FINANCIAL TIPS FOR TREATING THE DIR HANGOVER

1. Planning for the 2024 pharmacy DIR fee changes to your cash flow is going to start with how well you understand your cash flow. Your very first step to preparing for DIR fees begins with your accounting fundamentals. Once those are in place, you'll be able to clearly track your pharmacy cash flow and performance which will allow you to better plan and prepare where needed.
2. There are many key performance indicators, or KPIs, in pharmacy. One cash flow KPI is the Current Ratio, which is current assets divided by current liabilities. How you classify those current assets and liabilities is vital to an accurate ratio. The industry average is around 2.5 to 1, so $2.50 of cash, receivables, and inventory for every $1 of current debt. It would be wise to, No. 1, know your ratio (see previous point) and, No. 2, aim for a 3 or 3.5 to 1 current ratio going into 2024. This would give you a cash flow cushion to hopefully weather any DIR unknowns.
3. Speaking of KPIs, your gross margin (revenue minus cost of goods sold) is your No. 1 KPI. The average pharmacy gross margin is anywhere from 23 to 24 percent. Increasing this margin will go a long way to improving your cash flow. Profitable top-line revenue growth is key to maximizing your gross margin. Find niches or services such as clinical services, functional medicine, niche over-the-counter, point-of-care testing, etc. Finding areas that you can take advantage of to help serve your patients and your community will go a long way to improving your margin and cash flow. You already did it with the successful implementation of the vaccines and point-of-care testing, so no reason you can't keep it up!
4. Obviously, your expenses are key when maximizing your bottom line and cash flow. Your time is best spent focusing on the expenses that will move the needle: cost of goods sold, wages, and DIR fees. Maximizing your purchasing with your Prime Vendor Agreement (PVA) with your main wholesaler or buying group can add several percentage points to your margin, and that is a lot of money. Your wages should be under control with technology, automation, and efficiency. Many pharmacies run payroll very lean and effectively, and you can too. Lastly, DIR fees are the third largest expense in a pharmacy. Although there is not much you can do, what you can do does move the needle. Other pharmacies engaged with their DIR fees outperform industry averages.
5. Working with your PSAO is also encouraged. Build a relationship and inquire about your contracts and how they will be changing going into the year. Set up your DIR fee estimates in your pharmacy system and be proactive with the scripts you are filling.
6. All roads of change have led pharmacy to where it is today. As a pharmacy owner, the rubber meets the road in 2023. Get your accounting fundamentals updated so you know your cash flow. Find that extra source of top-line revenue, other than one impacted by a PBM. Focus on those three expenses and maximize what you can control. And lastly, have the mindset that you can do it, because you've already proved during the pandemic that you can. That four-prong approach is going to help take you, your pharmacy, and the industry to the next level.
7. A line of credit can be a useful tool to have available for those very short-term, unforeseen cash flow issues. When you don't need it is when you should be inquiring about access to a line of credit. With that said, these can be dangerous cash flow tools in a pharmacy. Lines of credit are short-term, usually higher-interest debt and are usually subject to being paid out annually for 30 days, which can cause a major disruption for the pharmacy. These are not mid- or long-term debt cash flow solutions for a pharmacy and should not be relied upon for those needs. Any time access to a line of credit is utilized, there must be a plan in place on how and when it will be paid back. Long-term cash flow issues within a pharmacy should not be utilizing short-term debt solutions such as a line of credit.
8. For those PSAOs that escrow certain fees, including DIR fees, this obviously has an impact on cash flow as this occurs (and this provides some degree of "cushion" for the future). For those PSAOs that do escrow, it would be helpful for a pharmacy owner to grasp what has been escrowed and what traditionally the outcome has been once the escrow is ultimately adjusted and paid out.