

# JRx proficiencies



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## Welcome to JR Pharmacy's Summer edition newsletter

Inside this issue we include the following articles:

- Norman reports on our September 2009 quarter client averages,
- Annette summarises the new ATO requirements for Bookkeepers in relation to BAS preparation and lodgements
- We consider the application of Fringe Benefits Tax to Christmas parties and staff gifts,

And provide an overview of:

- Pharmamarket – the on-line buying group for Pharmacies

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Firstly though, for those looking for some Christmas contemplation and inspiration for a business new year resolution then consider vision, mission and strategy. These are words that in my experience, many business owners find confronting. Their relevance is often unclear and the benefit from spending time developing each proposition uncertain. Articulating each however can provide clarity of purpose to owners and employees alike while also having a pivotal role in defining what your business should be doing and indeed what it should not.

Defining a compelling purpose for existence is difficult as it requires specificity. Sharing it with staff can be even harder as it tests its strength of purpose and more importantly an owner's commitment to it. Once coupled with meaningful actions though, the rewards are great as the shared ownership and delivery helps shape a unique selling proposition that both customers and employees can identify with.

In recent years Community Pharmacies' homogeneity (or absence of a unique selling proposition) has been highlighted by the success of warehouse style Pharmacies. While generic switching has provided a buffer against script/customer loss thus far, future WADP price reductions and increasing costs will combine to reduce future net profit. In addition Pharmacy should be alert and alarmed by Minister Roxon's recent comments stating that the Government is seeking a further \$1.2bn of PBS savings over the next budget period which is independent of any savings that may arise from the 5th CPA currently being negotiated.



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The renowned management author Peter Drucker (1909–2005) made the simple but insightful observations that a business' purpose is to create a customer while its mission is to satisfy the customer. Given many community Pharmacies are actually losing customers and scripts, the clear challenge is to define who the target customer should be and then develop an offer and processes to satisfy their needs.

Positively, the broader Australian retail sector offers many examples of niche retail offers that are highly successful despite low price/cost warehouses and supermarkets operating in the same space. In stationery Kikki-K and Smiggle are flourishing despite Officeworks, while in grocery, 7-11, Night Owl, Bakers Delight and Beechworth Bakery are also winning within their targeted space despite supermarkets.

Why? Because each retailer has created a customer focussed offer that extends from a vision, is highly relevant, and has been coupled with executable strategies. Strategic Positioning was succinctly defined by Michael Porter as "doing different things" or "doing the same things differently". This contrasts with his definition of operational effectiveness which is doing the same things better. The above mentioned businesses are successful because they manage to achieve both.

Our own benchmarks indicate that most Pharmacies achieve operational effectiveness. In fact, in many ways, this consistent product and advice delivery across Pharmacies reinforces why Australians place such a high degree of trust in Pharmacists. Unfortunately a perceived indifference to alternative Pharmacy offers by many customers translates to trading off convenience and/or service for price.

Fortunately there are solutions for those willing to facilitate change. Strategic Positioning can deliver long term sustainable competitive advantage (ie customer/sales growth) for all businesses but must be driven by both owners and staff. For a Pharmacy this means creating a well defined vision and mission before aligning and executing strategies across each area of the business – ie dispensary processes, products and services, staff skills, merchandising, in-store and external marketing and financial measurement including benchmarking.

January 2010 signals the start of a new decade and offers the opportunity to embark or continue on a path of positive change. We look forward to assisting with your Pharmacy's strategic development in the years to come.

**From everyone at JR Pharmacy have a happy and safe festive season.**

*Mark Nicholson*

## "My bookkeeper has been preparing and lodging my bas's for years, why should it change now?"



**Recently the ATO has publicly emphasised the legal restrictions that prevent most bookkeepers from providing Business Activity Services (BAS) services.**

*In short, unless your bookkeeper is:*

1. a member of CPA Australia or the Institute of Chartered Accountants;
2. working under the direction of a registered tax agent; or
3. only providing payroll services and preparing PAYG Withholding information, they are not permitted to provide BAS services.

*If your bookkeeper is contracting to you (i.e. not an employee) and doesn't satisfy one of the conditions above then your options are:*

1. Employ your bookkeeper rather than contracting them
2. Have your bookkeeper provide their service under the direction of a registered tax agent (e.g. JR Pharmacy or third party provider)
3. Prepare them yourself
4. Have JR Pharmacy prepare them for you

The new rules effective date is expected to be from 1 March 2010. If you are potentially affected by these changes please clarify your bookkeeper's position as soon as possible.

*Annette Ivory-Barker*

## Feedback from JR Pharmacy's Strategy and Growth Seminar Presented by Bruce Annabel in October:

JR Pharmacy Services ran a client only pharmacy management workshop on the 20th of October with a full house in attendance. The workshop was presented by Bruce and covered topics including the "State of the Nation", current retail/dispensary returns and finished with a strategic

overview of community pharmacy and its competition.

A comment from one of the attendees was...

**"Thanks for a great presentation.....A good prod in the ribs is always welcome to keep me focussed. Hopefully a lot of other pharmacies will also try to lead the way, which will be good for the profession of pharmacy of the future..."**

**We plan to run another workshop mid 2010 and will announce details in a future newsletter.**

# FBT, Christmas Gifts and Parties

**Are you having or already had your Christmas party? Did or are you providing gifts to your valued employees? If so, have you considered the related fringe benefits tax (FBT) implications and in particular the use of the minor benefit exemption (\$300)?**

## Christmas Gifts

Where a gift is provided to an employee at Christmas (for example a hamper, bottle of wine, gift voucher, perfumes etc) it may be a minor benefit that is considered an exempt fringe benefit.

To be a minor benefit, the benefit must have a value of less than \$300. However, a minor benefit that satisfies the "less than \$300 threshold" is **not automatically**

an exempt benefit. Other factors need to be considered, most importantly the infrequency and irregularity of the benefits.

For example, if monthly payments less than \$300 are made on behalf of an employee, these would be less likely to be treated as a minor exempt benefit as they are paid on a regular basis. However, if an expense less than \$300 was incurred only a couple of times during the year in relation to an employee, it is more likely to be able to be treated as a minor exempt benefit.

If the gift is greater than \$300 per employee, FBT may be payable.

## Christmas Party

Generally, any social function provided for employees not on an employee's premises is subject to FBT. A Christmas party provided to current employees on your business premises or worksite on a working day may be an exempt benefit. The cost of associates attending the Christmas party is not exempt, unless it is a minor benefit.

The costs associated with Christmas parties held on your business premises will give rise to a taxable fringe benefit for employees and their associates unless the benefits are exempt minor benefits (i.e. less than \$300 per person).

Generally, the cost of providing the Christmas party will be tax deductible only to the extent that it is subject to FBT. If you are a GST registered entity and entitled to claim a tax deduction for the entertainment expenses, you can also claim an input tax credit for the GST.



If the benefit is an exempt fringe benefit as it is a minor fringe benefit, then it is not tax deductible and you can not claim an input tax credit for GST.

When accounting for Christmas parties and other entertainment, you should include as much detail as you can. For example it pays to narrate the number of employees/associates/clients attending, location of the party and total costs.

FBT rules regarding entertainment and FBT are unfortunately too complex and common sense does not prevail in their application. Further the FBT year ends on March 31 with FBT returns due for lodgement before May 31.

If in doubt about the FBT treatment of expenditure or your requirements to complete an FBT return please discuss with your JR Pharmacy accountant.

*Annette Ivory-Barker*

# Pharmamarket – the on-line buying group for pharmacies

Online marketplace [Pharmamarket.com.au](http://Pharmamarket.com.au) was recently launched, offering an electronic environment for both suppliers and pharmacies to do business, the first of its kind for the industry. The online system allows suppliers to communicate more frequently with details of product offers, sales, end of line specials and provide 'live' pricing updates. For pharmacies, the central electronic location may result in cheaper stock purchases as well as increases in efficiencies via the online ordering system that provides 24/7 support. The site also looks to promote better buying for smaller quantities which is an important attribute for those looking to run higher stock turns on certain lines.

Products are listed for sale from all wholesalers and the basic ordering and delivery process is outlined in the table right.



For those interested the website [Pharmamarket.com.au](http://Pharmamarket.com.au) offers different levels of membership and more information can be obtained at [www.pharmamarket.com.au](http://www.pharmamarket.com.au)

*Matt Edwards*

## Pharmacy Insights with Norman Thurecht

**Following on from my article in the Spring newsletter, I have reviewed the JR.bizlink Pharmacy averages and PBS information for the September 2009 quarter and am happy to report on some encouraging trends before heading off for a Christmas break.**

Growth in PBS expenditure was almost 14% to the end of September driven by script volume growth of almost 9%. Not all of this growth was driven by community pharmacy patients though, due to the influence of increased scripts for high cost drugs flowing from hospital dispensaries (eg oncology). Our client data indicates average script volume growth of 3.4% for the same period.

A couple of factors appear to have influenced this growth, namely the swine flu which straddled both the June and September 2009 quarters, together with a gradual increase in the number of concessional safety net patients as a consequence of the economic downturn. This has also been evident from various dispensary reports and is worthwhile for owners to review and understand from their own store perspective.

According to the Australian Bureau of Statistic data for the months of September and October 2009, the "pharmaceutical, toiletry and cosmetic" retail category (which includes the PBS, and supermarket data) grew by 8.2% and 12.1% respectively from the same months in 2008. This category significantly outperformed all other retail sectors for the same periods. Even removing the influence of the PBS, health categories appear to still be growing at a rate well in advance of general retail.

A few key performance indicators of interest, averaged from client pharmacies using JR.Bizlink are as follows:

	1st Qtr 2010	2009 series	2008 series	2010 Comment
<b>Sales growth</b>	7.72%	0.63%	8.43%	Customer and script driven
<b>GP \$ growth</b>	8.55%	2.92%	13.44%	Generics and patient outcomes
<b>Overhead growth</b>	0.04%	13.60%	10.66%	Sharper focus
<b>Script growth</b>	3.44%	1.04%	5.19%	PBS consistent
<b>Customer Number growth</b>	4.73%	1.83%	3.24%	Retail consistent

Inherent in the above GP\$ growth is a 0.5% increase in dispensary GP% since this time last year which has stemmed from a more competitive generics market. This trend is not likely to continue in the medium term given the looming weighted average disclosure price reduction mechanism currently affecting several molecules with more to follow. Add to that the Government's well touted intention to reduce costs further (refer editorial) and it becomes clear that customer and sales growth is required if net profit is to be maintained.

Clearly the message is to focus on what is controllable and develop strategies to future proof against anything that isn't controllable. Beware though, to simply focus on short term cost control may be to the long term detriment of the business and not in your customers best interests.

For example, many manufacturers will present deals for purchasing an amount of stock (maybe 6 or 12 months) to achieve a better buy price (including new generic molecules). However, consider the following:

- What trading terms could you miss out on in the subsequent months as competition increases – i.e. have you locked in too early?
- Is it the best use of your resources to fund and store 6 to 12 months stock of some products?
- What if there is a change in prescribing habits regarding a particular product ? and
- Is the customer's choice/preference compromised in the process

What may present as a "good deal" may not deliver all the benefits expected. Experienced and successful retailers always seek to negotiate the best price based on minimum order quantities and manage the shelf space allocations with the customer in mind.

It is encouraging to note that the pharmacies attaining the greatest growth within our sample were those not only taking advantage of short-term opportunities with suppliers and controlling overheads but also implementing Pharmacist driven initiatives focussed on delivering customers solutions. Importantly some clients are achieving this by actually increasing professional staff levels and training costs as they are implementing via systems such as "Dispensary Loop" (refer to [www.feelgoodguide.biz/public/DispensaryLoop](http://www.feelgoodguide.biz/public/DispensaryLoop)).

These clients are proving that professionally focussed leverage into health categories via the script traffic is improving outcomes for customers and themselves.

**In the new year I will review the performance of some high performing categories and analyse why they outperform others. Until then, I wish you all the best for the Christmas sales period and a successful 2010!**

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