



SmallBusiness

FACT SHEET: Key Performance Indicators – Ratios

It should be noted that ratios calculated from financial information are not inflexible determinants of success or failure but rather represent indicators of performance at one point in time. It is suggested that ratios be considered as a group rather than separately.

Essential Financial ratios that every pharmacy should consider are:

Ratio	Meaning
Sales per square metre (Annualised Sales/m ²)	Measures the amount of sales for each m ² of the pharmacy.
Gross profit (Gross Profit/Sales)	Measures the gross profitability of each dollar of sales.
Net Profit (Net Profit + Interest + Tax/Sales)	Measures the net profitability of each dollar of sales before interest and tax.
Wages per Sales (Wages/Sales)	Measures the level of wages compared to sales.
Sales per hours opened (Average Sales/Hour Worked)	Provides a dollar value of sales for each hour the pharmacy is open.
Operating Expenses (Operating Expenses + Interest/Sales)	Provides a percentage of operating expenses to sales.
Rent & Outgoings (Rent & Outgoings/Sales)	Provides a percentage of rent to sales.
Current Ratio (Current Assets/Current Liabilities)	A measure of the entity's ability to satisfy its obligations in the short term. A rule of thumb is that the current ratio should be at least 2:1.

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Ratio	Meaning
Debtors' Turnover (Net Sales/Average Debtors' Balance)	A measure of how many times the average debtors balance is converted into cash during the year. The higher the ratio the better.
Inventory turnover (Costs of Goods Sold/Average Inventory Balance)	A measure of the adequacy of inventory and how efficiently it is being managed.
Debt Ratio (Total Liabilities/Total Assets)	A measure of the relationship between total liabilities and total assets.
Equity Ratio (Total Equity/Total Assets)	A measure of the relationship between total equity and total assets.
Asset Turnover Ratio (Net Sales/Average Total Assets)	An indicator of long-term stability of an entity. An analysis of the entities ability to use its assets during a period.
Return on Assets (Earnings Before Interest & Tax/Net Assets)	A measure of the rate of return earned by management through operations activities.
Gearing Ratio (Total Liabilities/Total Equity)	A measure of the relationship between total liabilities and total equity.

The Guild Digest is an annual survey of community pharmacy operations in Australia. It is an extensive publication offering representative and accurate statistics on community pharmacy performance. It is a valuable and powerful tool for financial and operational benchmarking, based on selected variables such as turnover, location or volume of prescriptions dispensed
<http://www.guild.org.au/issues-resources/guild-digest>

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