

# Pharmacoeconomics and Management in Pharmacy IX

[John Vella B.Pharm.(Hons.) M.Sc.(Pharmacoeconomics)]

# News review

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# Unfounded statements

- One of the major drawbacks in the local field of pharmacy and medicinal data
- No reliable or credible figures for basic fixed points such as global market size, private and public shares, community pharmacy retail sales and splits of the pharmaceuticals consumed
- Most data is that available externally, from the ECB and WHO

# A lack of facts

- Statements are made without being substantiated by hard fact
- The consumer is right to complain as the market for medicines is complex and murky at best
- Locally, the dearth of information and public knowledge works against the pharmaceutical business in general

# Asymmetrical information

- In economics, the market for pharmaceuticals is termed as asymmetrical
- This is because one party to the transaction has more knowledge about the subject matter than the other involved
- In this case, the pharmacist and/or physician is specialised in the his/her professional scope, whereas the average patient has limited or no knowledge

# Abuse and ethical behaviour

- This asymmetry can lead to a situation where monetary gain outweighs concerns for patient welfare
- Hence the development of checks and balances in the form of legislation and codes of ethics
- A pharmacist (and any other health professional) thus must rely both on pharmaceutical knowledge and also maintain high standards of moral equity

# Ethics and pharmacy practice and administration

[John Vella B.Pharm.(Hons.) M.Sc.(Pharmacoeconomics)]

# The eternal challenge

- Running a pharmacy poses an ethical dilemma, whether in private enterprise or in public service
- A constant push and pull scenario between the twin motivators of professional duty and profit concerns



# Conflicts of interest (i)

- Most pharmacists who work in retail pharmacies have a serious potential conflict of interest.
- On the one hand, they are professionals, expected to be knowledgeable about drugs and to dispense them in a responsible and ethical manner. On the other hand, their income depends on the sale of products.

# Conflicts of interest (ii)

- Conflicts also exist within the detailing community as there is the temptation to misrepresent and over-promote one's product over a competitor
- Inappropriate incentives may also be forwarded to pharmacy managers and physicians alike

# Conflicts of interest (iii)

- A variety of inducements are offered to pharmacists in an effort to favour one product over another
- Trade discounts, free gifts, paid for holidays and under the counter payments are common practice
- Drawing the line between the acceptable and the offensive is difficult

# Ethics and practice

- When faced with a tricky situation, one must always ask the question:
- “Can this mode of action be morally justified?”
- If not, any pharmacist professional must refuse to proceed

# Major ethical practice principles



- Beneficence
- Justice
- Utilitarianism
- Confidentiality

# Beneficence

- Do not harm
- Maximize possible benefits
- Minimize possible harm
- Direct benefit to subject
- Overall benefits to society

# Justice

- Fair distribution of benefits
  - Equal shares
  - Equal individual need
  - Equal individual effort
  - Equal societal contribution
  - Equal merit

# Utilitarianism

- Acknowledges that the pains of some may have to be accepted in particular situations in which the best realisation of value for everyone affected makes them unavoidable
- Greatest good for the greatest number
- In some cases, costly treatment for a few must be refused to enable a cheaper intervention affecting a larger number of patients



# Confidentiality (i)

- The importance of the patient being able to trust their health care provider to not reveal personal and private information without the person's permission
- Building trust in your local pharmacist leads to the development of a mutually rewarding professional relationship
- A common deficit is the superficiality of the pharmacist/patient exchange

# Confidentiality (ii)

- Goal: Accurate diagnosis depend on a complete history
- Goal: Society benefits, such as with reported diseases, by protecting others, as in the case of polio, chicken-pox or HIV
- Epidemiological data is vital to the constant monitoring of trends in the geographical and temporal spread of disease

# Justification of confidentiality breach

- A threat to the patient
- A threat to other unidentified persons
- A threat to some other specific individual
  - EX: Child abuse and specified contagious diseases
- When benefits from the breach outweigh the “wrong” to the patient
- E.g. saving a life requires informing the patient’s family about an extra-marital relationship

# The role of the pharmacist

- An oft-quoted phrase
- What does it really mean?
- How can we explain it to aspiring pharmacists, to the general public, or even to ourselves?
- This must first be defined before we can tackle the functions of a pharmacist within the context of a pharmacy environment

# The basic fundamentals of pharmacy administration

[John Vella B.Pharm.(Hons.) M.Sc.(Pharmacoeconomics)]

# Pharmacist duties

Main Functions

Pharmacy Professional

Administrative Duties

Financial Responsibility

# Main pharmacy practice settings

- Community pharmacy
- Hospital pharmacy
- Detailing
- Regulatory
- Academic

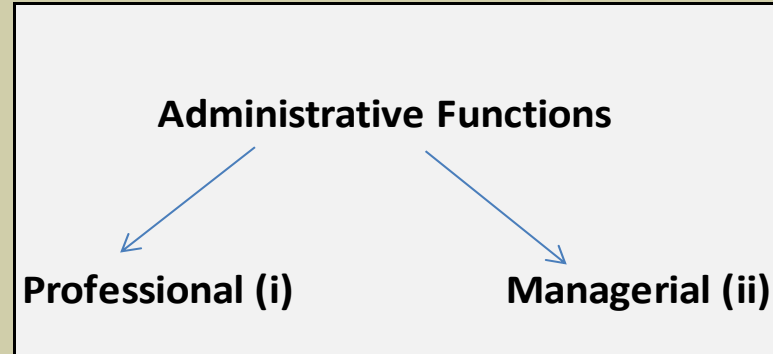
# A varied skill-set

- In all settings the pharmacist must exercise a multi-disciplinary set of skills
- Administrative (& financially relevant) and professional decisions must be taken
- This section will focus on the administrative functions of the pharmacy profession, with particular relevance to a community and hospital setting



# Introduction (i)

- Administrative functions within a pharmacy setting can be further divided into two:



- (i) is always applicable, whereas (ii) is post dependant

# Introduction (ii)

- The distinction applied here between professional and managerial functions is arbitrary as there is significant overlap between the two
- However this sub-division enables us to put down on paper a highly complex and intertwined set of responsibilities

# Introduction (iii)

- One of the basic problems identified in multi-personal environments is the lack of a clear definition of each employee/unit's global responsibilities
- This lack of defined responsibility leads to a lack of accountability as deficiencies cannot be transparently and fairly attributed

# Introduction (iv)

- Locally, the opposite problem is evident
- Most small to medium scale pharmacies have one pharmacist present, possibly with a full- or part-time sales assistant
- This leads to the necessity for the execution of multiple roles concurrently
- Such a function can only be carried out with the right training and internship

# Multi-tasking (i)

- This is an essential in the local environment
- Retail considerations, patient welfare, the dispensing of POYC medicinals, stock control and ordering all vie for attention
- In some cases the roles of stock placement and cash point reconciliation are also necessary

# Multi-tasking (ii)

- A pharmacist with a restricted skill set will never be a top community professional
- A grounding in management, both financial and inter-personal is vital to avoid errors in the initial stages
- A major deficit is that most pharmacists are becoming too tightly focused and losing interoperability across various disciplines

# Time management

- In a situation where a multitude of factors demand a pharmacist's attention
- Prioritisation of the most relevant tasks is essential
- Apart from the daily fixed duties, two or three tasks a day must be allotted, and in that manner all the vital duties are carried out over the course of the week

# Delegation

- In a multi-person environment, delegating less important tasks is vital
- Micro-management will lead to an archaic and very slow moving system of management
- As the pharmacist in charge of a community or hospital pharmacy, team-building and concerted efforts are vital



# Interpersonal skills (i)

- These are vital, for two main reasons
- Firstly, the pharmacist must be able to sustain an agreeable relationship with patients, whether within the context of a private retail outlet, or a public sponsored healthcare centre
- Patient satisfaction is imperative in both situations

## Interpersonal skills (ii)

- Secondly, inter-staff relationships are vital
- All members must be treated equally, with praise being given where required, and criticism applied judiciously
- It is vital to point out unacceptable behaviour immediately, otherwise it may become habitual
- Improvement must be noted and the staff member encouraged

# Interpersonal skills (iii)

- Preferential treatment towards a particular member of staff must be avoided at all costs
- This will only lead to behind the scenes bickering and a high staff turnover
- Regular staff get-togethers, on a work and also a social level help identify potential conflicts and possible remedial action/s early on

# Professional Duties (i)

- The discharge of all functions related to the pharmacist's role as a health professional, including but not restricted to :
- Dispensing, patient counselling, medication review, blood pressure, blood glucose and other point-of-care monitoring functions, treatment follow-up

# Professional Duties (ii)

- The second subdivision of a pharmacist's professional duties is that of the maintenance of accurate and relevant records for the practice of pharmacy within the environment for which responsibility is defined.
- In community pharmacy these records are referred to locally as pharmacy registers

# Professional Duties (iii)

- As part of the administrative responsibilities of a pharmacist, it is imperative that such duties are carried out and/or delegated accordingly
- The POYC scheme has added a new dimension to the professional duties of a community pharmacy

# Managerial functions (i)

- In a basic community pharmacy scenario, the main duty under this classification would be that of stock control
- Inventory is the most valuable asset on a pharmacy's balance sheet
- it has several inherent complexities, however

# Issues with pharmacy inventory

Factor	Relevance
Highly perishable (temperature sensitive)	Cost of a controlled environment, utility costs and capital investment
Time limited, expiry dated	Quantities and dates must be monitored
Costly, especially new medicines	Tight control on the introduction of novel pharmaceuticals
Finite funds	Therefore not all products can be stocked
Fickle clientele	Patients might not take to new and innovative products, regardless of the marketing hype



# The basics of pharmacy accounting

[John Vella B.Pharm.(Hons.) M.Sc.(Pharmacoeconomics)]

# Accounting reports (i)

- Accounting records are based on three main financial statements:
  - The profit and loss account or P&L
  - The balance sheet
  - The cash-flow statement

# Pharmacy P&L

SALES		€350,000
COST OF SALES		€291,667
<u>GROSS PROFIT</u>		<u>€58,333</u>
OPERATING EXPENSES		
WAGES		€25,000
		€9,000
INSURANCE		€1,500
W&E		€2,500
EXPIRED GOODS		€1,500
TELEPHONE		€1,000
RENT		€7,000
MISC		€1,500
<u>TOTAL EXPENSES</u>		<u>€49,000</u>
<u>NET PROFIT</u>		<u>€9,333</u>

# Accounting reports – P&L

- This statement records revenue for a period of operation, usually twelve months
- All revenues or income are totalled and take place at the top
- Next come the COGS or cost of goods sold
- Logically, subtracting these first two figured gives the profit for the year

# Gross profit

- This figure is the gross profit for the period
- To obtain the net gain for the year, all related expenses must be deducted
- Once the net profit is calculated, income tax must be also deducted, plus any bank interest
- Some companies report earnings as EBIT, or earnings before tax & interest

# Pharmacy Balance Sheet

Assets			Liabilities		
1020	CASH CONTROL ACCOUNT	€5,500.00	2010	BANK OVERDRAFT	€41,500.00
1200	INVENTORY	€95,000.00	2011	BANK LOAN	€85,000.00
1208	PHARMACY LICENCES	€100,000.00	2050	Trade Creditors	€85,000.00
1210	PROPERTY	€80,000.00	2430	INCOME TAX PAYABLE	€3,500.00
1400	FURNITURE & FITTINGS	€8,500.00	<b>Total Liabilities</b>		<b>€215,000.00</b>
1402	OFFICE EQUIPMENT	€5,200.00			
1404	COMPUTER EQUIPMENT	€4,500.00	<b>Owner Equity</b>		
1410	AIRCONDITIONING	€1,300.00	3500	RETAINED EARNINGS	€35,500.00
			3501	SHARE CAPITAL	€4,500.00
			Current Earnings		€45,000.00
			<b>Total Owner Equity</b>		<b>€85,000.00</b>
<b>Total Assets</b>		<b>€300,000.00</b>	<b>Total Liabilities + Owner Equity</b>		<b>€300,000.00</b>

# Accounting reports – Balance Sheet

- A balance sheet reports on the assets (or belongings) and the liabilities (or monies owed) of an enterprise
- It is termed so because the assets and liabilities are stated in a manner as to balance each other out
- An increase in one side of the statement must lead to a change on the other side, the basis of double-entry in accounts

# Points on the balance sheet

- Basic formula is :
- $\text{Assets} = \text{liabilities} + \text{owner equity}$
- or more simply
- $\text{owner equity} = \text{assets} - \text{liabilities}$



# Administrative targets (i)

- The obvious would be to increase sales, whilst keeping overheads constant, or even cutting costs
- When placing this within the ethical context of the pharmacist professional, the picture necessarily becomes less straightforward
- Sales must be increased whilst keeping patient welfare first

# Administrative targets (ii)

- This can be achieved by making sure that stock levels are not only adequate, but also consistent and of good quality
- Short-date and packaging of questionable provenance and quality will not generate repeat custom
- Maintenance of a pleasant environment, both for clients/patients and workforce is vital

# Administrative targets (iii)

- Supplier credit must be utilised, as it is a source of interest-free finance
- However it must not be abused, and previously agreed terms adhered to
- Bank finance must be evaluated carefully, so as not to create a situation where the ratio of an enterprises's assets to its borrowings is so high that it is termed to be highly “geared”

# Administrative targets (iv)

- Debtors, or parties owing money should be avoided
- On no account should clients or employees be loaned money or be extended over-generous credit terms for the purchase of goods
- Staff remuneration should be fair and in line with current pay-scales

# Administrative targets (v)

- It must be kept in mind that pay levels should take into account the weight of responsibility involved and the experience of the employee
- This must be viewed from both sides of the equation; as pharmacists we could well end up in a position to manage and decide on the remuneration scales of fellow professionals

# Round-up

- Pharmacy administration is a skill that requires training, aptitude, clear thinking and financial and managerial acumen, apart from an extensive professional pharmacy education
- It is not for all pharmacists as the responsibilities that go with it are many, as is the satisfaction to be had

# The future?! (i)

- Fresh approaches to pharmacy management are required
- Most community pharmacies are slowly waking up to the reality that the IT age came along about 10 years ago!
- It is up to new entrants into the workplace, both in private and public practice to usher in a new age of administrative skills

# The future?! (ii)

- IT based systems, both on a health information level, and also on the level of pharmacy administration (stock-control and record-keeping) must be made the rule, rather than the exception
- A standard form of periodic reporting of sales, with a breakdown of drug classes, possibly linked to an electronic prescription or register system could be proposed



# The future?! (iii)

- This could lead to the generation of reliable and credible statistics for the consumption of pharmaceuticals in the Maltese Islands
- Such data could also be of financial value from a marketing aspect
- The integration of pharmacies with their suppliers would lead to a lower percentage of OOS items and improved patient access to medicine