries, wages and locums	19.4	19.2	19.5	19.7	19.9	19.6	19.7	19.5	18.9
Subscriptions and licences	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Other expenses	3.6	4.1	4.5	4.5	4.5	4.3	4.5	4.8	4.0
COVID-19 related income	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before tax	8.1	5.9	5.4	5.8	6.2	6.5	6.6	7.9	8.5

RATIOS

Ratio	Return on assets	Current ratio	Stock turn	Interest cover	Leverage cover
Formula	$\frac{\text{Net Profit}}{\text{Total Assets}}$	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{\text{COGS}}{\text{Closing Stock}}$	$\frac{\text{EBIT/EBITDA}}{\text{Interest}}$	$\frac{\text{Bank loan}}{\text{EBIT/EBITDA}}$
Median 2021 result	18.59%	1.02	10.16	8.39	1.33
Median 2020 result	13.34%	0.90	9.90	4.83	1.64
Median 2019 result	12.71%	0.91	9.94	4.56	1.52
Median 2018 result	14.58%	0.86	9.78	5.38	1.31
Median 2017 result	17.62%	0.97	9.56	5.89	2.32
Median 2016 result	15.09%	0.90	9.53	4.49	1.10
Median 2015 result	15.43%	1.00	9.58	5.45	1.80
Median 2014 result	22.13%	0.92	8.99	5.47	1.66

All ratios improved this year due largely to the improvement of net profitability.

TRENDS

While on the face of it, many of the signs for the March 2021 year appear to be positive, much of this is on the back of significant one-off factors that will not be repeated so caution should be taken when analysing the results.

Average change in	2021 vs 2020	2020 vs 2019	2019 vs 2018
Gross profit	14,297.00	9,354.00	-6,337.30
Interest expense	-5,793.00	-4,175.00	-1,851.18
Occupancy costs	-1,118.00	1,418.00	223.85
Wages	8,536.00	14,900.00	4,634.02
Other expenses	3,908.00	-7,287.00	-4,892.14
Average COVID-19 related income	37,623.00	0.00	0.00
Net profit	46,387.00	4,498.00	-4,461.84

Results are for those pharmacies that supplied data this year and last year.

BREAKDOWN OF REVENUE DERIVED BY REVENUE STREAMS

The composition of a pharmacy's revenue continues to shift further towards the dispensary as the pressure in the retail marketplace increases. Average LTC patients dropped as many areas of the country reached caps on the number of eligible patients that could be enrolled.

	2021 %	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %
Retail sales	22.5	24.2	25.4	26.5	24.7	24.8	24.8
Script batches and other dispensary revenue	48.6	47.7	45.6	44.9	45.8	44.1	43.6
Patient charges	11.2	12.0	12.8	12.9	13.5	14.7	14.8
Core services revenue	14.3	13.2	13.4	13.4	13.9	14.3	14.3
LTC service revenue	2.1	2.2	2.5	2.2	2.1	2.1	2.5
APAS Revenue	1.3	0.7	0.3	0.0	0.0	0.0	0.0
	2021	2020	2019	2018	2017	2016	2015
Average number of Rx dispensed	76,762	74,691	70,480	75,752	79,301	78,660	77,120
Average number of Registered LTC patients	157	173	171	165	169	168	181
Average number of Rx dispensed per hour	28.53	26.71	27.07	26.32	26.31	27.43	27.09
Average revenue per Rx (including drug cost)	\$20.60	\$22.13	\$21.48	\$20.10	\$19.58	\$20.41	\$19.54

Retail sales as a percentage of total revenue was lower than it has been in any of the previous years of our survey.

COVID-19 IMPACT ON THE PHARMACY INDUSTRY

Has COVID-19 made a positive financial impact on your business?	
Strongly agree	5.0%
Agree	19.9%
Neutral	37.6%
Disagree	24.1%
Strongly disagree	13.4%

New Zealand's Community Pharmacy businesses have faced unprecedented challenges and, we believe as a whole, have done a fantastic job that the industry and all those involved can feel very proud of. Financially speaking, COVID has had a varying impact on pharmacy businesses, and this is demonstrated quite clearly above.

COMMUNITY PHARMACY FUNDING

Along with increased workloads, as pharmacies became primary frontline health destinations while doctors shut their doors and went virtual, there were often additional costs involved to meet the related public health and safety requirements for continuing to operate safely. Pharmacies were compensated for some of these costs with the Community Pharmacy Funding payment received on 1 April 2020. This also helped to compensate for lost revenue during the early stages of the national lockdown back in April 2020 where many pharmacies experienced reduced trading activity. This funding forms part of the COVID-19 related one-off funding / subsidies shown in tables in this report.

WAGE SUBSIDIES

A number of pharmacies became eligible for Wage Subsidy payments during the time of the initial lockdown. This is particularly evident for those in Auckland where the lockdowns have had a greater impact. In Central Business Districts where business employees have been working from home away from traditional offices or where businesses rely heavily on foot traffic.

Despite the related reductions to gross profit during lockdown due to the significant amounts paid as part of the initial wage subsidies, those that received them often ended up increasing their overall profit for the year when compared to previous years. This is shown by the average overall net profit percentage for pharmacies that received the initial March / April 2020 Wage Subsidy - 8.02 percent compared to 8.11 percent for those that did not receive that Wage Subsidy. In that respect, that Wage Subsidy initiative probably had the desired effect. This funding forms part of the COVID-19 related one-off funding/subsidies shown in report tables.

VACCINES

Many pharmacies started administering COVID-19 vaccinations at various times since 31 March 2021. This is an additional revenue stream for these pharmacies and may have a positive impact on the financial performance of those who have administered substantial vaccine quantities. This will be documented in future benchmarking surveys.

STATUTORY DISPENSING

There was an increase in dispensing volumes due to a temporary reduction in statutory dispensing periods, largely related to the short supply of certain commonly dispensed medicines. This increase in volume of repeat prescriptions had a positive impact on the dispensing fees that pharmacies received but the increased workload and juggling of medicines on short supply, placed additional stresses on many of the burnt-out professionals involved in the industry. This is largely the basis for the increased dispensing totals, number of scripts dispensed per hour and gross profit dollars recorded in the report.

RESURGENCE SUPPORT PAYMENTS

When further localised lockdowns were introduced as the year progressed, the revenue decline eligibility criteria for further wage subsidies increased and the support in dollar terms reduced so many pharmacies did not benefit in the same way from these support mechanisms. Any funding received forms part of the COVID-19 related one-off funding / subsidies in our report tables.

OTHER COVID RELATED SUPPORT

Other COVID-related support included Small Business Cashflow loans (15 respondents), Business Finance Guarantee Scheme for debt restructures (9), rent relief (12), Pharmacy Council Relief Fund (11).

It is worth noting that Small Business Cashflow Loans are still open for businesses that have not yet received these. The maximum loan amount is \$10,000 plus \$1,800 per full time equivalent employee. No interest is charged on the loan if it is repaid in full within two years. These loans have helped many businesses provide stability during uncertain times. Applications are open until December 2023.

CURRENT FINANCIAL YEAR

Post the March 2021 year, the Delta variant has reared its ugly head, and again thrown the industry into overdrive as it adapts to deal with the current situation. Despite the lockdown restrictions lingering longer this year, in general the financial support available for negatively impacted pharmacies has not been the same as during the 2021 year. We expect the overall results could be down next year unless significant further support is provided soon.

OTHER COVID RELATED COMMENTS

Maintaining quality professional staff has become increasingly challenging for many pharmacies whether related to the immigration restrictions or losing vaccinator staff members to other vaccinators. This has placed additional stress on business owners that is not quantifiable in financial terms.

REGIONAL AND OCCUPANCY KPIs

Overall	Auckland %	Other Nth Island %	South Island %	Rural %	Urban %	Alone %	Mall %	Medical Centre %
Number of pharmacies	92	56	22	31	139	86	9	75
Gross profit	36.0%	35.0%	33.5%	34.1%	35.6%	35.2%	36.3%	35.4%
Mark-up	57.3%	54.7%	51.5%	52.4%	56.3%	55.3%	57.6%	55.9%
Dispensary sales	77.6%	77.0%	78.1%	75.7%	77.8%	73.6%	54.5%	85.0%
Retail sales	22.4%	23.0%	21.9%	24.3%	22.2%	26.4%	45.5%	15.0%
Cost of sales	64.0%	65.0%	66.5%	65.9%	64.4%	64.8%	63.7%	64.6%
Advertising	0.5%	0.4%	0.5%	0.4%	0.5%	0.5%	1.1%	0.4%
Computer expenses	0.6%	0.6%	0.5%	0.5%	0.6%	0.6%	0.4%	0.6%
Interest expenses	0.7%	0.7%	0.5%	0.4%	0.8%	0.7%	0.4%	0.7%
Occupancy costs	4.3%	3.1%	2.5%	2.0%	4.1%	3.5%	4.7%	3.9%
Salaries, wages and locums	19.2%	20.2%	18.3%	19.4%	19.4%	20.0%	18.8%	18.9%
Subscriptions and licences	0.4%	0.5%	0.5%	0.4%	0.4%	0.5%	0.3%	0.4%
Other expenses	3.8%	4.4%	1.9%	3.0%	3.7%	3.8%	3.3%	3.3%
COVID-19 related income	2.2%	1.1%	0.8%	1.1%	1.8%	1.4%	2.7%	1.9%
Net profit before tax	8.7%	6.2%	9.6%	9.1%	7.9%	7.0%	10.0%	9.1%

Auckland pharmacies continue to have much higher occupancy costs. Rising wage costs have reduced the profitability for North Island businesses located outside Auckland. Auckland pharmacies have received more subsidies due to the increased length of time spent at various lockdown alert levels. South Island pharmacies continue to return the highest net profit percentage.

Rural pharmacies outperformed urban pharmacies, largely due to lower cost structures and would have encountered less impact due to lockdowns. Pharmacies located in medical centres continue to outperform standalone pharmacies. Mall pharmacies received the highest proportion of subsidies, and this pushed the overall net profit percentage higher than other pharmacies.

RETURNS BY LEVEL OF REVENUE

Smaller pharmacies with revenue less than \$1m continue to struggle in terms of net profitability recording less than one percent net profit percentage whereas businesses with over \$2m in revenue returned a net profit percentage of over 10 percent. The continued existence of some pharmacies is in question.



Specialist industry knowledge

Our dedicated Pharmacy Business Development Unit works with over 150 of the community pharmacies in New Zealand (around 15 percent of the total number of pharmacies in the country). The data captured each year as part of this survey provides us with information that allows us to become more proactive and provide solutions for our clients at uncertain times.

We work with business owners by providing timely and accurate information. Our business advice and expert reporting are there to

provide clear and simple advice. We're ready to work with business owners on the development and implementation of unique business strategies to help you and your business cope with the disruption of unexpected, unprecedented times.

We support business owners to focus on what they do best – building a successful business. Our team of specialists helps with a variety of accounting and business related services, including but not limited to the preparation of financial statements and income tax returns, valuations and due diligence assignments, other accounting and taxation services, mergers and acquisitions, restructures, financial forecasts and financing assistance, sale and purchase negotiations, business consultancy and advisory.

For more information, please contact a Moore Markhams pharmacy specialist. You'll find details on the Pharmacy page of our website.

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