



SmallBusiness

FACT SHEET: What affects the value of a pharmacy?

Even though each pharmacy business is unique, the concepts of a pharmacy valuation are similar. A pharmacy is valued using one of several methods. Most commonly, valuations are determined by applying a multiple (a capitalisation rate) to the adjusted annual profit of the pharmacy.

There are many factors which affect the Capitalisation Rate and therefore the value of your pharmacy. These include:

- Demographics
- Size
- Location
- Potential for growth
- Competition
- Proximity to Doctors
- Opening hours
- Staffing
- Lease
- Fit out

Demographics

The location of the pharmacy determines who your customers are and how often they shop at your business. Changing demographics can also affect the potential for growth in the business. For example, new housing subdivisions mean new people moving to your catchment area which should lead to increased sales.

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Size

The turnover of the pharmacy can impact on its value, particularly as there are certain fixed costs of running an average sized pharmacy. The concept of economies of scale can be applied to a pharmacy business whereby the ratio of running costs (lease, utilities, wages, insurance etc) to gross turnover impact on the business' value.

Location

The location of a pharmacy typically defines its type as either a medical centre pharmacy, shopping centre pharmacy or stand-alone pharmacy. In each situation, the location and therefore the type of pharmacy is taken into consideration when valuing the business.

Potential for growth

In addition to the impact that location and changing demographics might have on a business, growth might be achieved through active measures such as training staff in retail selling, stocking products to suit customer demographics, such as mobility products, or employing specialist staff to service your market, such as a naturopath or baby health nurse.

Competition

The concept of competition when determining the value of a pharmacy goes further than identifying the number of competing pharmacies located within a given radius. Competition must also take into account the number and type of businesses that are located near the pharmacy which also stock product lines that are not pharmacy specific.

Proximity to doctors

The proximity of a pharmacy to doctors can add value to a pharmacy. By being located beside a doctor's practice or medical centre, a pharmacy can expect a significant number of patients to frequent their business. A pharmacy that is instead located even a block or two away from a medical practice will find customers will use other pharmacies for a variety of reasons.

Opening hours

A pharmacy's opening hours can impact on its value in a number of ways. A pharmacy that has the same profit as another but has fewer opening hours is likely to have a higher value.

Staffing

The employees of a pharmacy affect the value of a pharmacy in several ways. They are essential for the business to open each day and operate. They also contribute to one of the larger cash outlays for the business. As a consequence, pharmacies that are overstaffed for both their size and turnover will find their value affected.

Retail lease

The lease is one of the most crucial factors on the valuation of a pharmacy business. The ability to continue to trade from your current premises is very important. Leases with

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significant periods until their expiration are more favourable to both banks and purchasers. Leases with short timeframes until expiration add uncertainty to the pharmacy's ability to renegotiate a new lease with suitable conditions. There are substantial costs involved in moving a pharmacy and so this needs to be factored into any value, if applicable.

Fit out

The age and quality of a shop's fit out is also an impacting factor. Old and tired fit outs mean that potentially in the short term funds will be required to redo the interior of the shop. Potential purchasers will consider this when assessing the value of a pharmacy.

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