

Therapeutic Substitution: Provincial government changes reformulate the pharmacy business

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In Canada, the world of pharmacy is rapidly changing, requiring pharmacy owners and practitioners to evolve and adapt their practice to service the ever-growing healthcare needs of Canadians. And while Canada's broader pharmacy community has stepped up to provide solutions that will improve patient care and unlock cost savings for our healthcare system, the delivery of pharmacy services and the scope of services offered will pose challenges for pharmacy owners on all fronts: personally, financially, and entrepreneurially. The following conversation between two pharmacists illustrates a typical scenario that may play out for a pharmacy owner.

"I'm looking for help. I need a relief pharmacist to take care of my business for 10 days so I can go away for my son's hockey tournament. I do have some resumes from recent grads that have contacted me for work. Otherwise, there are agencies that I could consider..."

"Jennifer, you hardly have enough time for your day-to-day responsibilities. Before you make too many calls, let me see if the relief pharmacist that took care of my store last year after my daughter was born is available. She had a really nice way with my patients. I wish I could have hired her full time."

Like many Canadian pharmacists that own their own practices, Jennifer realizes that time has become one of her most precious commodities as she juggles her personal and business priorities.

A dynamically changing industry

Over the past few years, the pharmacy industry in Canada has changed dramatically. Competition has intensified as well-known brands look to expand and grow their market share. In their quest to provide

affordable care for Canadians, provincial governments across the country have made changes in legislation that affect both the nature of care that pharmacists are able to provide and the amount of income that can be earned for providing these important services.

Pharmacists and their businesses account for a significant proportion of Canada's roughly \$200 billion total annual healthcare expenditure. This includes at least \$27 billion in prescription drug expenses, and pharmacists contribute billions of dollars in savings that result from additional healthcare efficiencies.¹ As of 2014, Canada has a total of 9,297 licensed community pharmacies, and 37,490 licensed pharmacists.² As the baby boom generation moves toward retirement and the population of Canada continues to age, total healthcare costs, demand for services, and the number of pharmacists that will be required are expected to grow.

A recent online survey asked pharmacy owners for their thoughts on the issues that will have the greatest impact on the pharmacy business over the next five years.³ These pharmacist

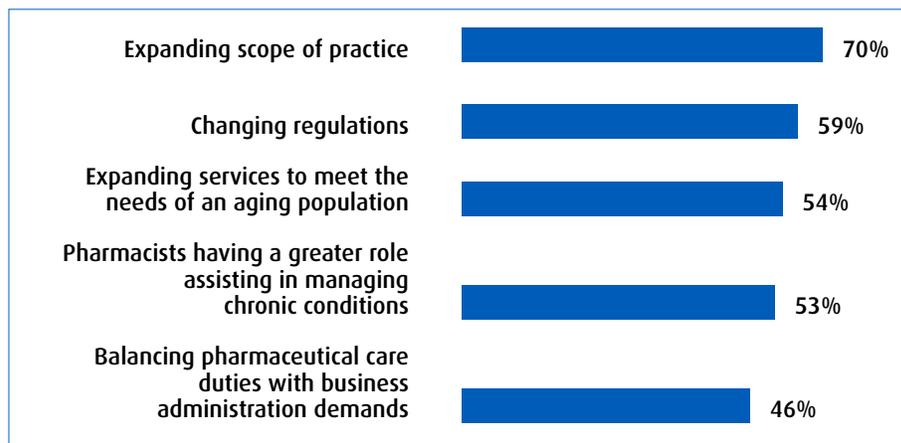
entrepreneurs responded that the changes that provincial governments are making are the most significant factor. These changes include price reductions for both generic and brand-name drugs, and opening up opportunities for pharmacists to provide a wider range of healthcare services. The following table details the survey results.

Governments have dramatically cut prices for generic drugs, and to a lesser extent for brand-name pharmaceuticals. This cut in prices has significantly reduced the total revenue of pharmacies, and therefore slashed the profits that pharmacists can make from this important source of income. For example, in 2013

the province of British Columbia reduced the prices of most generic drugs by 25%.⁴ Prices for many generic drugs were cut again in the province earlier this year. While beneficial for the public, for taxpayers, and for the insurance companies that manage pharmaceutical benefit programs, the price reductions for medications mean that pharmacists are earning less for every prescription filled. This change will continue to add business risk for entrepreneurial pharmacists, because a wave of brand-name drugs are scheduled to go off patent in the next few years and will be replaced by cheaper generic alternatives.

70% of pharmacy owners believe that the expanding scope of practice will impact pharmacists the most over the next 5 years.

Almost two thirds of pharmacists also believe that they will be impacted by changing regulations.



Top five issues impacting the pharmacy business in the next five years
Source: BMO Wealth Institute survey by Environics Communications, November 2014

Moving from dispensing to holistic healthcare management

An April 2013 report from the Canadian Association of Chain Drug Stores called “9000 Points of Care: Improving Access to Affordable Healthcare” suggests that by implementing a number of key strategies, Canada’s pharmacy community can help improve access to affordable healthcare and save provincial governments billions of dollars over the next few years.

The recommendations included:

- Expanding the scope of pharmacists’ practices to include treating minor ailments and the administration of vaccines;
- Improving access to and the use of affordable medications (either through the use of generic drugs or therapeutic substitutions); and
- Making better use of electronic infrastructure and resources to reduce the incidence of adverse drug reactions.

As they look to reduce their overall healthcare costs, many provinces are allowing pharmacists to provide certain healthcare services on a fee-for-service basis. This provides an opportunity for a secondary income stream as drug price cuts cause pharmacist’s dispensing incomes to shrink. Providing these additional healthcare services will also generate additional traffic in their stores, as Canadians know their pharmacists and trust them.

In fact, over 80% of Canadians access primary care through their pharmacies every year.⁵

The potential benefit of these additional healthcare services was demonstrated in the flu season in Ontario two years ago. Pharmacists in 600 licensed pharmacies gave almost 250,000 flu shots, well above the 100,000 shots that were predicted by the Ontario Ministry of Health and Long-Term Care. For each of these flu shots, pharmacists were paid \$7.50. Pharmacists across the province started to take advantage of the income-generating opportunity of this ancillary service, and saw this new income source begin to offset reduced drug-based incomes. As of 2014, close to 2,000⁶ of the province’s 3,733 pharmacies⁷ have pharmacists trained to deliver this service.

The services permitted and the revenue that can be earned for each service varies widely from province to province. Examples of such services include:

- Providing emergency prescription refills
- Renewing/extending prescriptions
- Changing drug dosages/formulations
- Making therapeutic substitutions
- Prescribing for minor ailments
- Initiating prescription drug therapies
- Ordering and interpreting lab tests
- Administering drugs by injection

Source (C) Canadian Pharmacists Association, October 2013.

Pharmacists will play a greater role as the primary source of health information or health care options.

74% of pharmacy owners believe they could benefit by adding new health care services for their patients.

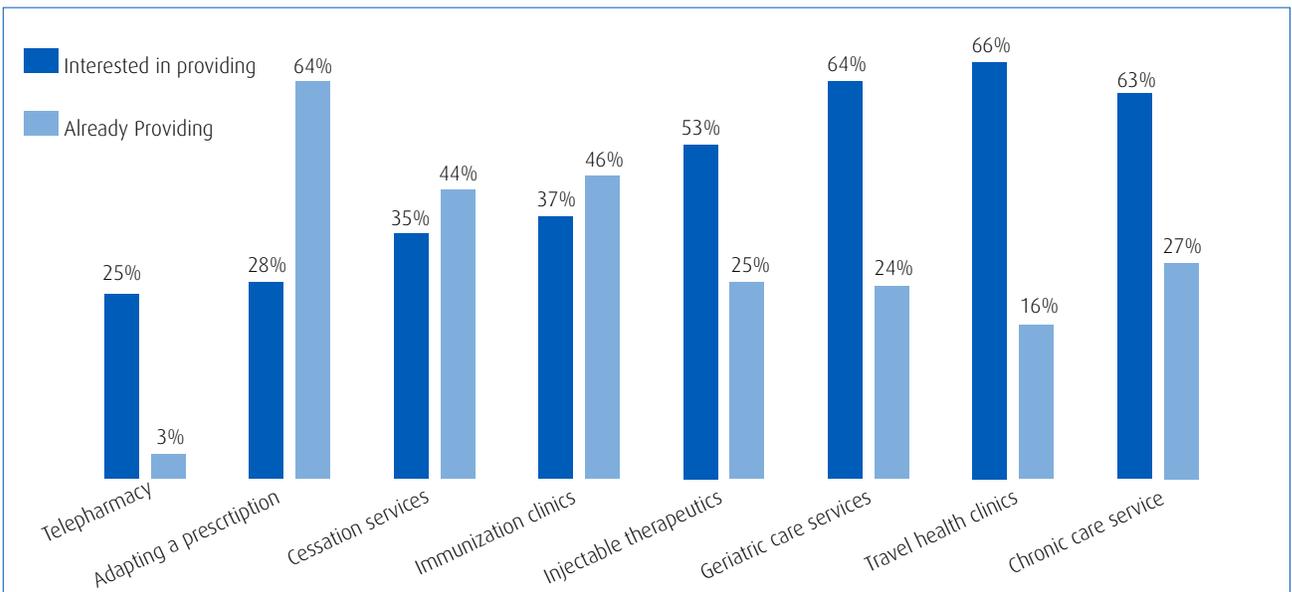
The survey asked pharmacists what services they would be interested in providing to patients in the near future. The following items scored highest.

To be able to offer many of these services, pharmacists will have to invest in training for themselves and their employees, must have capable and licensed staff, and may also need to renovate their stores to provide the necessary space. For example, Alberta now permits a pharmacist to initiate prescription drug therapy after assessing a patient and with appropriate consultation with a health professional. Many pharmacies will require renovations to add private consultation rooms for assessments and for the provision of other services.

The ability to offer an expanded healthcare service will depend on the adaptation of the pharmacy's physical space and the investment in the pharmacist's team. Much like the competitive hockey team that Jennifer's son plays on, building up the skills and experience of each team member is critical to the future business success of the pharmacy. The team will have to operate more efficiently, with each player playing their position well, to be able to offer these enhanced services that will not only be beneficial to patients but also profitable for the business. The team will also have to take on more work as the pharmacist spends an increasing amount of time face-to-face with patients to provide these new services.

90% feel that an aging population will impact the types of products and services their pharmacy offers.

Almost 2 out of 3 are concerned about finding the resources to implement new service offerings.



Top services pharmacists are interested in providing to their patients in the near future

Source: BMO Wealth Institute survey by Environics Communications, November 2014

The stressors

The rapid pace of change in the pharmacy industry has placed more responsibilities on pharmacist owners, requiring a balancing act to manage the challenges of their businesses and at the same time to care for their personal needs and those of their families. The survey asked pharmacist owners to rank the top stressors in their business lives. Not surprisingly, traditional business issues such as growing business revenues, managing staff, and staying informed on new trends made the list along with personal issues such as managing business and personal finances, and succession and retirement planning.

The top stressors in pharmacists' business life

Growing my business revenue(s)

Management of staff issues

Managing my business finances and my personal finances

Being properly informed on new trends in the pharmaceutical industry

Keeping up with my certificate requirements

Succession planning

Retirement planning

Like entrepreneurs in many other businesses, pharmacists who own their own businesses work long hours and dedicate themselves to making their pharmacy successful. Despite their hard work, there are more risks and challenges than ever

in the profession. In order to maintain a high level of patient care and assist patients with adherence to their prescribed medications, pharmacists must spend more time to educate and counsel their patients. Investment in computer systems that provide the necessary resources and information is also required to help minimize risks. For larger pharmacies with a high volume of repeat prescriptions, investment in automated machinery to package medication may save time and reduce costs. Both pharmacist time and spending on resources have an impact on cash flow in the business. The time a pharmacist spends counselling a patient is time that can no longer be spent on other income-earning services, and not all provinces remunerate pharmacists for this service.

Calling on your Inner Circle

When challenged by managing her pharmacy, Jennifer always confides in Olivia. The two of them have had similar business and professional experiences since they graduated together almost 15 years ago. Both have gone from being employees to buying their own pharmacies in recent years. In addition to Olivia, Jennifer has an inner circle of trusted advisors, including the retired pharmacist from whom she purchased her business, a local doctor, and her accountant. This group has

Pharmacists say they're stressed about:

"Finding practical appropriate information quickly in practice."

"Finding storage and floor space for product, adding consultation rooms and offices, growing faster than we can keep up with, and training staff to the level of expertise required."

"Time management!"

"Balancing running a business and providing health care to patients."

The inner circle consists of family, friends, partners, key employees, professionals and other experienced business associates to seek counsel from.

provided guidance and shared their collective expertise on many business and patient care issues and they have been fundamental to the overall success of her business to date. More information on the value of working with your inner circle is contained in the October 2014 BMO Wealth Institute report “**Entrepreneurs: Definitely not your ordinary business owner.**”⁸

With the changing environment and the need to add additional healthcare services to increase cash flow and business profitability, additional expertise is required to help with a variety of financing, working capital, cash flow and cash management issues. The financing of renovations to the pharmacy to offer additional services and the purchase of furniture and equipment will require a plan that considers the incoming cash flows from new and existing income sources, and a timeframe that works for the business to repay these loans. Business banking professionals have experience working with entrepreneurs and their inner circles and are able to share their expertise and provide guidance about the financing and cash management options available. Suggestions can be discussed with the inner circle to ensure that there is a consensus on which path will best help to take the business forward.

Taking care of both **your business and yourself**

Achieving an acceptable work-life balance is a challenge for all successful entrepreneurs given the high priority of their businesses in their lives. Finding time for important family events such as hockey tournaments and holidays should be a priority. However, this is a challenge because entrepreneurs on average work 49.1 hours per week compared to only 36.6 hours for the average Canadian worker.⁹ This is made even more difficult for pharmacists because of the extended hours and weekend working required to better serve patients.

All of this hard work in a pharmacist’s own business does pay off, resulting in an increasing income and the ability to accumulate wealth. This is reaffirmed by Industry Canada, which notes that competitive businesses are drivers of sustainable wealth creation.¹⁰

As the business grows and earns profits, it is important to balance the needs of the business with personal financial needs. This means reinvesting some of the profits in the business and ensuring that a portion is put aside for retirement or other personal financial needs. A financial plan can help to determine how much income

Finding personal or family time is difficult for pharmacists because of the extended hours and weekend working requirements to serve their patients.

95% of pharmacists feel it is very important to ensure business is profitable.

is required from the business to meet ongoing personal financial demands and how much could be saved to help meet future retirement goals. Your business banking professional can connect you with a financial planning professional who can assist you with the personal side of your financial affairs. When these two professionals work together as part of your inner circle, both your business and personal financial needs will be considered to help you meet all of your goals.

Working with the Inner Circle to build personal wealth

There are several other areas where a financial planning professional can work with the inner circle to help pharmacists manage their personal finances. One important area involves valuable tax-saving strategies.

A number of income-splitting strategies can be implemented, in collaboration with tax and legal professionals, which would legally allow some income to be taxed in the hands of lower-earning family members. One particularly favourable strategy is to set up a family trust for the benefit of minor children, low-income spouses, or even retired parents. Funds in the family trust can be used to meet current financial costs of family members, such as Jennifer's son's hockey expenses, or be allocated

for planned future expenses.

Another situation where a financial planning professional can provide significant value and expertise is when the pharmacist is at the point of selling their pharmacy business. Whether this is the result of retirement, or a favourable buyout offer from a larger competitor, the way the sale is transacted will have major tax implications, and will determine how much of the purchase price is left after all of the costs are considered. A financial planning professional can also create a financial plan that will establish how to invest the sales proceeds to meet personal needs of the business owner over the long term, whether these are retirement, moving on to another business venture, or other personal goals.

Conclusion

We believe that working together with all of the members of your inner circle can provide the coordinated and professional advice you need to meet challenges and opportunities of your business as they arise. By working with BMO financial professionals who understand the varied needs of pharmacists, you will receive advice and services that are tailored to meet both your business and personal goals, and to help you plan for a financially stronger future.

3 in 4 say it is important to understand how to finance business growth or expansion.

The pharmacy industry in Canada is evolving to serve the health care needs of Canadians.
[Learn more at bmo.com/pharmacy](http://bmo.com/pharmacy)

Footnotes

- 1 9000 Points of Care: Improving Access to Affordable Healthcare. April 2013. CACDS – Canadian Association of Chain Drug Stores. <http://9000pointsofcare.ca/who-we-are/>
- 2 National Statistics. January 1, 2014. NAPRA – National Association of Pharmacy Regulatory Authorities. http://napra.ca/pages/Practice_Resources/National_Statistics.aspx
- 3 Online survey prepared by Environics Communications for the BMO Wealth Institute in November 2014. A total of 100 Pharmacists who own their own pharmacies were surveyed.
- 4 2013 State of the Industry Report – A snapshot of the pharmacy profession in Canada today.
- 5 9000 Points of Care: Improving Access to Affordable Healthcare. April 2013. CACDS – Canadian Association of Chain Drug Stores. <http://9000pointsofcare.ca/who-we-are/>
- 6 Seasonal Influenza 2013/2014: Ontario’s Blueprint for Action. January 9, 2014. Ontario Ministry of Health and Long-Term Care – Emergency Management Branch. http://www.health.gov.on.ca/en/pro/programs/publichealth/flu/docs/flu_blueprint.pdf
- 7 National Statistics (Provincial/Territorial Statistics – Pharmacies. January 1, 2014. NAPRA – National Association of Pharmacy Regulatory Authorities. http://napra.ca/pages/Practice_Resources/National_Statistics.aspx?id=2104
- 8 Entrepreneurs: Definitely not your ordinary business owner. BMO Wealth Institute. October 2014. http://www.bmo.com/pdf/mf/prospectus/en/14-1887%20BWI_Q4%202014_entrepreneurs%20CDN%20E07_web.pdf
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- 10 Mandate of Industry Canada. Industry Canada website. Last updated June 19, 2012. http://www.ic.gc.ca/eic/site/icgc.nsf/eng/h_00018.html

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