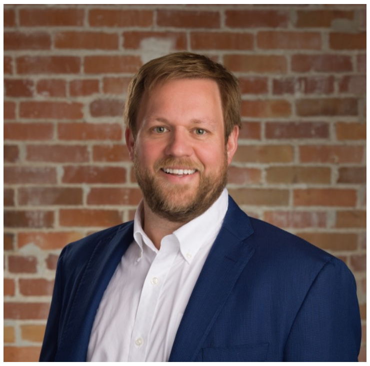
Fix This Pharmacy: The Numbers That Drive Profitability

Scotty Sykes, CPA, CFP®

Description

Step into the role of decision-maker in this interactive “Fix This Pharmacy” case. Analyze the financial and operational challenges of an independent pharmacy facing shrinking margins, staffing strain, and reimbursement pressure. Through audience polling and expert-guided discussion, you’ll pinpoint the key drivers of performance and walk away with practical strategies to stabilize margins and strengthen long-term financial resilience.

Meet the Faculty



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Vice President
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Scotty Sykes

Scotty is a Certified Public Accountant and Certified Financial Planner® at Sykes & Company, P.A. and has focused on pharmacy accounting, tax, and advisory his entire career. His primary focus is pharmacy advisory, pharmacy tax planning, and leading the industry with pharmacy tax and accounting updates.

He is a frequent presenter on pharmacy accounting and complex tax matters at national and state conferences. He is also an avid writer for industry publications, providing progressive approaches to operating a successful pharmacy. He has published several pharmacy accounting and tax related articles in America's Pharmacist, the official magazine of the National Community Pharmacists Association (NCPA) magazine, and others.

Disclosures

- Scotty Sykes has no relevant financial relationships with ineligible companies to disclose.
- Scotty Sykes discloses that AI tools were not utilized for this presentation.

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Learning Objectives

Upon completion of this activity, learners should be able to:

- Recognize key operating, financial, and patient care indicators that influence pharmacy sustainability in an evolving reimbursement environment.
- Identify common drivers of margin pressure and their impact on business stability and patient care delivery.
- Interpret benchmarking data to assess areas of strength and opportunity in pharmacy performance.
- Examine operational adjustments that strengthen pharmacy financial performance and support patient care.
- Develop a practical approach to monitoring performance and making informed decisions that support long-term viability.

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Meet the Pharmacy

An Inside Look Into the Pharmacy of Today

Meet the Pharmacy

Pharmacy Profile

- *Owner:* Scotty
- *Location(s):* 2
- *Pharmacy:* Scott's Corner Drug and Scott's Pharmacy
- *Service Area:* 15-20 miles

High-Level Symptoms

- *Low Margins:* Shrinking gross and net margins
- *Tight Cash Flow:* Days cash on hand
- *Inefficient Operations:* Staffing ratios and workflow are pulling productivity below peer benchmarks
- *High Tax Liabilities:* Improper accounting leading to high tax liabilities and filing extensions

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Poll the Audience:
Does this pharmacy sound familiar?

A. Yes
B. No

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Fundamental Accounting

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Fundamental Accounting

Everything Rises and Falls on the Fundamentals

Why

Before we fix margin, cash flow, or taxes, we need clean financials.

Fundamentals are key to outperforming industry averages.

Successful pharmacies have a strong accounting foundation.

- Provides real-time information
- Allows owner to be proactive
- Delivers insights into trends, strengths, and weaknesses
- Opens the door to tax planning and mitigation

Components of Fundamental Accounting

- Two accounting methods
- Balance sheet and profit and loss (P&L) statement
- Daily, weekly, monthly processes
- Segregation of duties
- Maximize automation for accounts payable (AP)
- Online accounting systems
- Timely month-end processing/adjusting
- Utilize technology for receivables and inventory

Accounting Methods

Cash Method:

- Income recognized when cash is received
- Expenses recognized when check clears the bank
- Does not accurately project pharmacy performance month over month

Accrual Method:

- Income recognized when script is adjudicated
- Expenses recognized when the expense is incurred
- Accurately projects performance and key benchmarks for pharmacy

Balance Sheet Assets

Current Assets:

- Cash and cash equivalents
- Accounts receivable (customer store charges, third party receivables, med billing)
- Employee loans
- Inventory

Fixed Assets:

- Robots
- Furniture, fixtures, and equipment
- Shelving
- Buying group stock or membership equity
- Goodwill script files
- Land
- Accumulated depreciation and amortization

Balance Sheet Liabilities

- Accounts payable
- Wages payable
- Credit cards
- Line of credit
- Payroll liabilities & sales tax

Balance Sheet Equity

- Capital stock
- Retained earnings
- Shareholder distributions
- Net income

P&L Statement

- Outlines revenue, costs, and expenses over a period
- Tracks the profitability of your pharmacy
- Identifies areas of improvement
- Informs pharmacy business decisions regarding pricing, product lines, and operational efficiency

P&L Statement

- **Revenue:** total income generated from sales of goods or services
- **Cost of goods sold (COGS):** direct cost of producing goods in your pharmacy
- **Gross profit:** revenue – COGS
- **Operating expenses:** expenses related to running the pharmacy (salaries, rent, utilities, marketing)
- **Operating income:** gross profit – operating expenses
- **Net income:** final profit or loss after accounting for all revenues and expenses

Tying the Balance Sheet and P&L Statement Together

BALANCE SHEET	P&L STATEMENT
Accounts Receivable	Revenue
Inventory	Cost of Goods Sold
Accum Depreciation & Amortization	Depreciation & Amortization Expense
Accounts Payable	Cost of Goods Sold

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Poll the Audience:

Which lever would have the biggest impact on this pharmacy?

A. Increasing margins
B. Improving cash flow
C. Minimizing tax liability

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Diagnosis

Identifying Financial Drivers:
Balance Sheet and P&L Statement

Trends in the Balance Sheet

	A	C	D	E	F
1	ACCRUAL REPORTS				
2		Jan - Dec 2021	Jan - Dec 2022	Jan - Dec 2023	Jan - Oct, 2024
3	ASSETS				
4	Current Assets				
5	Bank Accounts				
6	Checking	232,774.18	279,630.40	338,829.22	402,779.28
7	Savings	3,523.36	2,013.33	4,388.89	608.82
8	Cash on Hand	181.72	181.72	181.72	181.72
9	Checking Bank	1,154.00	1,392.22	1,229.96	1,339.80
10	Savings Bank	1,512.96	696.80	1,787.80	510.39
11	Total Bank Accounts	$ 239,146.22	$ 283,914.47	$ 346,417.59	$ 405,420.01
12	Other Current Assets				
13	Inventory	256,000.00	256,000.00	256,000.00	256,000.00
14	Accounts Receivable	0.00	0.00	0.00	0.00
15	Uncategorized Asset	0.00	0.00	23,150.00	23,150.00
16	Total Other Current Assets	$ 256,000.00	$ 256,000.00	$ 279,150.00	$ 279,150.00
17	Total Current Assets	$ 495,146.22	$ 539,914.47	$ 625,567.59	$ 684,570.01
18	Fixed Assets				
19	15000 Furniture and Equipment	366,631.64	366,631.64	366,631.64	366,631.64
20	A/D-Furniture & Equipment	-27,786.59	-27,786.59	-27,786.59	-27,786.59
21	Total Fixed Assets	$ 338,845.05	$ 338,845.05	$ 338,845.05	$ 338,845.05
22	TOTAL ASSETS	$ 833,991.27	$ 878,759.52	$ 964,412.64	$ 1,023,415.06
23	LIABILITIES AND EQUITY				
24	Liabilities				
25	Current Liabilities				
26	Accounts Payable				
27	20000 Accounts Payable	99,980.05	104,694.09	103,467.66	97,422.69
28	Total Accounts Payable	$ 99,980.05	$ 104,694.09	$ 103,467.66	$ 97,422.69

What issues do you see with this balance sheet?

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Trends in the Balance Sheet

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- Inventory unchanged '21-'24...but uncategorized asset added '23-'24?
- Accumulated Depreciation unchanged '21-'24

Trends in the Balance Sheet

	A	C	D	E	F
29	Credit Cards				
30	Bank 1	-327,336.16	-531,762.07	-760,089.14	-1,016,574.61
31	Bank 2	0.00	0.00	3,308.20	7,050.60
32	Bonnie 1	151,749.32	195,566.78	226,772.48	288,890.46
33	Bank 3	189,991.21	226,948.35	305,822.04	366,250.71
34	Total Credit cards payable	$ 14,404.37	-$ 109,246.94	-$ 224,186.42	-$ 354,382.84
35	Total Credit Cards	$ 14,404.37	-$ 109,246.94	-$ 224,186.42	-$ 354,382.84
36	Other Current Liabilities				
37	24000 Payroll Liabilities	4,199.55	4,199.55	4,199.55	4,199.55
38	Fed w/h	-2,236.00	-2,236.00	-2,236.00	-2,236.00
39	Federal Taxes (941/944)	0.00	0.00	-85.00	-85.00
40	Federal Unemployment (940)	104.11	200.32	201.62	203.50
41	NC Employment Taxes	-1,458.21	-1,407.18	-1,436.12	-1,435.97
42	SS/Medi	-2,558.20	-2,558.20	-2,558.20	-2,558.20
43	Total 24000 Payroll Liabilities	-$ 1,948.75	-$ 1,801.51	-$ 1,914.15	-$ 1,912.12
44	25500 Sales Tax Payable	562.79	562.79	562.79	562.79
45	Direct Deposit Payable	0.00	3,950.00	3,950.00	3,950.00
46	LOC-Bank	268,632.07	2,615,532.07	4,237,532.07	5,763,232.07
47	N/P Local Bank	-339,733.92	-2,599,124.94	-4,186,946.31	-5,677,690.95
48	Total Other Current Liabilities	-$ 72,487.81	$ 19,118.41	$ 53,184.40	$ 88,141.79
49	Total Current Liabilities	$ 41,896.61	$ 14,565.56	-$ 67,534.36	-$ 168,818.36
50	Long-Term Liabilities				
51	L/P Robot	187,630.66	153,456.82	119,282.98	90,804.78
52	N/P Bank 5	0.00	0.00	-559.97	-2,528.56
53	N/P Bank 3	0.00	0.00	0.00	88,400.97
54	NP Shareholder	31,818.55	20,620.01	0.04	0.04
55	Total Long-Term Liabilities	$ 219,449.21	$ 174,076.83	$ 118,723.05	$ 176,677.23
56	Total Liabilities	$ 261,345.82	$ 188,642.39	$ 51,188.69	$ 7,858.87

- Sharp growth in credit card debt
- Line of credit (LOC) and bank notes ballooning
- Lack of clarity on notes payable

Trends in the P&L Statement

	A	B	C	D	E	F	G	H	I
1									
2		Jan - Dec 2021		Jan - Dec 2022		Jan - Dec 2023		Jan - Oct, 2024	
3		Current	% of Income	Current	% of Income	Current	% of Income	Current	% of Income
30	63500 Janitorial Expense	80.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
31	64300 Meals and Entertainment	915.71	0.02%	2,325.10	0.05%	0.00	0.00%	0.00	0.00%
32	64700 Miscellaneous Expense	1,818.25	0.05%	3,730.42	0.09%	465.97	0.01%	232.14	0.01%
33	64900 Office Supplies	15,887.08	0.43%	16,734.57	0.38%	868.84	0.02%	0.00	0.00%
34	66000 Payroll Expenses	54,671.93	1.48%	0.00	0.00%	0.00	0.00%	0.00	0.00%
35	Company Contributions	0.00	0.00%	0.00	0.00%	9,584.09	0.19%	12,084.33	0.31%
36	Retirement	0.00	0.00%	0.00	0.00%	9,054.80	0.18%	13,413.09	0.34%
37	Total Company Contributions	$ 0.00	0.00%	$ 0.00	0.00%	$ 18,638.89	0.38%	$ 25,497.42	0.65%
38	Payroll Taxes	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
39	941ME	3,496.00	0.09%	0.00	0.00%	0.00	0.00%	0.00	0.00%
40	Form 940	254.18	0.01%	0.00	0.00%	0.00	0.00%	0.00	0.00%
41	Form 941	7,080.54	0.19%	0.00	0.00%	0.00	0.00%	0.00	0.00%
42	Form 941/C1-ME	1,616.49	0.04%	0.00	0.00%	0.00	0.00%	0.00	0.00%
43	Total Payroll Taxes	$ 12,447.21	0.34%	$ 0.00	0.00%	$ 0.00	0.00%	$ 0.00	0.00%
44	Taxes	19,817.57	0.54%	29,948.35	0.69%	32,833.72	0.66%	28,651.49	0.73%
45	Wages	246,334.80	6.65%	352,508.01	8.10%	392,595.96	7.93%	343,659.80	8.76%
46	Total 66000 Payroll Expenses	$ 333,271.51	9.00%	$ 382,456.36	8.79%	$ 444,068.57	8.97%	$ 397,808.71	10.13%
47	66500 Postage and Delivery	4,865.94	0.13%	4,090.87	0.09%	4,746.57	0.10%	3,984.66	0.10%
48	66700 Professional Fees	1,310.00	0.04%	850.00	0.02%	307.00	0.01%	1,385.00	0.04%
49	67100 Rent Expense	44,000.00	1.19%	48,000.00	1.10%	52,000.00	1.05%	36,000.00	0.92%
50	67200 Repairs and Maintenance	14,584.46	0.39%	33,828.90	0.78%	26,830.09	0.54%	9,820.34	0.25%
51	68100 Telephone Expense	6,071.41	0.16%	5,384.13	0.12%	6,114.13	0.12%	7,381.40	0.19%
52	68400 Travel Expense	1,874.66	0.05%	10,086.00	0.23%	5,699.22	0.12%	6,787.01	0.17%
53	68500 Uniforms	0.00	0.00%	422.11	0.01%	931.36	0.02%	0.00	0.00%
54	68600 Utilities	9,752.70	0.26%	10,831.61	0.25%	11,040.51	0.22%	9,442.12	0.24%
55	Heat	344.99	0.01%	751.52	0.02%	1,017.28	0.02%	1,694.36	0.04%

- **Wages:** Growth 2021–2023…what about the 9 months of 2024? What's missing?
- **Payroll Taxes:** No payroll taxes…misclassification?
- **Rent:** Rising from 2021–2023, then a significant drop-off in 2024…why?

Poll the Audience:

Which basis of accounting does your pharmacy use?

A. Cash
B. Accrual
C. No clue

The Fix

Operational + Financial Adjustments

Process

- Implement fundamental accounting
- Analyze key performance indicators (KPIs)
- Analyze operations

Implement Fundamental Accounting

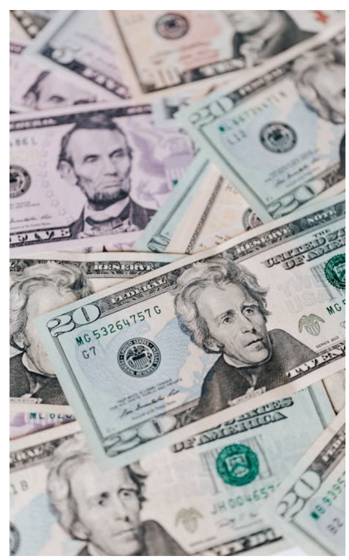
- Clean up financials
- Accrual accounting
- Daily, weekly, monthly processes
- Segregation of duties
- Maximize automation for AP
- Online accounting systems
- Timely month-end processing/adjusting
- Utilize technology for receivables and inventory

Analyze Operations

- **Where are you leaking margin?**
  - Payer mix
  - Generic vs. brand fills

- **Where are you leaving money on the table?**
  - Accounts receivable (AR) capture
  - Clinical services billing
  - Daily, weekly, monthly processes

- **Where are you spending more than you should?**
  - Labor hours
  - Contract audits (software, vendors, supplies – terms)

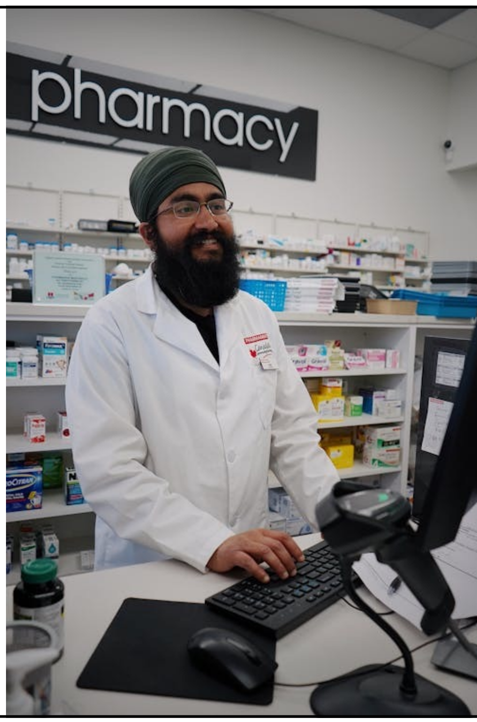


Analyze KPIs: Are You Actually Behind?

Monthly-Quarterly Cadence

- Current ratio: >2.5/1
- Average inventory turns: >20
- Average outstanding AR: 14-21 days
- Equity to assets: 40-60%
- Average gross margin: >20%
- Gross payroll as a % of revenue: must be <10% for retail
- Overhead as a % of revenue: <6%
- Net bottom line: 3-6%

Sykes & Company P.A. pharmacy benchmarking/financial analysis.
Targets may vary by pharmacy model, payer mix, and service lines.



Improving Margins

- Diversify revenue
- Optimize purchasing and inventory
- Dispensing efficiency and payroll
- AI

Improving Cash Flow

- Maximizing cost of goods sold/inventory
- Review PBM contracts
- Payroll percentage
- Script audit logs: new scripts vs. refills
- Third-party reconciliation
- Perpetual inventory

AR Third Party

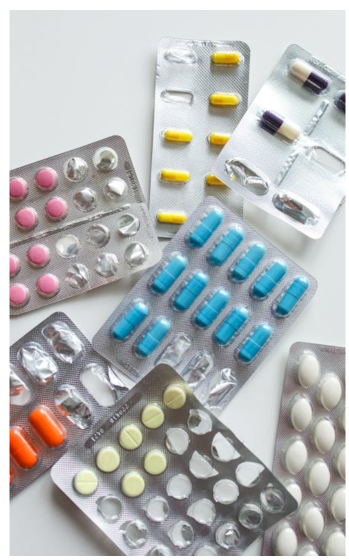
- Biggest unreconciled bank account in a pharmacy
- Provides an accurate picture of gross revenues for the month
- Catches errors with reimbursements
- Allows pharmacy to understand payor trends

AR Third Party Best Practices

- Implement a system with technology
- Train and schedule
- Designate an employee to manage
- Update biweekly at a minimum
- Utilize a reconciliation service
- Timely verification of payments
- Set a limit
- Write-offs
- Partner with reconciliation analyst
- Employee loans: payroll deduction

Inventory

- Largest expense in a pharmacy
- Vital component of your balance sheet and P&L
- $100 bills on the shelf
- Inaccuracies impact your financial statements, analysis, and advisory
- Poor management may increase tax liabilities



Inventory Best Practices

Goal: 20 turns/year

- Technology and automation
- Next-day delivery, let wholesaler carry cost/risk
- Synchronization
- Physical cycle counts
- Perpetual inventory

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Poll the Audience:
Are you reconciling receivables?

A. Yes
B. No
C. Not sure

High Tax Liabilities

High Tax Liabilities

- Fundamental accounting
- Tax planning
- Cash accounting
- Section 199A
- Bonus depreciation vs. depreciation
- Research and development (R&D) tax credit
- Cost segregation
- Pass-through entity (PTE) tax
- Retirement planning
- Charity planning
- Entity structure
- Employee benefits

Key Takeaways

- Know which numbers drive sustainability
- Use benchmarks to identify performance gaps
- Address margin leakage through purchasing, inventory, payer mix, and workflow
- Improve cash flow through AR reconciliation and accounting discipline
- Monitor performance on a weekly, monthly, and quarterly cadence

Building a Monitoring System

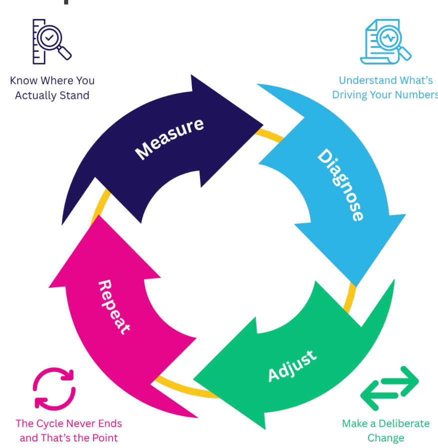
Mindset Shift: From financials as an afterthought to financials as an asset

In today's environment, ignoring the numbers isn't humility, it's risk.

The strongest pharmacies treat their financials like the strategic tool that they are.

Three commitments:
- Know your numbers
- Review on cadence
- Act on what you see

Simple Framework



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Scott's Pharmacy

An Updated Look at a Financially Focused Pharmacy

Meet the Pharmacy

Pharmacy Profile

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- *Pharmacy:* Scott's Corner Drug and Scott's Pharmacy
- *Service Area:* 15-20 miles

Solutions

- High margins
- Improved cash flow
- Efficient operations
- Low tax liabilities

Questions?

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