

Basic Business Skills Course for Accredited Drug Shop (ADS) Owners

Module 5: Business Management Session 1: Costing and Pricing

Objectives

As a result of actively participating in this session, the individual will be able to:

1. Name the six steps of “cost plus” pricing.
2. Explain how to use “cost plus” pricing to determine the price at which to sell a product in an ADS.

Business Pricing

- Price = what a buyer pays to acquire products or services from a seller.
- Business pricing = the process of establishing a selling price for a specific product or service on the basis of how much it costs to run your business.
- The pricing of your product or service helps determine the profitability of your business.

What do you need to know to
determine the cost of running your
ADS?

Fixed Costs

Fixed costs are ones that are constant whatever the quantity of goods or services produced.

One of the most common fixed costs is rent.

Variable Costs

Variable costs are ones that vary with changes in sales.

- They rise as sales increase and fall as sales decrease.
- Examples of variable costs are cost of stock and cost of labor (if you hire extra people).

The “Cost Plus” Method of Pricing

Steps:

1. Identify the cost you paid for the product.
2. Identify the variable costs associated with acquiring the product.
3. Identify the fixed costs.
4. Determine the full cost of the product (total of 1, 2, and 3).
5. Divide the full cost of the product by the total number of units.
6. Add profit margin.

Costing Statement (ADS Products)

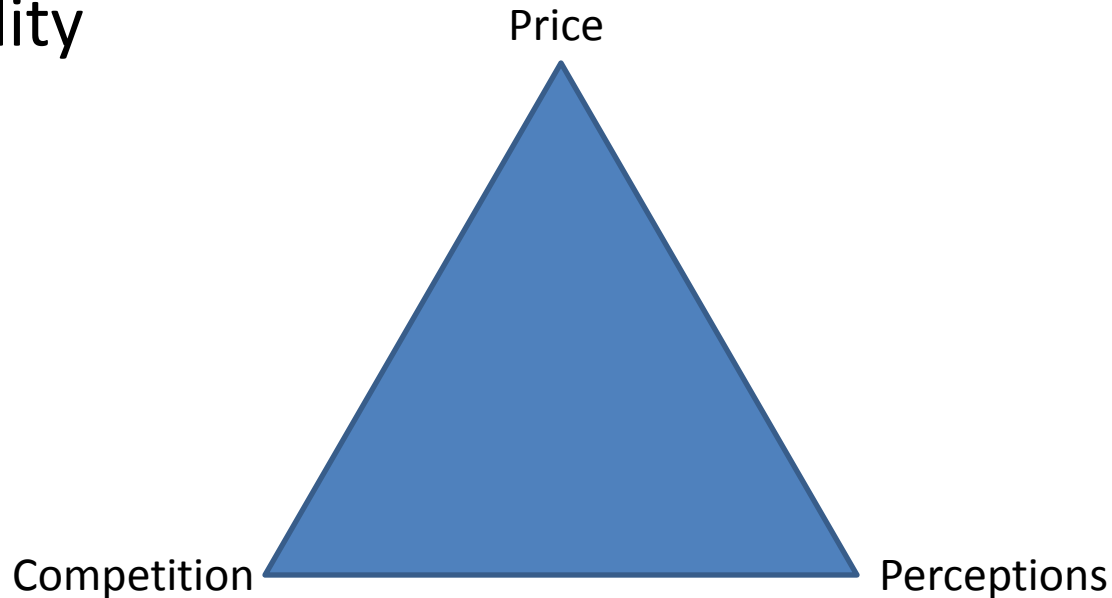
Item	Cost
Cost of the product/goods	XX
Total variable costs*	XX
Fixed costs**	XX
Total cost of goods	XX
No. of units	XX
Cost per unit	X

*The total cost of transporting the goods, salaries, and other miscellaneous costs.

**Costs that do not change, such as rent and electricity.

Tips for Successful Pricing

- Good recordkeeping
- Research
- Flexibility



Pricing of Medicines

- Proper pricing of medicines ensures profitability and sustainability of the business.
- On average, the profit margin on medicine in drug shops ranges from 30% to 40%.
- The pricing usually depends on the cost of rent and other operating costs (salaries, allowances, electricity, etc.)

Costing Statement (Example)

Cost Item	
Cost of stock	1,000,000
Cost of transporting the stock	50,000
Cost of salaries	300,000
Miscellaneous costs	50,000
Total variable costs	1,400,000
Fixed costs	100,000
Total cost of stock	1,500,000
No. of units (tablets)	30,000
Cost per unit	50 shillings per tablet

Session 2

Buying, Receiving, and Transporting Medicines

Objectives

As a result of actively participating in this session, the individual will be able to:

1. State at least two reasons why it is better to buy medicines from licensed pharmacies.
2. State the five things to check when receiving medicines.
3. Explain why it is best to transport medicines in licensed wholesaler vans.

Before You Buy

Ensure that you have:

1. List of medicines to be purchased (including their quantities).
2. Total amount of money required to purchase the medicines.

Sources of Medicines

You may purchase medicines from the following:

- Licensed wholesale pharmacies
 - Be sure to get the wholesale price!
- Drug manufacturers

Why Buy From Licensed Suppliers?

1. Lowest price
2. Quality medicines
3. Replacement in case of any fault in the product.
4. Receipts for recordkeeping and for any legal requirements.

Note

Never buy medicines from hawkers because the chances of buying stolen medicines or counterfeits are very high.

Choosing a Licensed Supplier (1)

Factors to consider:

1. It is more profitable to purchase your supplies from the *nearest* wholesale pharmacy or drug manufacturer.
 - The distance from your suppliers to your ADS determines how quickly you can get your stock.
 - If your supplier is near and they always have stock, you don't have to tie up capital in slow moving medicines. You only stock the minimum necessary and buy from the wholesaler once the stock is getting low.

Choosing a Licensed Supplier (2)

(Factors to consider:)

2. Consider what terms the wholesaler offers.
 - Do they offer credit terms? A supplier who offers you credit terms is an asset to your business.
 - Do they offer transport or delivery?
 - Do they prefer payment by cash, transfer, cheque, or mobile money?

Sources of Other Products

You may obtain OTC items and other products from any of the following:

- Licensed cosmetic distributors/wholesalers (in case of cosmetics).
- Licensed general merchandise wholesalers (in case of items like glucose powder or JIK).

Receiving Medicines

- Many times, receiving of medicines will be done from the pharmacy where medicines are purchased.
- On rare occasions, the medicines may be delivered by your supplier to the drug shop premises.

Receiving Medicines Checklist (1)

When you receive medicines, do the following:

1. Check the quantity supplied on the invoice or receipt against the quantity ordered from the wholesaler.
 - Ensure that the quantity supplied equals the quantity ordered.
2. Check the medicine strength supplied against the one ordered.
 - Ensure that the strength supplied is the strength ordered.

Receiving Medicines Checklist (2)

3. Check the expiry date of the medicine delivered.
 - Reject medicines with short expiries.
 - Reject medicines that do not have an expiry date.
4. Check the packaging materials to make sure they are all intact.
 - Reject medicines whose packaging materials are not intact.
5. Check for the brands on the purchase list with those supplied.
 - Reject medicines that are not your preferred brand.

Transporting Medicines (1)

- Transportation of goods by retailers in Uganda is not yet fully developed. Cargo is often transported as luggage in passenger vehicles.
- Medicines need special handling!
- They need protection from rain, sunshine, dust, excessive heat, humidity (wetness), and other conditions that will damage them.

Transporting Medicines (2)

- Best: Medicines are transported in wholesalers' sales vans.
- Acceptable: If you use public transport, make sure to carry medicines in the most hygienic and safest way possible.
- Also acceptable: If your supplier is nearby, use a bicycle or a motorcycle to carry the cartons. BUT protect them from dust by covering them well.

Summary

- Purchase your medicines from licensed suppliers.
- When choosing which licensed supplier to use, consider location and terms offered.
- Use the “receiving medicines” checklist to receive your medicines.
- Ensure the safe transport of medicines.

Session 3

Stock Management

Objectives

As a result of actively participating in this session, the individual will be able to:

1. Explain how the fill rate helps determine the quantities of medicines to stock.
2. Explain the FEFO rule.
3. Explain the FIFO rule.
4. Match what to record in each of the following recordkeeping documents with the correct document:
 - a. Purchase order book
 - b. Receipt book
 - c. Debtors' book
 - d. Prescribing and dispensing log book
 - e. Expired medicines book

Survival and Growth of ADS

- Medicines are delicate.
 - If stored properly, they can help save lives.
 - If poorly stored, they will not be able to help save lives.
- Helping to save lives means helping your business as well.
- Therefore, a good ADS business person must know stock management.

Definition of Stock Management

- Stock management is a procedure and technique used to maintain a required quantity and range of business stock.
- Stock management is a key operation for a drug shop.

Three Goals of Stock Management (1)

The goals of stock management are to ensure that:

1. Medicines are available in the drug shop in the right quantity.
2. Medicines are available at the right cost.
3. Medicines are available at all times without stock-outs.

Three Goals of Stock Management (2)

Stock management ensures that:

1. Medicines are available in the drug shop in the right quantity.
2. Medicines are available at the right cost.
3. Medicines are available at all times without stock-outs.

How Much of Each Type to Stock

- The quantity to stock of each medicine class or brand is determined by the rate of turn over:
 - Stock more medicines that move fast.
 - Stock fewer medicines that move slowly.
- These actions help the ADS:
 - Reduce the risk of a medicine expiring while in stock.
 - Minimize the amount of capital tied up in stock.

Money invested in stock is supposed to earn money in the *shortest* time possible.

Re-ordering Stock

- A successful ADS does not run out of stock.
- The simplest rule for not running out of stock is:
 - 80% fill rate for the fastest moving medicines
 - 60% fill rate for the next fastest
 - 40% fill rate for the next
 - 20% fill rate for the slow movers

(“Fill rate” means the minimum stock you should have.)

Stock Rotation

- Use shelves for proper and easy storage of medicines.
- Arrange the medicines on the shelves so that they can easily be located.
- Arrange the medicines on the shelves so that those with short expiry are at the front.
- Proper stock rotation prevents expiries and loss of money.

The FEFO Rule

- Follow the FEFO (first expiry, first out) rule.
- It is easy to follow this rule if the medicines are stocked and arranged according to their expiry dates.

In What Order?

Today is 1 July. In what order should these medicines be stocked on the shelf?

- [NAME OF MEDICINE] *Expiry: 1 October*
- [NAME OF SAME MEDICINE] *Expiry: 1 August*
- [NAME OF SAME MEDICINE] *Expiry: 1 September*

The FIFO Rule

Follow the FIFO (first in, first out) rule for medicines that are the same and have the same expiry date.

In What Order?

You have 30 bottles of [NAME OF MEDICINE] on the shelf. They all have the same expiry date. In what order should these medicines be stocked on the shelf?

- *Date received: 30 January 2016*
- *Date received: 30 October 2015*
- *Date received: 30 December 2015*

Recordkeeping

- Good recordkeeping helps you know how fast or how slowly each medicine type or brand moves.
 - Stock more medicines that move fast!
 - Stock fewer medicines that move slowly!
- It also helps you identify opportunities.
 - A *lost sale* is when a customer asks for a medicine you don't have in stock.
 - If in one month, there are 10 lost sales for one medicine, then it means that medicine is needed, so you should include it in your stock orders.

Recordkeeping Documents (1)

1. Purchase order book
2. Receipt books
3. Debtors' book
4. Expired medicines book
5. Prescribing and dispensing log book

Recordkeeping Documents (2)

1. **Purchase order book**

- Record medicine purchased from a wholesale supplier.
- Accounts for the money used to buy medicine.

2. **Receipt book**

- Record daily cash sales.
- Monitor cash in flow (daily sales).

Recordkeeping Documents (3)

3. Debtors' book

- Record clients who take medicines on credit.
- Identify bad debtors.

4. Expired medicines book

- Record the names and quantities of expired medicines.
- Calculate the value of the expired medicines.

Recordkeeping Documents (4)

5. Prescribing and dispensing log book

- Keep records of all controlled medicines administered, dispensed, or otherwise disposed of.
- Document what medicines each client has received, how much, and when.
- Document the date, client's name, age, sex, address, diagnosis, treatment, cost of the medicine, person who prescribed the treatment, and person who dispensed the medicine.

Stock Control System

- Balancing stock at the right levels is of fundamental importance to the business.
- A stock control system helps the ADS ensure that stock levels are sufficient to meet client needs, without being so plentiful that the ADS loses money.



Stock Control Problems

<u>Problems of Low Stocks</u>	<u>Problems of High Stocks</u>
It may be difficult to satisfy customer demands.	There is an increased risk of stock becoming obsolete.
It can lead to a loss of business.	The risk of stock losses is increased.
It can lead to a loss of goodwill.	The costs of storage are high.
Ordering needs to be frequent and handling or transaction costs are higher.	Stocks can tie up working capital.

Stock Control System Steps

1. Receive your stock

Count and check the condition of the products supplied against the invoice or delivery notes, if available.

2. Record your stock

Write down all products coming into and going out of your store. Follow the rule of FEFO or FIFO.

3. Store your stock

Keep the right amount of stock in a safe, temperature-controlled (if necessary), and practical way.

4. Check your stock

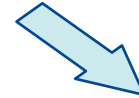
Check and count your stock often to make sure that it is in good condition, it has not expired, and no stock is missing.

6. Re-order your stock

Re-order the right stock, in the right quantity, and at the right time.

5. Arrange your stock

Arrange your stock so that it attracts customers to buy it and so that it is easy to count.



Stock Control Hints For Success (1)

- Use a “dispensing log.”
- Make regular stock counts.
- Ensure that you always have enough stock to satisfy the needs of your customers.
- Keep the average number of items held in stock at minimum levels to ensure that costs are kept low, while at the same time not affecting service to customers.
 - You know how many of each item is in stock.
 - You can see and count all your stock easily.

Stock Control Hints For Success (2)

- Keep a detailed record of what stock is received, and what stock is sold or used.
 - When you check your stocks, you have the same number of items in stock as those shown in your records.
 - You know how long you may have to wait for delivery of different items after you have ordered.
 - You know how much old, damaged, and useless stock you have in your store/shop.
 - You have a way of getting rid of old, damaged, and useless stocks by acceptable methods.

Stock Card

DRUG NAME: COFTA				
Date	Quantity In (pairs)	Quantity Out (pairs)	Balance	Expiry Date
15 .8 .13	200		200	14 .4 .2014
16 .8 .13		10	190	
18 .8 .13		15	175	
25 .8 .13	50		225	14 .4 .2014 21 .8 .2014
31 .8 .13		20	215	

Fast-moving stock = 4 pages per month

Slow-moving stock = 1 page per month

Three Ways of Ordering Stock

1. If you buy from the sales van, they will have their delivery book, where all your purchases are recorded on the delivery note and you sign.
2. If you buy from the wholesaler's shop, you need to have a stock order form, where you write down the types and names of medicines you need to purchase.
3. If you order by phone or any other means, then you will need to check the stock delivered against what you ordered.

Stock Taking

- Stock taking enables you to know how much stock is in the ADS, both in goods and money value.
- Stock taking also helps to eliminate dead stock (medicines that are about to expire or that have expired).
- It is usually done at the end of the year.

Space Management

- Space management is another key management practice in an ADS.
- The most common form of medicine storage and display is on shelves and counters.
- Follow the FIFO and FEFO rules and a formula such as:

We stock from left to right, beginning with the latest date.

We sell or dispense from right to left, beginning with the oldest date.

Getting and Keeping Customers

Other factors that help determine a customer's choice of drug shop:

- Good customer service
- Housekeeping
- Cleanliness
 - Mop the shop floor and the counter regularly.
 - Clean up whenever there are no customers present.

Session 4

Marketing and Customer Care in Medicines Business

Objectives

As a result of actively participating in this session, the individual will be able to:

1. Name the four Ps of marketing.
2. Name three ways of advertising your business.
3. Name at least three ways to keep customers.
4. Name the four key factors in a marketing plan.

What Is Marketing?

- Efforts by a business to attract and keep customers.
- Keeping customers ...
 - means that you are their preferred ADS.
 - is harder than winning or attracting customers.

Marketing Plan (1)

The marketing plan looks at the following key factors:

1. Who are our target customers?
 - Households
 - Schools
 - Clinics
 - Other institutions
2. What are the age brackets of our customers?
 - Young people, middle-age people, old people?

Marketing Plan (2)

3. Is it mostly men or women who buy from us?
4. What means of communication reaches most customers?
 - Radio
 - Newspapers
 - Posters
 - Word of mouth

The 4 Ps of Marketing

1. Product
2. People
3. Place
4. Price

Product

- Stock the medicines most needed in your area.
- Know which medicine treats what disease.
 - For example, if Cofta is not available, what is the alternative medicine?
- Sell genuine medicines that are always in good condition.

People

- Stock the medicines that are appropriate for the people in your area.
 - For mothers with babies, stock syrups as well as tablets.
 - For older customers, stock medicines for hypertension.
 - If incomes are low, stock generic as well as brand medicines.

Place

- Locate your shop where it can be easily accessed.
- Make sure that your shop is visible.

Price

- Medicine prices must be:
 - Affordable for your customers.
 - Right for the product.
 - Not too high to chase away customers and not too low to chase you out of business.

Advertising Your Business (1)

1. Make the name of your shop noticeable.
 - For example, **Afya Bora Drug Shop**
 - Written in big letters on the shop.
 - Shown in various places (posters, flyers, stickers, envelopes for packing medicines, receipts bearing your business name, location, and telephone number).

Advertising Your Business (2)

2. Advertise on the radio.

- It reaches the largest number of people, including those who cannot read or write.

3. Communicate clearly.

- Use the language most people understand.
- Use few, simple words.
- Use clear, simple pictures and diagrams.

Keeping Customers

- Customers are your number one stakeholders.
- To keep them, give them what they expect:
 - Quality medicines and other products
 - Fair, affordable prices
 - Respectful and careful service
- Treat them as you would like to be treated.

Tips for Keeping Customers

- Always welcome customers with a greeting and a genuine smile.
- Make an effort to know your customers by their names (most are neighbours).
- Attend to them quickly, especially if you have many waiting.
- Ensure you can answer all their questions about the medicine they need.
- Have a clean comfortable place where they can sit while waiting.

Key Marketing Facts

- The most effective means of marketing your business is by word of mouth.
- Your satisfied customers are your biggest marketing advantage.
- An angry customer will tell five people about your “bad” business.

Exercise 1

1. Person 1 turns to the other and does Task 1.
2. Person 2 says, “I agree” OR makes suggestions for improvement.
3. Person 2 then turns to the other and does Task 2.
4. Person 1 says, “I agree” OR makes suggestions for improvement.
5. Person 1 turns to the other and does Task 3.
6. Person 2 says, “I agree” OR makes suggestions for improvement.
7. Person 2 then turns to the other and does Task 4.
8. Person 1 says, “I agree” OR makes suggestions for improvement.

Session 5

Business Leadership and Ethics

Objectives

As a result of actively participating in this session, the individual will be able to:

1. Name two things that the ADS owner must provide for the business to grow and be successful.
2. Give at least two reasons why business ethics is essential for ADS success.

Business Leadership

- The owner of the business must provide leadership for the business to grow.
- Business leadership means providing:
 - A vision (long term) for the business.
 - A direction (day-to-day operations) for the business to move and reach its vision.

Qualities of a Good Business Leader

To lead his or her business successfully, a business leader must demonstrate:

- Big, long-term thinking
- Creativity
- Focus
- Sacrifice
- Inspiration
- Motivation
- Decision making
- Reasonable risk taking
- An *ethical* approach to all aspects of the business

Business Ethics

- Ethics simply means doing what is right.
- Another way of saying it:
Doing to others what you would like done to you.
- Ethics is important in every business, but especially in an ADS because the business involves helping others, and even saving lives.

Ethical Business Practices in the ADS

These include...

- Selling the right medicines.
- Selling medicines that have not expired.
- Selling at the right price.
- Advising customers if the medicine they need is not available. (The opposite would be selling them another medicine – one that would not help them – just to make a sale.)
- Honesty when dealing with people who may not know much about medicines.

Business Owner Responsibility

- The ADS business owner is responsible for modeling ethical behavior.
- An ethical leader ensures that ethical practices are carried out throughout the ADS business.

(An unethical person who runs a business cannot be trusted to sell good products. If you are unethical, the neighbors will know you and will avoid your business.)

Session 6
People Management

Objectives

As a result of actively participating in this session, the individual will be able to:

1. Explain each of the five steps of managing people effectively.
2. Identify examples of effective people management actions in real-life scenarios.

People Management

People management means getting the work of the ADS done by:

- Communicating effectively with employees and suppliers.
- Building trusting and respectful relationships with them.
- Fostering productive interactions with them.

Managing People Effectively (1)

1. Communicate your expectations:

- a. Identify your specific goals and targets.
- b. Determine the timeline required to meet them.
- c. Determine the role of your team in meeting them.
- d. Communicate your expectations of them in advance.
- e. Provide your team with feedback about how well they are meeting your expectations.

Managing People Effectively (2)

- 2. Analyze your team to learn the strengths and weaknesses of each team member. For example:**
 - Mukasa is a fast worker but does not pay enough attention to detail.
 - Babirye is very thorough but finds it difficult to accomplish assignments on time.
 - Okello has great customer relationships but can never say "no" to the clients.
 - Nakato has superb technical skills but poor people skills.

Managing People Effectively (3)

3. Assign responsibilities to maximize the strengths and minimize the weaknesses of your team. For example:

- Nakato and Okello will be more productive working together.
- Mukasa and Babirye will also work better as a team.

Managing People Effectively (4)

4. Meet with your team regularly to:

- a. Provide feedback on people's performance.
- b. Support the team.
- c. Enable you to understand the team better.
- d. Create opportunities for all to consult each other.
- e. Motivate the team.

Managing People Effectively (5)

5. Keep track of team activities.

This helps you:

- Recognize team performance.
- Reward good performance publicly.
- Give constructive criticism in private.

NOTE: Rewards do not always have to be monetary. They can also be training, public praise, days off, etc.