



The Pharmacy
Guild of Australia

Guild Digest

2016

**A SURVEY OF INDEPENDENT
PHARMACY OPERATIONS IN AUSTRALIA**

FINANCIAL YEAR 2014-15

EXECUTIVE SUMMARY 2014 - 2015



INTRODUCTION TO GUILD DIGEST 2016

This year marks the 44th edition of the Guild Digest. The *Digest* presents a snapshot of pharmacy operations in Australia for the financial year 2014-15. Community pharmacy plays a pivotal role in providing primary healthcare and delivers a wide range of services including dispensing prescriptions; distributing pharmacy only and pharmacist only medicines, and over-the-counter products; medication management; advice on minor ailments; and preventative care services.

The analyses contained in the *Digest* are based largely on the sample of 313 community pharmacies.

COMMUNITY PHARMACY INDUSTRY SNAPSHOT 2014-2015

The Australian community pharmacy industry is a \$15.46 billion health sector which comprises around 5510 community pharmacies as of June 2015. It directly employs around 69,175 highly skilled staff (including proprietors). The average revenue per pharmacy is \$2.81 million and 66% of revenue is derived from the sale of prescription medicines. The other 34% includes pharmacy professional services, pharmacy only medicines and over-the-counter products. The gross margin (sales less cost of goods sold) is just over \$1 million for the average pharmacy and average annual net profit equates to nearly \$110,000.

Rural pharmacies represent 16% of the total of 5510 community pharmacies and there is one pharmacy for every 4236 Australians. The accessibility of community pharmacy is a strong factor underpinning the high regard in which community pharmacy is held. On average, each community pharmacy is open 60.7 hours a week, and is open for an average of 10 hours a day during the week.

Average Pharmacy	Industry
\$2.81 m Revenue	\$15.46 b Revenue
\$1.09 m Gross Margin	\$6.01 b Gross Margin
\$109,914 Net Profit/Loss	\$605.6 m Net Profit/Loss
57,964 Prescriptions	315 m Prescriptions

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INDUSTRY TREND – LAST DECADE (2005 -2015)

This section of the *Digest* includes the key industry trends of the past decade, comparing the performance for pharmacies in the past 10 years (See Table 1 of the *Guild Digest*). This is particularly important in highlighting the shift in key indicators.

There have been ongoing changes in the operating landscape of pharmacies over the past 10 years due to growing regulatory and competitive pressure from internal and external forces. The community pharmacy landscape has evolved from small, independent pharmacies to more sophisticated banner groups operating in a more competitive environment.

Industry sales have grown at 2.20% compounded annual growth rate (CAGR) over the past 10 years, but have declined since 2012, as shown in Figure 1 below. Historically pharmacy sales were growing at the rate of 4.76% (CAGR) from 2004 to 2009, significantly higher compared to the declining -1.26% growth rate of 2010 to 2014. This reduction in revenue post 2010 is attributed to the dampening effect of Pharmaceutical Benefits Scheme (PBS) reforms introduced by the Government as a cost saving measure.

Figure 1: Total Sales and Gross Margin

■ Sales ■ Gross Margin

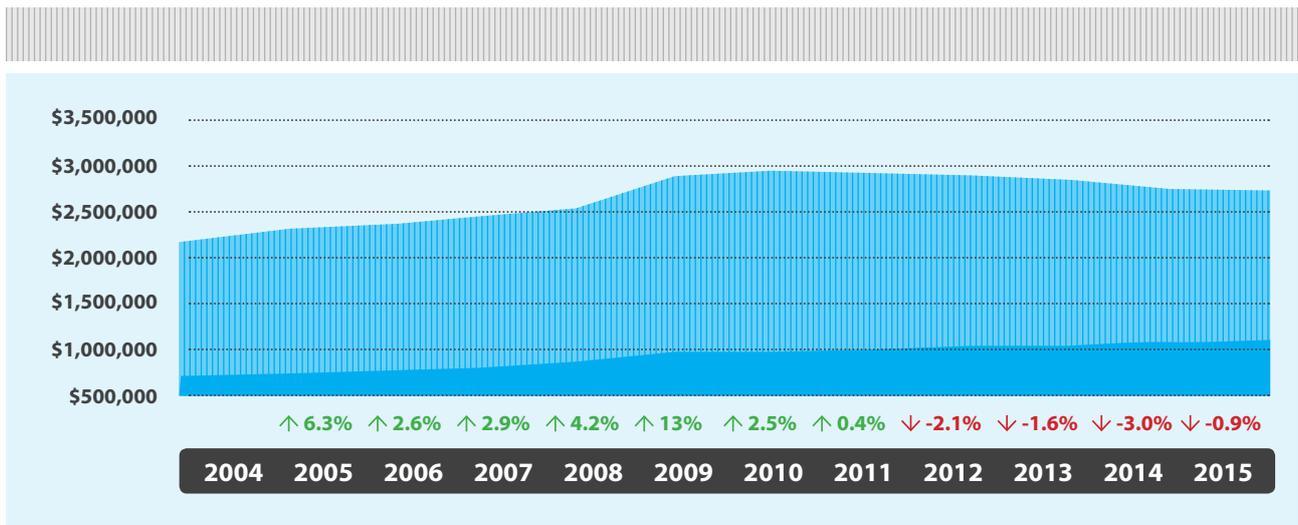


Figure 2: Net Profit/loss

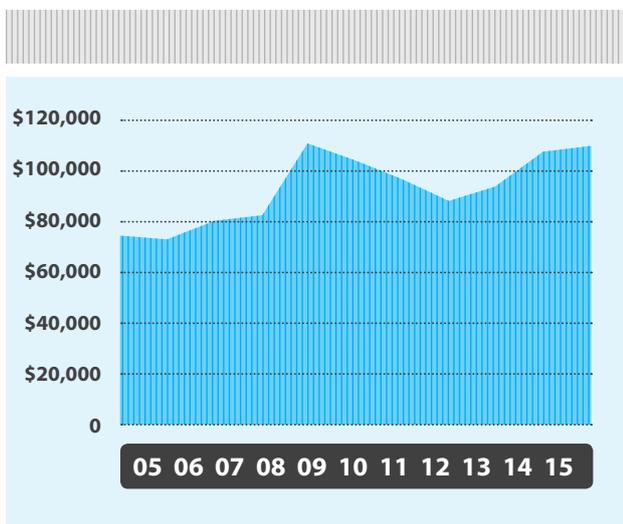
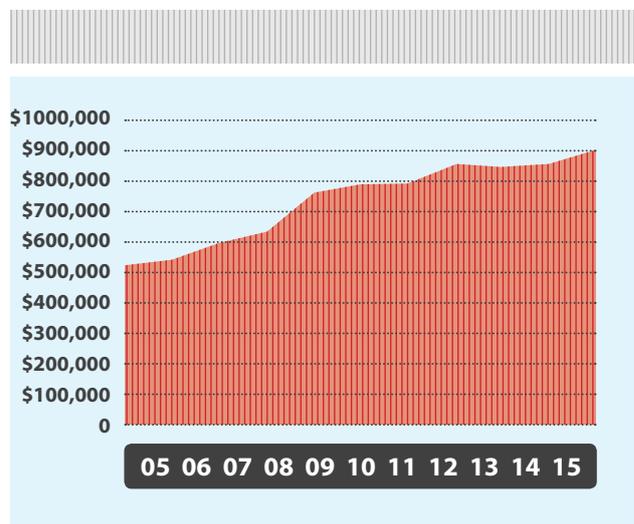


Figure 3: Expenses



Pharmacies are operating on a very small margin with average pharmacy Net Profit/ Loss of \$109,914. The industry has seen 3.51% annual growth rate (CAGR) over the past 10 years for Net Profit (see Figure 2) as compared to rising expenses of 5.12% (CAGR) per annum (Figure 3), exerting downward pressure on industry margins.

There is a potential threat to pharmacy viability due to declining Net Profit, as a result of Pharmaceutical Benefit Scheme reforms, increases in expenses and price competition initiated by the continued rise of discount pharmacies.

KEY PERFORMANCE COMPARISON OF 2013-14 WITH 2014-15

This section of the *Digest* includes a comparison of performance for pharmacies which have responded in two consecutive years, highlighting movements in key indicators from one year to the next (See Table 3 of the *Guild Digest*).

The 2014-15 figures show a downward trend in overall sales by 2.51%, and 4.59% for prescription sales with gross margin down by 5.30% (See Figure 4).

Salaries and wages for the comparative sample decreased by 0.5% while rents increased by 0.6%. Total expenses declined by 1.8% in dollar terms and increased as a percentage of revenue, from 34.8% to 35.3%, in 2014-15 (Figure 5). With the decrease in dollar gross margin, total income dropped by 18.98% and earnings before interest, tax, depreciation and amortisation (EBITDA) dropped by 32.6%.

Figure 4: Key Performance Indicators Comparison

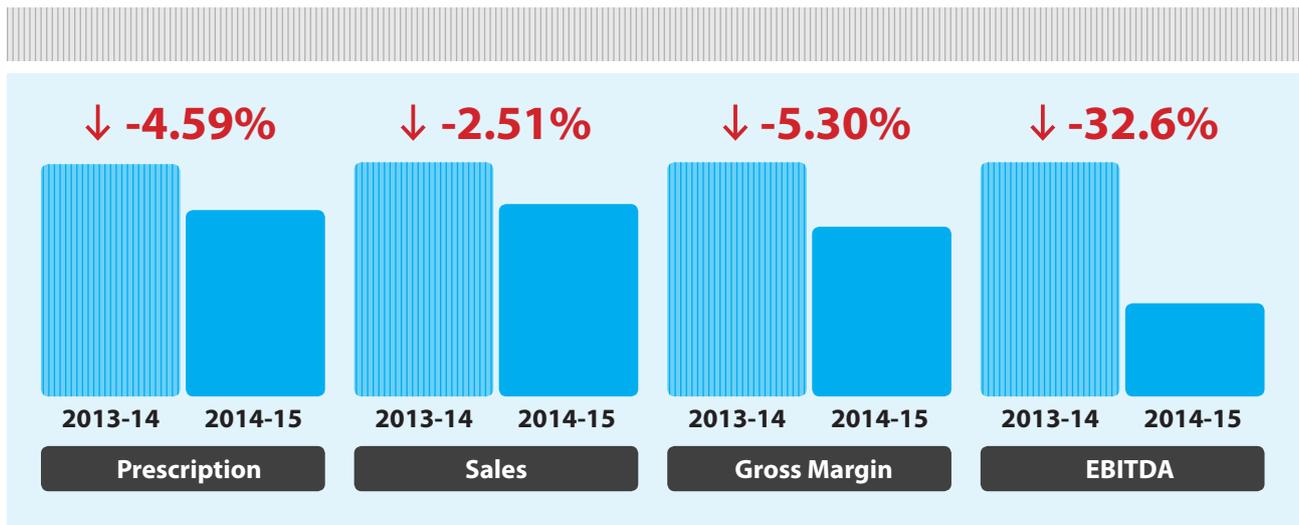
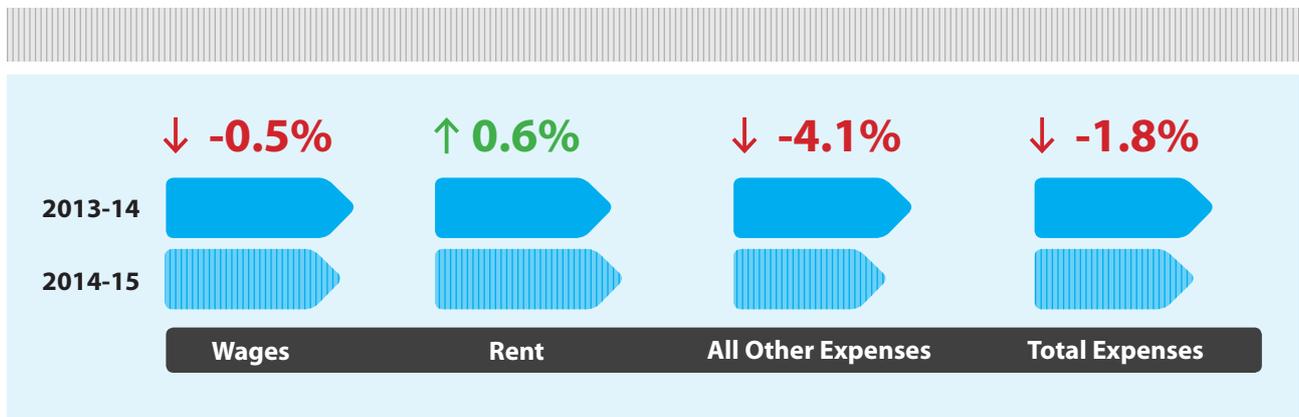


Figure 5: Change in Expenses



Note: The expenses is a downward metric, lower expense is better. All Other Expenses refers to Total Expenses less Wages and Rent.



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