



The
PHARMACY
GUILD of
AUSTRALIA

Compiled by the Working Group on Pharmacy Incorporation of The Pharmacy Guild of Australia

Chair: Dipak Sanghvi
Pharmacy owner and President, The Pharmacy Guild of Australia – Victorian Branch

For further information:
John Chapman
Australian College of Pharmacy Practice and Management
john.chapman@acp.edu.au

Angelo Sommariva
The Pharmacy Guild of Australia – National Secretariat
angelo.sommariva@guild.org.au

THE PERILOUS PITFALLS

OF PURCHASING A PHARMACY – AND HOW TO AVOID THEM

www.buyingandsellingapharmacy.com.au

Thinking of purchasing a pharmacy in the not-too-distant future?

Worried about how it might all go?

Who do you talk to?

How can you be sure the 'price is right'?

Who do you turn to?

Detailed information is available on The Pharmacy Guild of Australia website in the 'Women and Young Pharmacists' Committee' section at www.guild.org.au/public/wypc.asp

Alternatively, you can also turn to www.buyingandsellingapharmacy.com.au

In the interim, consult this handy guide to the more obvious do's and don'ts.

PERILOUS PITFALL NO 1:
A cavalier approach to buying a business – “she'll be right”

The person who coined the phrase 'ignorance is bliss' was never involved in purchasing a pharmacy. Ignorance is NOT bliss, unless bliss and disaster have the same meaning. Whilst many community pharmacists might think that buying a pharmacy might be a 'good thing', many do not question the underlying aspects of the decision. Most commonly we skip over the introductory bits and get straight to questions such as:

- » can I afford it?
- » how much can I borrow?

DO NOT DO THIS!

The first questions involve 'why', 'what' and 'where'...

Why do I want to buy a business?

Because it's the done thing?
I want job security, thus I'll buy myself a job.

Pharmacy is safe – we'll always be needed and everyone seems to be doing well.

What sort of pharmacy?

Am I a 'patient-focused' person or do I find dealing with customers face-to-face a pain?

Am I happiest in the dispensary churning out prescriptions?

Do I enjoy wheeling and dealing with manufacturers and engaging in the cut and thrust of retailing?

Where?

Does it have to be in a capital city?
Would a rural pharmacy suit me?
How rural?

Avoiding these questions usually happens because there is:

- » an over-keenness to get into business – often this results in too much being paid, too much being borrowed, and an unsustainable business longer term
- » a real lack of understanding of what owning and operating a business entails and the skills required
- » a view that all that is needed is a pharmacy qualification and the customers (and cash) will roll in through the door - filling scripts is all that is required

PERILOUS PITFALL NO 2:
“Professional advice can come from friends, and formal agreements can be worked out after we've done the deal”

The rules to avoid this pitfall:
Ask the right advisor, consider the answers and then ask more questions. Document what you agree to and do.

Consider:

- » this is likely to be your largest financial transaction so far and the stakes are high
- » mates and friends are for friendly advice, an initial sounding board, NOT for formal advice
- » the dearest advice is not necessarily the best, nor

is the cheapest advice necessarily adequate. Ask around

- » arrangements to buy and sell will certainly be documented but make sure that the documentation is correct and that YOUR interests are protected. Do not use the other party's advisors to save money
- » partnerships need agreements. Limited partnerships may limit financial risk but are unlikely to limit professional exposure. A 10% equity in a business means that you will be (with your partner) jointly liable for all of the financial and professional risk, but only 10% of the profits. Good deal, hey?

- » don't use standard or 'off the shelf' agreements. You and your circumstances are not 'off the shelf', nor should your documentation be this way

PERILOUS PITFALL NO 3: **Do your homework – undertake due diligence**

This pitfall is intimately bound up with numbers 1 and 2, but is usually wider in application and involves some of the issues you will need to consider if you do go ahead with the purchase.

Doing your homework in this context might also be called PLANNING.

Some people say that planning is thinking about the things you

have to do tomorrow, today. Alternatively, it can involve putting in place today those things necessary to ensure that you have a tomorrow.

Either way, at the pre-purchase stage, planning will usually involve a SWOT analysis. You know the one – **S**trengths, **W**eaknesses, **O**pportunities, **T**hreats.

Strengths and weaknesses are 'internal' aspects to the business – things over which you can exert some control.

Opportunities and threats are 'external' to the business and are areas over which you may have little control, but to which you may have to adapt.

These factors can range all the way from the sustainability of the Pharmaceutical Benefits Scheme (PBS) over the term of any proposed loan, to the local demographics of your consumer population, or the skills of existing staff.

These will all affect any future business which governs your capacity to repay any proposed borrowing, which in turn, affects your present capacity to borrow or the wisdom of the proposed borrowing.

For greater detail in this area subscribe to 'Buying & Selling a Pharmacy: 7 steps to a highly effective sale or purchase' at www.buyingandsellingapharmacy.com.au

PERILOUS PITFALL NO 4: **"Landlords are lovely people – surely?"**

The answer is – sort of. Some landlords are really nice, some can make one wish for the return of the Mongol hordes. Bottom line? Deal with landlords on the basis that they may have trained in the 'Attila the Hun School of Pillaging' until they demonstrate other characteristics and, in any event, document fully.

Landlords mean leases, therefore:

- » appreciate the potential financial cost, implications and obligations
- » whether the proposed terms are viable for the ongoing sustainability of the business

- » what are the terms of the lease?
- » do you have lessor's rights, including those relating to enforcing a change in location of tenancy?
- » in a shopping centre is there exclusivity and avoidance of competition, i.e. other services like beauty, photography, fragrance, health, hair care, vitamin franchises (this may either be in your favour OR against you if there are existing tenants)
- » do adequately investigate new developments either in the shopping centre or in proximity to where the business is located (urban growth, new developments, etc.)

- » be aware of demolition clauses – six months notice is no help when paying out a 10 to 15 year loan
- » investigate the assignment clauses under the existing lease and make sure that you obtain advice on the impact of such terms if you proceed with the purchase

PERILOUS PITFALL NO 5: **"Dispensing rules – OK?"**

It is incontestable that dispensing is one of the more important things that pharmacists do, and that we will be doing it for the foreseeable future.

Equally, dispensing without any ongoing and relevant

advice will likely be the province of dispensing robotics in the foreseeable future. In fact, it already is – it's just that there aren't too many in use in Australia at this time.

The growth in the PBS over the past 10 years or so has resulted in many community pharmacists developing a warm glow when they review their dispensing remuneration. This glow can be so warm that they start to think that the remainder of the pharmacy is 'just there and can look after itself... It's only a small percentage of turnover anyway'.

Wrong, wrong, wrong! Dispensing is necessary but not sufficient!

Patient care is what is necessary and that involves product advice from the whole of the pharmacy.

For your pharmacy to succeed it will have to be relevant to its customer base and that will surely involve much more than just dispensing.

PERILOUS PITFALL NO 6:
“I can rely on my accountant to look after the financial side of my business”

Sometimes you can, but to manage this way means that you have to keep feeding your accountant information on at least a monthly basis, AND the information has to be accurate AND the accountant has to do something with it in a timely way.

There is no benefit in learning after 16 months that you have been unprofitable for 15 months.

Best solution? Find an accountant who will assist you on a regular basis BUT learn yourself how to extract, prepare and interpret the information that you are sending. This will allow you to follow the accountant’s advice.

How to do this? Make sure that you are buying (or subsequently acquire) a point-of-sale system that will work for you and dedicate the resources to making it work and keeping it accurate.

This means that you need some management understanding BEFORE you start the purchasing

process. It is also of great use in helping you to understand what you are doing during the process.

PERILOUS PITFALL NO 7:
“This business is really profitable now so I can afford to pay top dollar”

Well, sort of. Buying a business is really about gauging the capacity of the business to generate profits in the future. For you – not the present owner.

Current profitability is a good, but not infallible guide.

Further, the business ought not to be ‘at its peak’. When you are buying, look for a business that you can improve, and reap the benefits of the improvement

(this is the legendary ‘blue sky’ of business growth).

Part of the business’ present profitability may be the result of the existing pharmacy team – the staff. Will they all remain? Do you know how to manage staff? Do you have any training/ experience in this area? What could happen if key staff left?

Remember – you may have a 10 to 15 year loan.

PERILOUS PITFALL NO 8:
“Staff matters”

This could be rephrased as ‘staff members matter’. Think about what goodwill actually constitutes. Certainly it involves the actual pharmacy, its location

and history, but it also very much involves the current staff members. Purchasing a business means that you are purchasing the corporate knowledge of the staff that work there.

Do not underestimate the initial value of this corporate knowledge and, within limits, do what is necessary to ensure continuity of existing staff, at least for 3 to 6 months.

As mentioned earlier and in other places, a way of doing this is to ensure that you involve the staff in your planning and processes once you have assumed ownership, but you can also show that you value the staff by paying attention to their affairs

and entitlements during the transfer process.

Have you reviewed the following?

- » holiday pay
- » whether any staff are due to take holidays soon after the transfer?
- » arrangements for long service leave? Will you assume responsibility for entitlements to date or will the current owner adjust for these in the price?
- » are there any ‘unusual’ remuneration or working arrangements for certain staff?

A business advisor once commented:

‘Get staff matters right and the business will look after itself.’

Not 100% true - but pretty close, and good advice.

PERILOUS PITFALL NO 9:
“We’ll do the documentation later”

The rules of any agreement or contractual documentation are:

- » do it now
- » include arrangements for everything that might possibly go wrong
- » include arrangements for those things that will never go wrong

The most important part of any partnership (or other agreement) is to work out, and then state clearly how the agreement is to be terminated.

PERILOUS PITFALL NO 10:

- » skip some or all of the Pitfalls numbered 1 to 9
- » completely ignore the advice in the ‘100 days before to 100 days after’ document

BOTTOM LINE ?

Be patient, be thorough, seek advice and listen to it.

There will be another pharmacy if this one is ‘not right’.