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community
pharmacist.

8 Tips for Managing Your Key Performance Indicators as You Prepare for the 2024 DIR Hangover

Ollin B. Sykes, CPA.CITP, CMA
Sykes & Company, P.A.
Ollin@sykes-cpa.com

Scott W. Sykes, CPA, CFP®
Sykes & Company, P.A.
Scott@sykes-cpa.com

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Pharmacist and Technician Learning Objectives

1. Describe your key performance indicators and how they relate to the overall health of your business.
2. Discuss current ratios and strategies for increasing your current ratio to 3.5 to 1.
3. List the three expenses that have the most direct impact on your cash flow.

#1 Fundamental Accounting



1– Fundamental Accounting

- Essential for understanding DIR impact
- Vital for understanding cash flow & management
- Inherent nature of industry requires sound fundamentals
- Proactive tax planning
- Key Performance Indicators (KPIs)
- Accounting is an asset





#1 – Fundamental Accounting

Key line items on a Balance Sheet:

- Cash
- Accounts Receivable
- Inventory
- Fixed Assets
- Liabilities/Payables
- Equity

#2 Diversified Revenue



#2 – Diversified Revenue

The pharmacy business model is changing

Maximize script volume *and* performance

Diversified and cash-based revenue streams

Cash based revenue → expand gross margins, improve cash flow, and your bottom line



#3 – Third Party Receivables



#3 – 3rd Party Receivables

- Key component of financial performance
- Unreconciled bank account
- Do you know how much is owed to you? Any given time? Is it accurate?
- Reimburse = adjudicate



Getting paid is of utmost importance!



#3 – 3rd Party Receivables



Identify payor trends



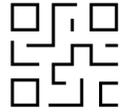
Capture DIR fees



Average AR days outstanding = **19-21 days**



#3 – 3rd Party Best Practices



Technology:

- Designated person
- Schedule daily updates
- Build relationship with your analyst



#4 Inventory



#4 – Inventory



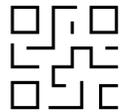
Key component



Largest expense in a pharmacy



Inventory management is ***crucial***



Stay abreast – technology



Set up and manage your perpetual inventory



#4 – Inventory

Understand your wholesaler vendor agreement

Average
turnover

11x

*Ideal
turnover*

20x

Inventory turnover = $\text{COGS} \div \text{Avg inventory}$

Average gross margin = 23% - 24%



#4 – Inventory

Financial analysis requires accurate inventory balances

Inaccurate inventory
on balance sheet

=

inaccurate margin
and net income

Inventory overstated by
\$50,000

=

net income overstated by
\$50,000



\$17,500 excess tax @ 35%

#5 Expenditures



#5 – Payroll

Second largest expense

Payroll < 10% is ideal

- Does not include benefits or payroll taxes

Examine all areas to minimize this expense:

- Technology
- Hours
- Rates
- Workflows





#5 – Owner Draws & Debt

- Balance sheet expenditures not reflected on the profit & loss
- Owner draws or distributions can be a significant source of cash flow drain



#6 KPI's



#6 – Ideal KPI's

- Inventory turnover 20X
- AR Third Party 19 - 21 days
- Current Ratio 2.5 / 1 but seeing this shift to 3 / 1 + for DIR Fee changes
- Equity to Assets 10 - 20% for newer pharmacies and 50% plus for mature pharmacies



#6 – Ideal KPI's

- Gross margin 23% - 24% +
- DIR Fees 3.5% - 5.5%
- Payroll as a % of Revenue < 10%
- Overhead as a % of Revenue < 8%
- Bottom Line – 3% - 7%

#7 Tax Planning



#7 – Tax Planning

Tax liability mitigation = Cash flow optimization

- Depreciation options
- Cost segregation studies
- Accounting method planning
- Retirement planning





#7 – Tax Planning



- Section 199A deduction
- State tax planning (PTE)
- R&D tax credits
- Employee Retention Tax Credit (ERTC)

#8 DIR Fees



#8 – DIR Fee Changes 2024

- DIR, “lowest net price”, will be reflected at the Point-of-Sale (POS) starting 1/1/2024 but retroactive fee collection is still allowed
- 2023 Retroactive DIR Fees will affect cash flow in Quarter 1 2024 – primarily March & April is the prediction
- Retroactive 2023 DIR with the reduced 2024 reimbursement will negatively impact cash flow



#8 – DIR Fee Changes 2024

Be mindful of these areas:

- Fundamental accounting
- Revenue & Expenses
- PSAO
 - Understand your current contracts
 - How they may change
 - What can you do to prepare?
- Mindset



#8 – DIR Fee Changes 2024

- ★ Implement DIR estimates in your pharmacy software
- ★ Med. Sync, Adherence, MTM, and knowing how the drug manufacturer impacts DIR is key





#8 – DIR Fee Changes 2024

- Patients who are eligible to switch plans at any time during the year (not just during open enrollment) should proactively switch to plans with no DIR fees or plans where the DIR fees are paid now rather than later to ease a cash flow problem.
- Shift your mindset!
- Networking
- Pharmacy owners stay **ENGAGED** with their DIR fee mitigation and understanding.



#8 – DIR Fee Changes 2024

- Estimating cash flow crunch:
 - 2023 January – May trimester DIR fees x 2.5

Embrace the OPPORTUNITY!





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