

# Cost of Dispensing

One definition of "profit" is the money difference between what it costs to produce and sell a product and the revenue from its sale. In the pharmacy, knowing your cost of dispensing is an indispensable tool in maintaining or improving cash flow and profitability,

To determine the cost of dispensing, the pharmacy owner or manager needs to conduct a departmental cost analysis that assigns direct costs and allocates indirect costs to the prescription department. The total cost allocated to the prescription department divided by the number of prescriptions dispensed is the average cost of dispensing. This average cost of dispensing is the average amount that it costs the pharmacy to dispense a prescription.

## Cost of Dispensing Formula

$$\text{Cost of dispensing} = \frac{\text{Total annual costs allocated to prescription department}}{\text{Total annual number of prescriptions dispensed}}$$

Cost of dispensing includes all direct costs (e.g., prescription bottles and labels, delivery service, and pharmacy computer expense) related to operating a prescription department and a share of the indirect costs. The share of indirect costs (e.g., rent, salaries, and advertising) is estimated by allocating a portion of the cost to the prescription department. There are multiple methods that can be used to allocate costs. Although there is no universally accepted method for allocating indirect costs, the basis of allocation should seem logical. In pharmacy, the following methods have been used to allocate indirect expenses:

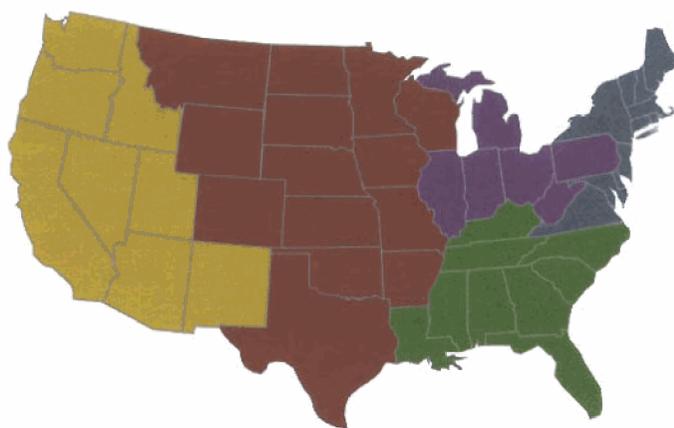
- A percentage of prescription sales to total sales
- A percentage of prescription department square feet to total square feet
- A percentage of prescription department inventory to total inventory
- A percentage of time the asset is used for the prescription department activities to total time used.

Pharmacy owners and managers can select one method to use or they can use multiple methods to allocate indirect expenses. Having classified all costs and allocated them to

the prescription department, the cost of dispensing can be estimated. As previously stated, the cost to dispense a prescription is found by dividing the total cost of operating the prescription department by the total number of prescriptions dispensed.

## NCPA-Pfizer Digest Analyses

We used the *Digest* data to calculate cost of dispensing for 2005. It is important to note that this calculation only covers the cost of dispensing and does not include a profit. The 2006 *Digest* pharmacy's cost of dispensing is \$10.53, up from 59.24 last year. Expenses increased as new personnel were added, stores were kept open longer hours, and pharmacists provided value-added services, like educating patients about Medicare Part D. So while expenses increased, the small increase in prescription volume did not offset the increase in expenses, resulting in a higher cost of dispensing. We also calculated the cost of dispensing in various geographic regions, as shown below. The West region has the highest cost of dispensing at \$11.18, and the West Central region has the lowest at \$9.52.



- West = \$11.18 (AK, AZ, CA, HI, ID, NV, NM, OR, UT, WA)
- West-Central = \$9.52 (AR, CO, IA, KS, MN, MO, MT, NE, ND, OK, SD, TX, WI, WY)
- East-Central = \$9.80 (IL, IN, MI, OH, PA, WV)
- Northeast = \$10.19 (CT, DE, DC, ME, MD, MA, NH, NJ, NY, RI, VT, VA)
- Southeast = \$9.71 (AL, FL, GA, KY, LA, MS, NC, SC, TN)

If a pharmacy is to make a profit, the reimbursement rate or the price charged must cover the product cost, the cost of dispensing, plus a surplus for profit. Thus, for pharmacy owners and managers to make sound business decisions on whether to accept a contract or not, they need to know what it costs them to dispense a prescription. It is suggested that pharmacy owners estimate their own cost of dispensing and then carefully evaluate each third-party contract before signing it. Additionally, all usual and customary charges should include the cost of dispensing, and pharmacy benefit managers should reimburse to cover cost of dispensing.