

The 80/20 Rule: Can Your Pharmacy Make More \$ with Less?

Are you a follower of Pareto's Law? If not, it might be time to become one.

Pareto's Law, or more accurately, The Pareto Principle, tells us that 20 percent of our customers represent 80 percent of our sales. Also, that 20 percent of our efforts produces 80 percent of our results.

Does this apply to community pharmacies? Absolutely, says pharmacy researcher and strategist Lester Nathan, MS, in a [Pharmacy Times](#) column, who points out four prospective outcomes for your pharmacy's future, based on Pareto-influenced strategies. It's based on "how you differentiate your pharmacy."



The Pareto Principle is based on observations from the Italian economist Vilfredo Pareto, who, in 1906, found that 80 percent of land in Italy was owned by [and profited] 20 percent of the country's population. His observations have since been accurately attributed to modern day businesses, including independent pharmacy.

According to Nathan, the Pareto Principle suggests that:

- About 80 percent of profits come from 20 percent of patients
- About 80 percent of gross profits come from 20 percent of your space
- And, approximately 80 percent of your sales come from 20 percent of your assortment [of products and services]

Pharmacy Business Choices and Results

Nathan, in his research, identifies scenarios specific to independent pharmacy and associated successes and failures. His findings surmise the following:

High Margins + High Volume: Nathan considers this choice the most profitable one with "least stress," which involves strategic marketing know-how (likely a market-oriented organization approach that builds business models that consider all consumers, channels, and suppliers in planning). Nathan cites that pharmacies that choose this path have produced gross profits "in excess of 60 percent" and "net profits of about 25 percent." He credits a pharmacy's ability to staff more team members, delegate responsibilities, and take the onus off pharmacy owners needing to directly work in the business 24 x 7.

High Margins + Low Volume: This, according to Nathan, is the next best place to be with respectable profits and low stress. This also relies on choosing and developing the right fit in business models. This is where you could be with few, if any, headaches, and totally devoid of stress. Your profits are

significantly high when you embrace the recommended business model, just not as high as with high margins, high volume.

Low Margins + High Volume: Nathan also looks at this business model, which is what many independent pharmacies use today. He observes that pharmacies in this scenario are seeing shrinking profits and experience higher stress in managing the business's financial results.

Low Margins + Low Volume: This is where pharmacies **do not** want to be, says Nathan. It indicates the wrong fit in business models. He suggests looking at your [Standards of Excellence](#) statement (particularly about gross profitability) to make decisions on how to move up from here.

How can your pharmacy make the right business choices? Similar to what we have mentioned before, Nathan suggests considering the following for your product and service lines:



Compounding: Customized medication compounding is a way to combat one-size-fits-all business blunders. Nathan reports that pharmacies that are successful in compounding often do it on a cash basis with margins of 85-87 percent. Pharmacies that do this often use this strategy in high income areas.

Nutraceutical Products: High-quality, reasonably priced nutraceuticals are a marketing star product (high growth and high margin) that draws business away from big box stores (where top brands are often unavailable). They're another attractant in higher income areas.

Information Dispensing and Fee for Service Offering: Information is almost as good as the prescription. Package your knowledge and information on chronic diseases and solutions, then provide it to your patients — you can even automate this information distribution through the web or social media (read: write it once and benefit continually). Your expertise will help keep consumers coming back to your pharmacy. It's a marketing tool that keeps on working for you.

The Right Marketing Approach: Remember when we talked about the market-oriented organization? This is where this approach comes in handy. When you build your

marketing strategy based on your consumers, channels, and suppliers — at all levels — you're constantly offering value beyond the prescription fill, which can lead to more prescription fills and pharmacy visits.

The right marketing strategy can transform you into the source where consumers come to validate (or double check) information they found online. And, once they're through your door, you can offer them

the solutions they're in search of. Your expertise and offerings are the key to differentiating you from the big box store across town, mail order or a competitor down the street.

Closing Thoughts

While the 80/20 rule (the Pareto Principle) seems simple, it takes a solid understanding and marketing strategy to implement and succeed. But you're not alone in this effort. We're dedicated to helping you understand the nuances of successful marketing to maintain the health of your patients, keep your stakeholders satisfied, and improve your pharmacy's bottom line. Just ask us and we can help.

If you're not a Keystone member yet, join us. If you are a member, make sure you're leveraging your benefits and maximizing your pharmacy's success. You can contact Keystone via email info@kpparx.com or by phone 215-464-9892.