

POLICY FORUM: INVITED COMMENTARIES & SIDEBARS

Financial Challenges for Independent Pharmacies and the Cost to Patient Care

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Pharmacies have long served as trusted health care providers but today face mounting financial pressures from declining reimbursements and rising costs. Pharmacy owners must adapt, balancing patient care with business demands. Sustainable cash flow, strategic planning, and capitalization are essential as closures increase and access to community-based pharmacy care hangs in the balance.

An Overview of the State of the Pharmacy Industry

Since the opening of the first pharmacy in the United States by licensed pharmacist Louis Dufilho Jr. in 1823,¹ pharmacies have played a vital role in the health care system. However, over the last two centuries, the health care landscape and the role of pharmacies have undergone significant evolution as they have faced various challenges.

Over the last thirty years, I have worked across the industry, including in an independent pharmacy, at a nationwide drug wholesaler, and now as a pharmacy banker. During this time, I have witnessed the evolution of the pharmacy space firsthand, from shifts in industry players and technology to changes in regulations and the roles of pharmacists.

Historically, pharmacies were owned by pharmacists. These pharmacists were trusted health care providers who offered crucial support to their communities and served as advocates for their patients. They focused, first and foremost, on providing care and secondarily on running a business.

Unfortunately, in recent years, patient care has been challenged by the financial strain many pharmacies are experiencing due to decreased reimbursements and rising operational costs. Many pharmacy owners find themselves at a crossroads: providing exceptional patient care while sustaining a viable, cash-flowing business. The shift in the current business landscape can create friction for some pharmacy owners as they strive to continue delivering high-quality health care to their communities.

Quality patient care begins with access to viable pharmacies in every community. Unfortunately, the rising number of pharmacy closures has been well-documented over the past few years, and this trend seems likely

to continue. According to a December 2024 article published in the peer-reviewed journal *Health Affairs*, 29.4% of chain and independent retail pharmacies in the United States operating between 2010 and 2020 had closed their doors by 2021.^{2,3} When comparing National Community Pharmacy Association (NCPA) data from 2022 to 2024, North Carolina independent store closures have outpaced the national average by almost double. Nationwide stores were down 2.5% during that time compared to independent stores in North Carolina, which were down 4.7%.⁴⁻⁶ Additionally, the NCPA found that 30.3% of remaining independent pharmacists reported considering closing their business in calendar year 2025.⁷ This number is compounded by the fact that even the national chains are shuttering their pharmacies.^{8,9}

The closure of each pharmacy can significantly affect patients, forcing them to either switch pharmacies or, in some cases, lose access to a pharmacy within a reasonable distance. These closures place a burden on patients, making it difficult for them to obtain the care they need. Pharmacy owners who fail to adapt will struggle financially as increasing costs and inflation-driven expenses outpace reimbursement revenues, which are decreasing. The outcome? Fewer pharmacies and higher out-of-pocket costs for patients.

Financial Challenges Facing Independent Pharmacies

Imagine being at the circus and watching the artist balance and walk across the highwire 20 feet above the ground. Every step is carefully taken as they slowly make their way across, balancing on the delicate edge to avoid falling. The tightrope is an excellent metaphor for what pharmacy owners face every day. They constantly balance the demands of patient care with the responsibilities of running a business, and the stakes are high.

Pharmacy owners face significant decisions in business and financial management, as well as diversifying revenue streams and patient care; these decisions have a substantial impact on the sustainability and viability of their business. Typical back-office decisions for community pharmacies include determining where to purchase inventory, selecting a Pharmacy Services Administrative Organization (PSAO), deciding which third-party contracts to accept, and determining the appropriate number of staff members, among other considerations. Many pharmacies must explore alternative revenue streams, such as immunizations, vaccinations, clinical services, supplements, long-term care at home, compounding,¹ or other non-retail business types, all while maintaining high standards of patient care and managing

¹ Compounding is a personalized approach to medication preparation that allows pharmacists to tailor treatments to meet individual patient needs. Compounding pharmacies can create customized dosage forms to accommodate patient preferences or limitations—such as medications that are free of dyes, preservatives, alcohol, or sugar. Compounded medications often involve unique formulations or delivery methods that are not available through standard commercial products.¹²

reimbursements and cash flow. Additionally, investments in proper tools and technology are often necessary for business owners to effectively understand the cash flow of a pharmacy.

It is well-documented that reimbursements paid to pharmacies are often low and unsustainable, which directly impacts the pharmacy's financials—the lower the reimbursements, the lower the revenue.¹⁰ Less discussed, however, is the total cost of the drug in relation to reimbursement. As inventory, dispensing, and other operational expenses continue to rise and reimbursements continue to decline, pharmacies are experiencing increased pressure on their cash flow.² Cash flow pressures compel pharmacies to seek the lowest available drug prices, which may involve purchasing from a primary wholesaler, a secondary supplier, or a combination of both. However, the process of comparing prices from multiple sources requires significant time and effort, and this time spent ultimately affects patient care.

Moreover, the payment terms and pricing for each drug source may vary. For instance, primary wholesalers often have standard payment terms of semi-monthly payments, meaning payments are due on the 10th and the 25th of each month. As a result, pharmacies typically pay for their inventory before receiving reimbursement. This payment structure can lead to inconsistent cash flow due to its inherent design.

To effectively manage cash flow, pharmacy owners must regularly reconcile their claims, monitor all reimbursements, and utilize every available tool to maximize reimbursements while also managing and reducing costs. This daily balancing act is essential for pharmacies to survive and remain financially stable in these challenging times.

Pharmacy cash flow challenges can compromise patient care, patient safety, and overall access to care. For example, many pharmacies located in rural areas are the sole or last remaining providers in the community. When the last pharmacy exits a community due to cash flow pressures, it creates a pharmacy desert. A pharmacy desert is an area where residents lack or have limited access to a pharmacy, creating a burden on patients who must drive long distances or rely on alternative means, such as mail-order services, to access prescriptions. This burden on the patient is not just a logistical challenge, but also an overall health impediment, as they lose the ability to speak with a pharmacist about medication management and outcomes.

The risk of pharmacy deserts is one example of the many reasons pharmacies must be well-capitalized and have sustainable cash flow, especially in the current environment where every penny matters. In other circumstances,

² Cash flow refers to the money moving in and out of a business. Positive cash flow means more money is coming in than out, negative cash flow is more money flowing out than in.

pharmacies may still be in the community but may have difficulty accepting certain insurance plans or stocking specific medications due to the high cost of the drugs.

One thing is clear: things cannot be done as they always were, leading pharmacy owners to adapt and create new revenue streams. Some pharmacy owners have turned to vaccinations and immunizations, while others, where allowed, have turned to medical billing or exercising their provider status. These alternatives can create additional margins that are less tied to the direct reimbursement of the drugs that many retail pharmacies have filled for decades. To capitalize on these opportunities, the pharmacy needs to be adequately capitalized with cash on the balance sheet or have access to a working capital loan, such as a line of credit or a term loan.

The Importance of a Well-Capitalized Pharmacy Business

To operate successfully, pharmacies require sufficient working capital—the liquidity for daily operations and opportunities. Small business owners must determine “How much cash do I need, and when?”

There is a school of thought that the best time to secure capital is before you need it rather than trying to secure the cash when challenges arise. However, the question of when small businesses need capital can be complex and requires proper planning, as well as a clear understanding of options. Ideally, a pharmacy would be able to build a cash reserve to sustain its operations. However, not all pharmacies can create that reserve, potentially leading to cash shortfalls necessary to operate the business.

In some cases, a pharmacy business may have a growth opportunity that requires additional capital. Many pharmacy owners will use their existing operating funds to pursue these new opportunities. However, if they don’t have adequate capital, they may inadvertently create a cash flow problem by depleting the funds needed to maintain their current operations. Furthermore, low-profit margins and rising costs can continue to diminish any cash reserves the pharmacy might have had. Therefore, careful planning is essential.

Pharmacies can encounter financing challenges because, although they possess significant tangible assets in the form of inventory, prescription files are considered intangible assets. This distinction complicates the process of securing financing, as banks and lenders may struggle to utilize these assets as collateral. As a result, Small Business Administration (SBA) loans have become a valuable resource for pharmacy owners, since lending decisions are primarily based on cash flow rather than collateralized assets.

Herein lies a significant challenge: If the pharmacy does not have assets to pledge as collateral and SBA loans rely on cash flow, when should the pharmacy secure the proper working capital to operate its business? The

exercise of forecasting and projections is essential for small businesses in answering this question because, in simple terms, it shows where they have been and where they are going. The notion of knowing where the business is going is a great way to anticipate capital constraints and needs. A business owner who thinks ahead may have a better chance of weathering storms and capitalizing on opportunities. Additionally, these projections would also be useful when discussing a capital request with a bank or lender.

When applying for a loan, pharmacies must calculate how that debt may impact their day-to-day operations. “Debt service coverage ratio” is a calculation that determines whether the pharmacy’s net operating income can support additional debt while covering all operational expenses. This process enables the owner to use their projections to assess whether leveraging their balance sheet is the right approach or if they should take on additional debt.

When considering debt, the pharmacy owner should carefully review the loan terms to ensure they are favorable. Many borrowers tend to focus solely on the interest rate and aim for the lowest one available; however, the amortization period and the overall term of the loan are critical factors that can either facilitate or hinder the ability to repay the loan without compromising necessary cash flow.

Signs of a Successful Pharmacy Business

It is an inescapable reality that pharmacy owners must be able to manage revenues and costs to make a profit. Unfortunately, pharmacies are unique in that they have less control over the top two items on their profit and loss statements, as reimbursements (i.e., revenues) and the cost of drugs (i.e., cost of goods sold) are heavily dictated by others.

Despite the odds, pharmacy owners can be successful—and many are. We see several traits that directly correlate to a pharmacy’s success:

Adaptability: The willingness and ability to adjust to market changes and adopt the latest tools and technologies.

Understanding cash flow: Keeping close track of every dollar coming in and going out of the pharmacy.

Proper staffing: Ensuring the pharmacy has the correct number of employees and that labor costs stay proportionate to sales.

Strategic purchasing: Actively managing buying programs and understanding how and when discounts are applied—whether off-invoice, through contracts, or as rebates—to optimize margins.

Payer and patient mix awareness: Knowing which insurance plans, formularies, and patient demographics support profitability—and which ones may hurt it—to make informed operational decisions. With organizations like

CPESN USA, pharmacies can collaborate to provide health services locally, be reimbursed appropriately, improve the quality of patient care, add revenue-generating services, and accelerate sustainable business growth.¹¹

Well-capitalized: Prepared to weather storms and capitalize on opportunities with cash reserves or working capital loans.

Conclusion

The evolution of the pharmacy landscape underscores a pressing reality: pharmacies face significant financial headwinds from declining reimbursements, increased operational costs, and the competitive pressures of a consolidating market. The current financial struggles are not merely an inconvenience but a critical challenge to patient access and quality care. Without proactive measures supporting the sustainability of independent pharmacies, the health care system risks losing an invaluable component of community health and equitable access to care.

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