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## Opening A New Independent Pharmacy 101

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**Key words:** independent pharmacy, opening a pharmacy, location of a new pharmacy, corporation, startup cost, wholesaler, license, professional relationships in pharmacy

### Abstract

*Opening an independent pharmacy is a process that involves multiple components. The rationale of this project is to discuss different issues that must be investigated prior to opening a new independency pharmacy. This includes the location, structure of the corporation, start-up cost, picking a wholesaler, fulfilling state board requirements and Philadelphia requirements, having a valid license, making professional relationships, and knowing basic marketing research. Methods used include using the knowledge and expertise from an independent pharmacy owner, visiting pharmacies, and interviewing neighbors for basic marketing research. Many aspects of opening an independent pharmacy differ significantly from a retail pharmacy, as there are various issues within the pharmacy and outside the pharmacy that must be extensively researched prior to opening in order to be successful.*

### Location

The most important part in opening a new community pharmacy is selecting the location and the property. To start, the location serves as a marketing tool on it's own. This could be from the location's accessibility, the attractiveness of the property, neighboring retail stores, even the name of the street, and safety. Before selecting the location, one must determine and investigate the residential population.

It is critical to know the demographics of the residential population in order to determine the types of medications and services needed, which define the store's potential to becoming successful. Key items that must be researched within the zip code of the selected location are: average age, percentage of individuals with insurance, number of written prescriptions, average household income, surrounding hospitals and medical centers, private offices, dental offices, nursing homes, and any epidemics in the area. For example, a location with the majority of the population being healthy college students that do not require many medical needs will be harder to acquire more prescription sales. In this case, the pharmacy's sales would consist of very basic items such as protein supplements, birth control, seasonal needs, few antibiotics, and grocery needs. However, if compared to an area with a known epidemic of a disease such as HIV, or the majority of patients are elderly, the pharmacy will have a much higher potential of becoming successful. This pharmacy will have patients on multiple medications and these patients will require more services such as immunizations, patient

counseling, and over the counter recommendations in greater quantities than the first pharmacy. The residential population can be obtained by contacting insurance companies and/or drug wholesalers.

While selecting the location, it is very imperative to check if the city zoning is accepted for opening a new pharmacy. Determining the zoning must be done before leasing or buying the property. This is necessary because one will spend a lot of money buying or renting the property, or starting the pharmacy, and starting construction. If the city does not approve of the location for a pharmacy, all of the time and effort spent on that location is wasted. If zoning for a community pharmacy is currently not acceptable or unable to be changed immediately for the selected location, one must determine if it is possible to comply with the zoning requirements. By doing so, one must evaluate if the cost and delay in meeting the requirements is actually worth investing in the selected location.

The physical property of the pharmacy is a key component of opening the pharmacy. Before selecting a location one must determine what services that will be provided and specific goals for the pharmacy. Depending on the services and products offered one can determine the appropriate size of the pharmacy. There are different layouts of community pharmacies and this will be very important in determining the vision and size of the property. Different set ups of a community pharmacy include pharmacies that contain an immunization room, a consultation area, hiring a nurse practitioner, compounding, and front store section. The desired services that are offered will greatly shape the pharmacy. The state board of pharmacy requires a minimum size of 250 SQ Ft for the pharmacy area; in terms of practicality, this is a very

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small space to perform pharmacy tasks. On average, an optimal size of a pharmacy with a front store section should be 1800 square feet.

### Corporation

There are 5 structures of a corporation one must choose from in order to operate a successful business: Sole Proprietorship, Limited Liability Company, C-Corporation, S-Corporation, and a General partnership. The cost to establish a corporation is \$1,000 - \$1500. After selecting the appropriate corporation one must request from the accountant an EIN #, State Tax ID #, Employee withholding Tax ID # and document the LEGAL BUSINESS NAME in the state of business.

Sole proprietorship is the simplest structure to start a business. It is unincorporated business owned and run by a single individual with no difference between the business and the owner. This means that the owner is entitled to all the profits. On the other hand, the owner is also responsible for any debts, losses and liabilities. For example, if the business is sued, the owner can be sued personally and unlimitedly; the owner cannot simply file for business bankruptcy. One does not need to take any formal action in forming a sole proprietorship. If the owner wishes to operate under a different name than his/her own, the owner must file a fictitious name (trade name) that is not already claimed by another business. While filing taxes, the business and the owner are considered to be one. The business itself is not taxed separately but the owner must report income and losses with a schedule C and the standard form 1040. This is the easiest tax preparation.

Limited Liability Company (LLC) is a hybrid business structure that provides limited liability to the owners. The owners of a LLC are considered to be members of the corporation. Depending on the structure, there can be a single member (owner) or multiple individuals. Profits and losses are passed down to the members. Like a sole proprietorship, LLC is not taxed separately as a corporation. All the profits and losses are reported on the owner's personal federal tax return. An operating agreement is recommended for multi-member LLC because it provides rules and regulations. It also gives rights and responsibilities for each member.

C-Corporation is an independent legal entity owned by shareholders or stockholders. "The owner can be a person or a legal entity"<sup>1</sup>. This type of corporation has the ability to sell ownership shares through stock or "going public". Doing so will generate more capital for the company. Unlike the structures mentioned, the corporation itself is responsible for any debts the business runs into; shareholders' personal assets are protected. Generally the owners are only liable for their investment in the company. This is a more complex business structure and has costly administrative fees and requirements. A C-Corporation is generally appropriate for large companies

with many employees. Forming a C-Corporation is more complex. The U.S. Small Business Administration states the following in order to form a C-corporation:

"A corporation is formed under the laws of the state in which it is registered. To form a corporation you'll need to establish your business name and register your legal name with your state government. If you choose to operate under a name different than the officially registered name, you'll most likely have to file a fictitious name (also known as an assumed name, trade name, or DBA name, short for "doing business as"). State laws vary, but generally corporations must include a corporate designation (Corporation, Incorporated, Limited) at the end of the business name."<sup>1</sup>

To register your business as a corporation, you need to file certain documents, typically articles of incorporation, with your state's Secretary of State office. Some states require corporations to establish directors and issue stock certificates to initial shareholders in the registration process. Contact your state business entity registration office to find out about specific filing requirements in the state where you form your business.<sup>1</sup>

Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality. Use our Licensing & Permits tool to find a listing of federal, state and local permits, licenses and registrations you'll need to run a business."<sup>1</sup>

Filing taxes for this type of corporation is sometimes called "double taxed". The first tax is on the actual company's profits and the second tax is when the dividends are paid to the shareholders. The owners of the corporation, however, only pay taxes on corporate profits paid to them in the form of salaries, bonuses and dividends. A corporate tax rate is lower than a personal income tax rate.

S-Corporation is a structure that combines a C-Corporation and a LLC. S-Corporation is a unique entity separate from the actual individual or individuals who own it. Similar to a LLC and a C-Corporation, a S-Corporation limits the liability of the owners; the owners are only liable to the extent of their investment. With an S-Corporation one is able to avoid the double taxation that was mentioned with the C-Corporation. The U.S. Small Business administration states, "While members of a LLC are subject to employment tax on the entire net income of the business, only the wages of the S Corp shareholder who is an employee are subject to employment tax. The remaining income is paid to the owner as a 'distribution,' which is taxed at a lower rate, if at all"<sup>2</sup>. Thus, its taxes are similar to a LLC, which will save a lot of money for the business and the owner. In

addition, the profits and losses are documented on the owners' individual tax returns.

Finally, a General Partnership consists of multiple individuals that divide the business equally among partners; this includes the capital, profits, liabilities and debt, and management duties. If agreed to have an unequal partnerships, it must be documented in the partnership agreement.

Dr. Sabri Ibrahim, President and CEO of Pharmacy of America, an up-growing independent community chain currently consisting of 6 locations, recommends an S-Corporation for an independent community pharmacy due to the advantages listed above.

### Start Up Cost<sup>3</sup>

The following is based from *Pharmacy Management, Leadership, Marketing, and Finance* and Dr. Ibrahim assuming the size of the store is 1800 SQ FT.

- For lease: Store deposit on a lease (\$6,000 to 9,000)
- For purchase: Down payment on a purchase and closing costs is 20% of total price of the building plus about \$15,000 to 20,000.
- Accountant: establishing a legal structure: \$1,500
- Architect drawing/ Building, plumbing and electrical permits expense: \$1,500
- Down payment to contractors (maximum 33% down – approximate \$20,000)
- Cost of building material & supplies – approximate \$25,000
- Security Expense: Alarm: \$3,000-5,000. Camera system (\$5,000 to 8,000). Gates (\$2,000- 8,000). Bulletproof Glass (\$8,000 to \$15,000).
- Front End Store Fixtures: \$7,000 (used) vs. \$10,000 (new)
- Phones, Fax and Printers, computer(s), fridges, chairs, trash cans, cash register, office supplies (\$6,000 to 10,000)

### Pharmacy Merchandise

- \$75,000-\$90,000 is good start up inventory  
-Legally only needs to have a minimum of \$5,000 start-up inventory
- Pharmacy dispensing system (software & hardware) lease to purchase option or buy up front (Dispensing system \$7,500 to 15,000 & Point of sale (POS) \$7,500 to 10,000)
- Pharmacy Fixtures: \$7,000 (new)

### Front Store Merchandise

- Assume 1000 SQ FT Front End
- Front End: main lines of OTC (cough & cold, pain, digestive, vitamin, eye & ear, baby, feminine, oral, family planning) before cosmetics, greeting cards and front end groceries.
- Space between aisles: 4 feet.
- Free coolers from Pepsi, Coke & Canada Dry.
- Dairy cooler & Freezer.
- Cosmetics: national brands (Revlon, Maybelline & Covergirl) vs. Cheaper brands.
- Greetings cards: footage space and pricing (quality and pricing: 50% off program).
- 50% to OTC and 50% to groceries
- Cigarettes
- Dollar items section
- Stationery, office supplies
- Cosmetics
- Drinks
- Candies, chips, cakes & chocolate
- Basic food items (similar to seven eleven)

### Store Signage:

- Outside: Boxed sign \$2,000 to \$4,000 vs. channel letters: \$4,500 to 6,000
- In store signage: \$1,000 to 2,000
- Front End merchandising budget:
- OTC: \$10,000 to 15,000
- Front End grocery: \$10,000 to 15,000
- Pharmacy inventory: \$60,000 to 80,000 (increasing)

### Advertising:

- Business cards, flyers: \$1,500
- Grand opening expense: \$1,000

### Pharmacy insurance:

- As soon as you get the keys to the store, must obtain a commercial insurance policy to protect your investment before you begin any work.
- Minimum requirement by most Third Party Plans is \$1 million per case coverage with \$3 million aggregate coverage.
- Obtain coverage for the labor expense invested in the store.
- Obtain coverage for the store equipment investment
- Obtain coverage for the store fixtures investment
- Obtain coverage for the computer software investment
- Obtain coverage for unemployment policy

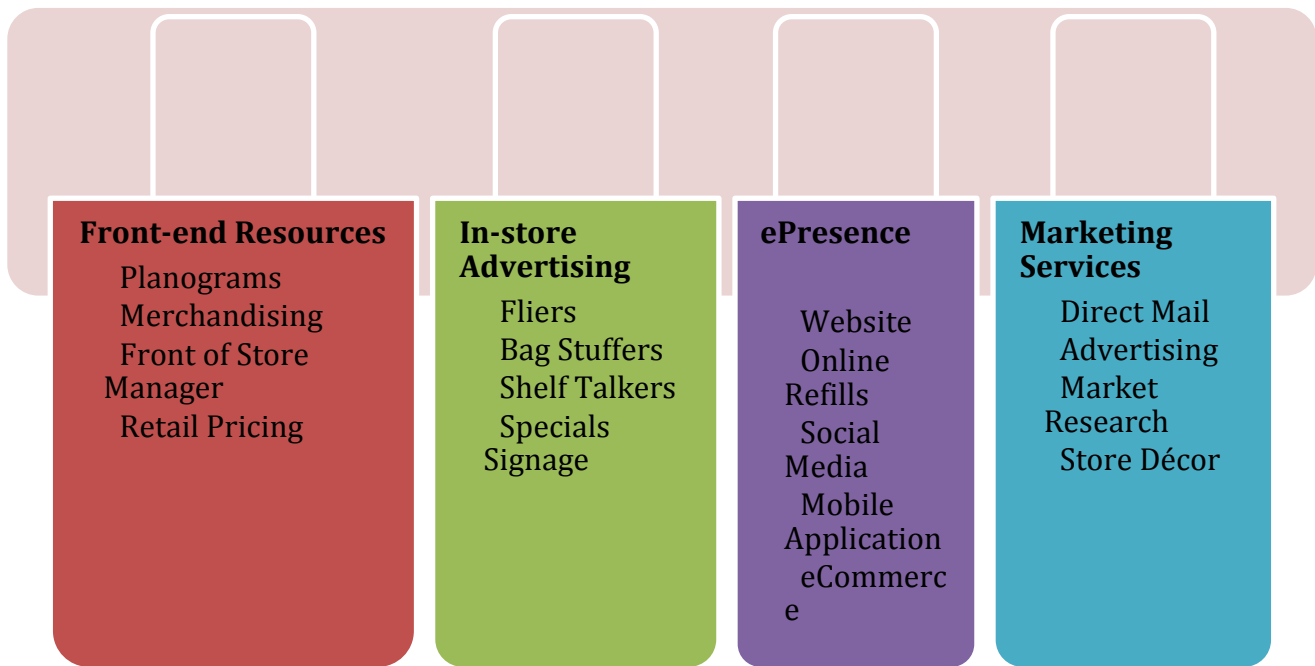
## Opening capital (example)

ITEM	DESCRIPTION	COST(\$)
<b>Building</b>		
Permits	Construction, including electrical, plumbing Architect drawing/building, plumbing & electrical permits, cost of building material and supplies	2,000
Construction	Bathroom refresh, drywall, electrical, plumbing, pharmacy and clinic sink, paint	25,000
Pharmacy/clinic outfit	Cabinetry, countertops, shelving, storage, medication fridge	20,000
Controlled medsafe	Purchase and bolted to floor	5,000
Shelving	Store perimeter wall	10,000-15,000
Signage	For exterior (marketing) and interior (location of products) Pharmacy drop off/pickup, outside boxed sign, in store signage	5,000
<b>Inventory</b>		
Rx and OTC	Brand and generic	80,000
Front end inventory	Household goods, food/drink, seasonal goods	40,000
Furniture	Waiting area	2,000
Pharmacy supplies	Vials, labeling, stationery, compounding supplies, paper	2,000
<b>Electronic</b>		
Electronic items	Computers, cash register, phone system, TV, fax machine Dispensing system, phones/fax/printer/cash register, ATM machines	15,000
Cable services	Comcast internet, phone (3 lines), TV services connection	500
<b>Other</b>		
Insurance	Building, workers comp, Professional Liability	250
Security	Gates for pharmacy, blinds for clinic, remote alarm, camera system	15,000
Advertising/Printing	Multi-language promo material, business cards, leaflets, patient education, newspaper advertisements (American, Chinese/Vietnamese papers), calendars/mugs/etc	4,000

Wholesaler:<sup>2</sup>

- TOP FIVE: McKesson, Cardinal, Amerisource Bergen, HD Smith, RDC
- Very important to choose the wholesaler that meets your business plan because the wholesaler is your main “business partner”; as inventory is the most expensive asset in your business
- Term: 1 year interest free. 6 to 9 payments begin after 3 months of opening order.
- Pay terms: weekly purchase due in 3 weeks/ monthly purchase due the 15<sup>th</sup>/ 1<sup>st</sup> through 15<sup>th</sup> due the 10<sup>th</sup> of next month and 16<sup>th</sup> through the end of the month due the 20<sup>th</sup> of next month.

If a wholesaler’s main consumers are chain pharmacies and they are limited to certain goods, the wholesaler will give those desired goods to the chain pharmacy over the smaller independent. This is because a chain pharmacy will order more inventory on a regularly basis than an independent. Independent pharmacies when ordering from a wholesaler that specializes in independent pharmacies are able to have an influence in what they can order and how often. For example, HD Smith is a wholesaler that specializes in serving independent community pharmacies (rather than chain pharmacies). There are services other than supplying a pharmacy with medications that wholesalers can provide to pharmacies. The following are examples of other services that can be used by independent pharmacies:



Temple University Pharmaceutical Wholesaler Presentation. Oct.-Nov. 2014. HD Smith.

Consult on 4 major areas of Pharmacy Operations:<sup>2</sup>

- Inventory Management
- Labor Management
- Growth (Sales/Keep current customers/New Customers)
- Third Party Management

3<sup>rd</sup> Party network contracting:<sup>2</sup>

- Rate negotiation
- Advocacy to plans (regional and national)
- Reimbursement support
- Proactive communications of plan updates
- Quarterly member newsletter
- Reconciliation Services
- Pre and Post Editing
- Central Pay

HD smith highlights important points when considering a wholesaler:<sup>2</sup>

- Big 3 Wholesalers- Publicly Held Companies- "Wall St"
- Independent Wholesaler- Privately Held
- Are they flexible, adaptable to your needs
- Do they care about your business and partner with you during tough times?
- Monthly minimum volume requirements?
- Response Time, Corp Hierarchy
- Dedicated HHC Field Reps
- Dedicated Generic Field Specialist
- Dedicated Front End Solutions, Field Retail OTC Manager
- Sales Reps- Are they a true business consultant looking out for your business interests?
- Deliveries- M-F, do they provide Sat? Add'l cost?
- Local CS Team
- Local Credit Team
- Senior Management Approachable

**State board requirements<sup>3</sup>**

- Minimum size of pharmacy area is 250 SQ FT.
- Work counter minimum 10 feet long and 2 feet wide.
- Pharmacy Dept. wall minimum of 50 inches high
- Pharmacy fridge with thermometer
- Phone line and fax line
- Pharmacy area and all work counters can not be approached by customers
- All pharmacy computer monitors can not be viewed by customers
- Pharmacy must have a sink with hot water
- Prescription files storage area/space (filing cabinet or drawers)
- Pharmacy must be secured

- Pharmacy Dept. must be completely sealed off if hours of operation differ from front store hours (by gate or glass)

**Philadelphia Requirements<sup>3</sup>**

- Emergency door exit in addition to main store entrance door
- Exit signs at all doors
- Fire extinguishers
- Door to pharmacy 36 inches wide (handicap accessible)
- Drop off and pick up windows 36 inches high (handicap accessible)
- Unless restroom is pre-existing, must be handicap accessible
- Operational sprinkler system if floors above (unless pre-existing condition)
- Operational fire alarm system
- All construction work must be done by licensed contractor
- Zoning permit
- Building permit
- Plumbing permit
- Electricity permit
- Store sign permit
- Architect drawings sealed by a licensed architect
- Food license needed for cold drinks, candy & chips (pre-packaged food)
- Corporate legal structure assignment
- All work specified in the pulled permits must be approved by city inspector prior to beginning the construction and must be inspected by the inspector at time of completion
- Once all work is completed, the city inspector will close all permits
- Store signage should not exceed more than 30% of store front area

**License<sup>3</sup>**

- EIN#: first ID number that should be obtained for the pharmacy
- NPI: second ID
- NCPDP: 3<sup>rd</sup> ID
- The State Board of Pharmacy application for a new pharmacy
- After passing state board licenses; on the same day want to do DEA application
- Third Party Provider applications

**Professional Relationships**

Prices of front-end items in independent pharmacies vary depending on the pharmacy but generally are close in price to chain pharmacies. The exception to this is when big chain

pharmacies have discounts, especially after holiday sales and discounts that can be given with having a loyalty card (i.e. CVS card). Some people think that chain pharmacies have cheaper prices but an independent pharmacy can have significant discounts as well.

As a new pharmacy owner, it is crucial to create a supportive and professional relationship with nearby doctors' office, nursing homes, hospices, senior centers, and pharmacies. As a new medical professional in the neighborhood, it is important for the pharmacy owner to personally introduce himself to the nearby offices. This creates a foundation for a future relationship and shows that you are interested in being part of the community's health needs. The pharmacy owner should bring a business card with his number or small pamphlet about the new pharmacy to show these offices so these offices can have a reference to look at it if needed. Also, it gives them a chance to familiarize themselves with the location and services that the pharmacy can provide to the community. It is important to also acknowledge the staff working in these offices, as many of the staff members may be the ones calling the pharmacy to relay messages from a doctor. The pharmacy manager should also introduce himself to the staff including secretaries so they can learn the pharmacy manager's name while also creating a warm environment. No business owner can truly be successful without having professional and positive relationships with other business leaders in the same field.

It is also important to introduce oneself to the local pharmacies. Although these pharmacies will view a new pharmacy as competition, it is professional and courteous to introduce yourself personally. This way, the existing pharmacies know where the location of the new pharmacy is and will not be surprised when they discover a new pharmacy near their own. Also, this creates an opportunity for future customers who cannot get a certain medication from one pharmacy to be sent by the pharmacist to the new pharmacy. Ultimately, as long as the patient's health needs are prioritized, then local pharmacies can work together to help each other when certain medications or other services are not available in one pharmacy versus another. A new pharmacy can also extend the offer to lend certain medications directly to an existing pharmacy if a specific medication is out of stock. The new pharmacy owner should tell the existing pharmacy to not hesitate to call about a patient's needs. This not only shows that new pharmacy owner is willing to lend medications, but it also creates the possibility of the other pharmacy offering the same in return. This will put the patient's best interests first and provide the basis of a helpful relationship between two pharmacies.

#### **Marketing research (interviewing local neighbors)**

From interviewing the local community, it was clear that there was a majority of individuals that only trust big chain pharmacies while a smaller amount preferred independent

pharmacies. It is interesting to note that another small subset of people regularly shop at both chain and independent pharmacies depending on convenience. This is one group that can have a significant impact on the success of a newly opened pharmacy by educating these people on the level of care that can be received from this new pharmacy. In addition, the people that only trusted big chain pharmacies viewed independent pharmacy as inferior as less appealing in terms of product variety and the professional environment of the physical store.

Furthermore, some independent pharmacies that were explored seemed to be crime ridden and unsafe. This was apparent from the location and the lack of appropriate investments in the interior and exterior appearances of the store. This included poor lighting where the store seemed dim, poorly designed signs, the lighting of the signs that were not fully working, the paint of the pharmacy seemed very old and peeling, the physical building seemed very old and vacant. These issues made the pharmacy seem unsafe especially in the evening hours. Also, this implies that the business is not successful which makes it less attractive to customers. In order to avoid this issue, a new pharmacy must give a warm feeling upon walking through the doors. This is only done by investing in the physical appearance of the store even the small details such as: good lighting giving an easily visible store, large signage with professional designs, clean floors and new paint and equipment.

There seemed to be a general stigma of independent pharmacies being smaller in size and not carrying all the front store items that someone may need including basic foods and drinks (such as milk and cereal), ATMs, shaving goods, hallmark cards, beauty supplies, and seasonal/holiday items. Moreover, people felt that there is less variety in the items that are available and therefore one cannot compare different prices or sizes a similar item.

Beyond the items in the front end of the pharmacy, people stated that independent pharmacies only stock basic medications and controlled narcotics in urban areas; this creates a view of unprofessionalism for independent pharmacies and mistrust in the pharmacist. Not having the appropriate medications presents a major concern in terms of time because then the patient has to wait up to a few days for a medication to be ordered or the patient must travel to another pharmacy (usually a chain pharmacy). Both of these scenarios were previous experiences from interviews that have led them to ultimately mistrust independent pharmacies and opt to only do business with chain pharmacies.

Some independent pharmacies take advantage of cash paying customers because there is more profit from patients who do not have medical insurance. However, other independent



pharmacies, including Pharmacy of America, only charge a minimum dispensing fee for cash paying customers. This service will create a foundation for the customer to return in the future and make this pharmacy his or her primary pharmacy.

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