

**YOUR COMPANY**  
**YOUR BOTTOM LINE**  
AMERICAN ASSOCIATED PHARMACIES **2018**



# RX INVENTORY

—

## How to Reduce Your Biggest Expense and Increase Profits



## **PRESENTER – EDUCATION & WORK HISTORY**

### **Wade Hinkle**

Bachelors in Finance from **Auburn University**

Hinkle Pharmacy (**9 years**)

Inventory I.Q. Co-Founder (**8 years**)

## **AVERAGE ROI ON MANAGING INVENTORY**

**\$60,000**

## **OBJECTIVES**

- **Explain** Cost of Inventory
- **Analyze** Buying Decisions
- **Implement** Perpetual Inventory
- **Describe** Inventory Management
- **Use** Measuring Tools

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# INVENTORY



ENHANCE PROFITABILITY, STREAMLINE OPERATIONS, AND IMPROVE THE QUALITY OF PATIENT CARE.

## **COSTS OF INVENTORY**

**Carrying Cost (CC):** all costs associated with carrying & maintaining inventory.

**20% - 30% PER YEAR**

Reference - NCPA Article "Managing Pharmacy Inventory" <http://bccpharmacytech.weebly.com/uploads/7/5/0/4/7504847/ownership-managinginventory.pdf>

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## **CARRYING COSTS OF INVENTORY**

- Insurance**
- Expired Drugs**
- Shrinkage**
- Opportunity Cost**
- Handling**
- Taxes**



## **COST OF CARRYING INVENTORY: EXAMPLE**

**\$100 (Capital Investment)**

**+**

**\$20-\$30 (Expense per year) = \$120-\$130**

**Or**

**2% Cost Per Month to Carry Inventory**



## **Costs of Carrying Inventory**

**2010**

**Sales = \$3,400,000**

**Average Inventory = \$250,000**

**CC (20-30%) = -\$50,000 to -\$75,000**

**2016**

**Sales = \$3,700,000**

**Average Inventory = \$170,000**

**CC (20-30%) = -\$34,000 to -\$51,000**

## **Costs of Carrying Inventory**

**Cash Flow Increased**  
**\$80,000**

**Profit**  
**\$16,000 - \$24,000**

## OWE TO FILL RATIO

2010

1.5%

2016

0.75%

## **BUYING DECISIONS**

**Cost to Carry Inventory**

**vs.**

**Cost of a Missed Sale**

**Inventory management**  
**is a BALANCING ACT**



## **BUYING DECISIONS**

**Cost of a Missed Sale - Profit on a sale**

**Average \$10 Profit per prescription**

**Cost of a Missed Sale = \$10**

## **BUYING DECISIONS**

**Only 10% of stock outs  
result in a missed sale.**

## Cash Flow & Profit Cycle - Standard Ordering

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Stock	No	Yes	Yes	Yes	Yes	Yes
Quantity on Hand	0	90	90	90	90	90
Customer Demand	90	0	0	0	0	90
Purchase	\$500	\$500	\$0	\$0	\$0	\$500
Cash	-\$500	-\$500	-\$500	-\$500	-\$500	-\$500
Action	<b>Sold</b>	-	-	-	-	<b>Sold</b>
Profit on Sell	\$10	0	0	0	0	\$10
Cost to Hold	0	\$10	\$10	\$10	\$10	\$10
<b>Total Profit</b>	<b>\$10</b>	<b>\$0</b>	<b>-\$10</b>	<b>-\$20</b>	<b>-\$30</b>	<b>-\$30</b>

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## Cash Flow & Profit Cycle - Proactive Ordering

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Stock	No	No	No	No	No	No
Quantity on Hand	0	0	0	0	0	0
Customer Demand	90	0	0	0	0	90
Purchase	\$500	\$0	\$0	\$0	\$0	\$500
Cash	-\$500	\$0	\$0	\$0	\$0	-\$500
Action	<b>Sold</b>	-	-	-	-	<b>Sold</b>
Profit on Sell	\$10	0	0	0	0	\$10
Cost to Hold	0	\$0	\$0	\$0	\$0	\$0
<b>Total Profit</b>	<b>\$10</b>	<b>\$10</b>	<b>\$10</b>	<b>\$10</b>	<b>\$10</b>	<b>\$20</b>

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## **BUYING DECISIONS – BAD DECISION**

- **Wipes out the profit on 3 prescriptions**
- **Reduce Cash Flow & Liquidity**

## **BUYING DECISIONS**

### **Expensive Items:**

- Schedule** Purchases
- Ask Patients** for 24 Hour Notice
- Use Adherence** Programs
- Call** Patients

## **BUYING DECISIONS**

### **Short Dated or Bulk Buys:**

- **Align purchases with Demand & Expiration**
- **Bulk Buy discount must exceed 2% CC**
- **Wholesaler Contract Restrictions**

## **BUYING DECISIONS**

**“Every buying decision, no matter how attractive, has costs associated with it. Pay attention and you will increase profits.”**

**Tanner Hinkle - Pharmacy Consultant & Inventory IQ Founder**

## **PERPETUAL INVENTORY**

**Where your pharmacy's software quantities on hand are updated on a continuous basis as you purchase and sell products.**

# PERPETUAL INVENTORY

## Benefits

- Improved Fill Ratio
- Inventory Transparency
- Reduced Expired Returns
- Cash Flow, Profit & Liquidity
- Customer Satisfaction
- EDI & Supplier Communication
- Reduced Overstock

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## **PERPETUAL INVENTORY – GETTING STARTED**

- **Count Inventory**
- **Update Quantities On Hand in Your Software**
- **Set Reorder Points**
- **Learn to Send & Receive Orders**
- **Manage Inventory**

# INVENTORY MANAGEMENT

## How to manage a perpetual inventory system

1. **Assign** an Inventory Manager
2. **Train** Staff
3. **Cycle** Counts
4. **Update** Reorder Points
5. **Monitor** Efficiency



## **INVENTORY MANAGER**

### **Qualifications:**

- Trustworthy**
- Dependable**
- Mathematically Inclined**
- Focused**
- Problem Solver**
- Curious**

## **INVENTORY MANAGER**

### **Optional) Reward Systems:**

- 1. Incentivize your inventory manager.**
- 2. Examples: Cash, off days, lunch, sporting event or movie tickets, praise, or anything else that is important to that employee.**

## **REORDER POINTS**

- Reflect current fill volume & trend
- Lead Time
- Expensive items use Just In Time Inventory
- High Frequency usage requires more Safety Stock
- Maintain consistency in approach

## MEASURING TOOLS

$$\frac{\text{Total Cost of Goods Sold}}{\text{Average Inventory Dollars}} = \text{Inventory Turnover Ratio}$$

## INVENTORY TURNOVER: EXAMPLE

**COGS (yearly)**                      **\$1,000,000**

**Average Inventory**                **\$100,000**

**Turns per year = 10.0**

Pharmacy National Average = **11 turns**

Reference - 2016 NCPA Cardinal Digest

## Measuring Tools

### Expired Drug Return Totals

The total \$ amount sent back to reverse distributors per year.

## **TIPS**

- Mark opened bottles (on stickers)**
- Make sure your techs are putting tape on packaged units or full bottles BEFORE they apply the label**
- If you have multiple brands under one NDC, use them!**

## **TIPS**

- Keep your inventory in alphabetical order**
- Train patients who are getting 90 day supplied medication to call ahead by one day.**
- Don't pack your shelves from top to bottom. Leave the top and bottom shelves empty if possible.**



## SUMMARY

**Manage your  
biggest expense  
properly and you  
will make more  
money!!!**



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## TEST QUESTIONS

- What is the approximate inventory carrying cost per month?
  - A) 3%
  - B) 2%
  - C) 4%
  - D) 10%

## TEST QUESTIONS

- What are key benefits derived from using a **perpetual inventory system**?
  - A) Reduced OverStock & Expired Goods
  - B) Increase Cash Flow, Profit & Liquidity
  - c) Improve Fill Ratio, Customer Satisfaction
  - D) **ALL OF THE ABOVE**

## TEST QUESTIONS

What's the current national average for **Rx inventory turnover**?

- A) **11 turns**
- B) **8 turns**
- C) **20 turns**
- D) **9 turns**