

WHERE TO GET FINANCE FOR IMPROVEMENTS AND UPGRADES TO PHARMACY PREMISES AND EQUIPMENT

There are many options available to pharmacists who wish to raise money to finance improvements to their premises or the purchase of equipment. In this article, George Hardy, director, Intrabank Expert Witness, outlines some of them

How does one start to identify the most appropriate organisation that will provide finance to either a new purchaser wishing to upgrade the “look” of an existing business recently purchased, or a pharmacist who just wishes to give the business a “make over” by upgrading, for example, the fixtures and fittings?

In fact, there is a range of organisations embracing pharmaceutical wholesalers, financial services outlets through to the Department of Trade and Industry via its Small Business Service. Researching the options has to be the answer.

PHARMACEUTICAL WHOLESALERS

Most large wholesalers are willing to provide finance to pharmacies either through their financial subsidiaries, or by introducing the pharmacist to a bank or banks. The wholesaler will then guarantee the loan (either in part, or in whole). The pharmacist must remember that the extent of the loan will ultimately be determined by the lender.

The major wholesalers have well established schemes with banks, which ensures that applications by the pharmacist for finance can be dealt with expeditiously.

The pharmacist will, of course, be required to commit to purchase a percentage of its stock, from the wholesaler, the precise amount based upon negotiation by the two parties.

The pharmacist may additionally benefit from the wholesaler’s promotional activities, ie, advertising through a range of media.

FINANCIAL SERVICES ORGANISATIONS

Overdraft Overdrafts should not ordinarily be used for the purchase of capital items such as fixtures and fittings. However, if the sum in question is comparatively small, eg, £10,000–£20,000 and the revenue from over-the-counter sales sufficient to clear the debt in less than 12 months, this could be a useful option.

Loan A more traditional method of financing capital expenditure is by loan facility. If the sum in question is modest, this could be arranged on an unsecured basis. However, if

security is required and the business cannot provide this, a DTI Small Firms Loan could be the answer (see below).



Credit card Depending on the sum in question, it may be possible for the sole trader to take advantage of some of the excellent deals offered by financial institutions. Competition is high between lenders, and some credit card companies are offering either zero interest, or extremely low rates. When researching options, do include internet banks. Although the debt financed on this basis is in effect on an overdraft, and in the borrower’s personal name, as before, if revenue can cover this, it is worth considering.

Mortgage (home loan) For the sole trader, or indeed the director of a limited company wishing to inject capital into his or her business, making use of the equity in a home could be an answer.

Looking at interest rates over the past 50 years, it has never been a better time to borrow on a home loan, rates being at a long time low.

If you have a home loan and have not reviewed it for over a year, now is an excellent time to consider what is available. 1988 is almost a history lesson now; mortgage interest rates were approximately 8 per cent, yet within a matter of a couple of years they had risen to 12 per cent and peaked at 14.5 per cent in the early 1990s. With this in mind, it is impossible to state with any certainty what will happen to the variable rate of borrowing in the coming few years; hopefully, they will remain stable and low, but “Events, dear boy, events”, as Prime Minister Harold MacMillan said, could change this.

An option to remove the risk of increasing costs of borrowing, for a period of time, is to enter into a fixed rate or capped rate loan. The capped rate offers the best advantages, for if interest rates fall further, the loan (subject to its minimum rate in the terms and conditions) will do so too, yet the maximum rate is capped to an agreed level for the period of the deal.

Leasing Many banks have leasing subsidiaries. Leasing has, as a consequence,

been a serious option for businesses for many years now. There are two types of lease: finance and operating. They have different accounting treatments and your accountant could advise which would be the most suitable for your business circumstances. A benefit of leasing is that, as a rule, no additional security is required from a business. This is particularly important where a business is heavily geared, or where it potentially could become heavily geared through taking on additional debt by way of loan. As with hire purchase, ownership of the asset vests with the leasing company while the finance facility is in place.

With the need for pharmacies to be, for example, up to date with “on-line” media and the speed with which IT systems become obsolete, leasing can be particularly valuable to a business, especially where the business has a number of outlets and the IT systems need to be networked.

The main advantages of leasing are:

- Long term debt at competitive rates
- Cost and cash flow savings due to there being no need to find, for example, a large sum as deposit
- Flexibility — premiums can be geared to match revenue peaks and troughs
- Operating leases may guard against obsolescence
- Costs are fixed, which gives the borrower peace of mind

Hire purchase Like leasing, hire purchase is based upon the principle of payment of an agreed monthly sum to a finance company.

However, with hire purchase, ownership passes to the customer with a compulsory final payment, whereas with leasing ownership is optional and, if not exercised, the asset returns to the lender.



PRIVATE INVESTORS

There is a growing body of private investors, often called high net worth individuals, who are looking for alternative investment opportunities. Sometimes these individuals are called “angels”. Although they generally look for risky ventures, in days of comparatively low return from mainstream investments less risky ventures can be attractive to them. The downside is that these investors generally wish to have equity in the business.

For more information your local Business Link, Training and Enterprise Council or Enterprise Agency can help.

DTI SMALL FIRMS LOANS

Since 1 April 2003 pharmacies have been eligible, subject to meeting various terms and conditions, to borrow money through the Small Firms Loan Guarantee Scheme. (Although medical, health and veterinary services are in the main excluded on the basis that they "treat patients", pharmacies are included on the basis that they do not "treat patients" and under the Office of National Statistics standard industrial classification, pharmacies are "retail establishments".)

Basically, SFLs provide finance where small firms are unable to raise finance because of the lack of security.

In a way, the SFL scheme is as "lender of last resort".

The salient details are:

- New and existing businesses may borrow
- The business can be in the name of a sole trader, partnership or limited company
- It is for medium-term facilities, ie, two to 10 years
- The loan size must be a minimum of £5,000 and a maximum of £250,000

- There is a premium 2 per cent per annum on the total outstanding
- Regarding business size, the staff may number up to 200 and the turnover may be up to £3m per annum
- The current list of lenders is in Annex 2 of the SFL's information package (details below) and these include the clearing banks
- Further information can be found in a booklet obtainable from lenders or direct from the Small Firms Loan Guarantee unit (tel 0845 001 0032, fax 0114 279 4374, e-mail sflgs@sbs.gsi.gov.uk, website www.businesslink.org/sflgs)

CONCLUSION

In conclusion, there is a wide range of options available to the pharmacist for raising finance. It is therefore important that considerable research is undertaken to identify all the terms and conditions applicable, which may include:

- Sum lent (is it enough?)
- Rate charged
- Repayment terms available (is it affordable within the revenue made from the business?)
- Tax implications of finance route chosen
- Tie-in terms and conditions



Another point to bear in mind is whether the expenditure is really essential to the business, ie, will the added value in revenue generated by this purchase be sufficient to off-set the costs or to at least maintain the competitive advantage? If the business case for these acquisitions is not sufficiently robust, the pharmacist's first action should be to revisit the business plan.

It is always worth evaluating project costs on an NPV (net present value) basis. If you are uncertain how to calculate this, it is worth consulting your accountant for advice.

In essence :

- Determine the rate at which the project's cash flows are to be discounted (cost of capital)
- Estimate the revenue attributable to the purchase
- Using discount factors (available in general accountancy text books), discount the cash flows. The project selected should have the most advantageous NPV.

Finally, do what is right for your business, rather than that which interested third parties may try to encourage you to do.