Improving business performance through measurement - **Part Two**

In the first part of this article we examined the performance appraisal process and how lead and lag indicators can be used to drive better business performance. We will now discuss three essential lag KPI's and the lead indictors and actions that can be implemented to improve them.

Stuart Fitzgerald, Fitzgerald Power

Lag KPI #1 - Revenue growth rate: the rate by which turnover has increased or decreased over a defined period.

The following are three **lead indicators** that can be used to predict turnover growth rate:

- **Overdue patient value:** how many times has a patient visited the pharmacy in the last year, what is the total turnover value of these visits and how long has it been since their last visit?
- **Item number trends:** this is a historic measure but one that can be used to predict turnover performance. How many items have been dispensed this week compared to the same week last month and how many items have been dispensed this month compared to the same month last year? Benchmarking tools can be used to measure performance against sector averages.
- **Sales value, profit value and fee per item:** what is the average sales value of dispensed items and what is the profit per item if expressed as a flat fee? How does this compare to local competition and sector trends? Medicine pricing structures should be tailored to different product types and local environmental factors.

The following **actions** could be taken to improve these lead indicators:

- **Overdue patient value:** undertake patient care calls to overdue patients to discuss their medications requirements and other relevant healthcare matters.
- **Item number trends:** the first action is to understand what is behind the trend. For example items may have been lost to a local competitor due to convenience or because of dispensary waiting times. An action that could be taken is to redesign the dispensary to improve the flow. Another is to upskill technicians to reduce waiting times and allow the pharmacists more time with patients.

Note: Items (particularly for acute conditions) might be down because of wider societal factors such as a period of Covid lockdown. Developing tactics to deal with these types of factors is not straightforward.

- **Sales value and fee per item:** we recommend regular reviews of pricing structures. Profit per item should be expressed in flat fee terms and compared to local competition. We are constantly surprised by how often we see blended flat fees below €7 in towns where local competition does not demand it.

Lag KPI 2. Gross profit margin rate: the percentage of turnover that results in profit before administration expenses are deducted.

Some of the **lead indicators** that can be used when assessing gross profit margin rate include:

- **Generic and parallel import penetration rate:** what proportion of dispensed items are generics where a generic medicine is available? Is the 'Preferred Generic' dispensed allowing for availability? Are PI's dispensed, where possible, for medicines that are still patent protected? What are the trends over time and are improvements being achieved?
- **Retail pricing:** what margin is being achieved on OTC medicines and retail lines? Are staff marking up stock at the correct rate? How do prices compare to local and online competitors? Does inventory include low profit lines or slow moving stock that do not generate sufficient return?
- **Procurement efficiency:** are all available procurement deals availed of? Is the principal wholesaler on same month payment terms? Free stock rate is a key gross profit driver. If average sector performance is not being achieved we need to ask why.

Some of the following **actions** could be considered:

- **Generic and PI penetration rate:** identify medicine types where generics and PI's are not dispensed and switch where possible. There are several ways of doing this. One is to export the medicine usage report from the PMR system into excel sorting medicine types between brands, PI's and generics focussing on the high volume medicines first. Another is to use a business intelligence tool to do this work automatically and the third is to speak to the franchises, symbol and buying groups who will do this analysis to validate the gains that can be made from joining them.
- **Retail pricing:** EPOS systems will display accurate margin per retail category once product costs have been updated to net-net prices. Focus on the underperforming lines and investigate what is causing underperformance. Is this due to mark-ups being incorrectly calculated or are we trying to compete with a supermarket at a price that just doesn't yield a return? Increase prices where possible.
- **Procurement efficiency:** free stock rate is the ultimate measure of procurement efficiency. To ensure the free stock rate improves pharmacists should engage regularly with generic, PI and OTC companies to ensure they are getting the best rebate and bonus stock deals. Statements from these companies should be reviewed monthly to ensure all agreed upon deals are received. Wholesalers should be paid same month where cash flow allows to maximise settlement discounts.

Lag KPI 3. Labour to turnover rate: the percentage of turnover that is spent on labour costs.

The **lead indicators** that affect this metric include:

- **Labour cost per RX and retail item:** this is the total cost of labour for dispensary and retail staff divided by the units sold in each category.
- **Salary competitiveness:** this is calculated by dividing the salary paid by your company for a particular grade of staff by the average salary paid by the sector for the same grade of staff. This can also be calculated against local competitors by substituting competitor salary levels for sector averages. A score of 1 means you are in line with the sector, less than 1 you are below market rates and greater than 1 you are above market rates.
- **Employee satisfaction and churn rate:** satisfied employees will work harder, engage with your strategy better and will be less likely to leave. A high employee churn rate leads to additional labour related costs such as recruitment fees and can also lead to customer dissatisfaction.

The **actions** we might take to improve labour costs to turnover are:

- **Labour cost per RX and retail item:** redesign the dispensary to ensure a more efficient flow. This links to the example given in relation to item number trends. If items are up and patient waiting times are down the labour cost per item must be falling on the basis that headcount and rates of pay are unchanged. Where this isn't possible, or even where it is, looking at the staff mix might help to improve the labour cost per RX item. This might mean upskilling technicians to reduce the burden on your pharmacists.
- **Salary competitiveness:** the action here is clear. If you are overpaying staff you need to try to find rate of pay reductions where possible, which clearly isn't straightforward! If the opposite is true you need to consider wage increases or you may risk losing key staff members.
- **Employee satisfaction and churn rate:** much like customer satisfaction audits employees can and should be canvassed for their opinions and to gauge their satisfaction. Engaged, happy employees who buy in to your objectives will contribute in a meaningful way to your business. Unhappy employees will ultimately leave and may be a disruptive influence before they do.

Once you have set your strategic objectives, your targets, the actions you will take to achieve these targets and your lead and lag indicators you should develop a system for recording your performance. This system needs to be clear and logical and capable of tracking performance over time. There is no point going to the trouble of producing lead and lag KPI's and setting actions if you can't link these actions and measures to outcomes.

There are excellent business intelligence systems available which will calculate a number of the most important lead indicators such as generic penetration. Online accounting solutions will produce lag KPI's like gross profit margin performance.

There is however no complete system that links these measures together, showing the impact of actions on year end net profit. It is therefore up to individual operators to develop their own system.

The software you use isn't important, and excel is more than sufficient, but what is important is that information is compiled regularly in a format that clearly demonstrates the impact of your actions.

It is a process that needs to be constantly refined. Making these links isn't always easy. Measuring the impact of private flat fee increases is straightforward but a former customer may return to your pharmacy for a variety of reasons that may or may not include your improved dispensary layout and sometimes it is the combined impact of multiple small actions that ultimately delivers positive change. In the customer acquisition example you might employ another simple measure such as asking the patient why they have returned to your pharmacy to try to isolate the gains you have realised from improving the dispensary flow.

Think back to the weight loss example from part 1 of this article. The ultimate outcome was easily measured by standing on the scales at the end of the month, but assessing the impact of our actions by measuring calories burned and consumed is much more difficult. Difficult as it may be, these are the measures we must get to grips with if we want to make a positive change. Sometimes it can be instinctive. I know I'm on the right track if I order a salad rather than a burger for lunch and go for a run this evening rather than sitting on the couch with a glass of wine. If I do these things consistently I'll probably reach my goal but actually tracking my progress will help to keep me motivated and will ensure my analysis is accurate.

When you begin to expand that concept out and apply it to business performance appraisal you realise that managing by instinct is very risky. There may be 15 or more key measures, including lead and lag KPI's, which you should consider when running your pharmacy. Trying to do so without a system to track your progress will lead to errors and incorrect analysis. Proper systems and accurate analysis on the other hand can lead to much better outcomes.

If you would like to discuss the matters raised in this article, please contact Stuart Fitzgerald of Fitzgerald Power at 051-870152 or sfitzgerald@fitzgeraldpower.ie.