

# National Medical Stores: Business, Procurement, Storage & Distribution

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## NMS Income Statements for Financial Years 2005 to 2009

UGX000's	2005/06	2006/07	2007/08	2008/09
<b>Income</b>				
Sales	16,277,628	15,876,170	17,117,050	19,136,045
Cost of Sales	(12,586,148)	(11,370,383)	(12,356,578)	(14,560,388)
Gross profit	3,691,480	4,505,787	4,760,472	4,575,657
Other Income	3,826,200	6,561,448	7,558,412	5,087,659
<b>Total Gross Profit</b>	7,517,680	11,067,235	12,318,884	9,663,316
<b>Expenditure</b>				
Unreconciled difference in stocks written off	(110,489)	2,425,043	71,377	-
Provision for expired stocks	202,909	532,618	1,193,872	89,169
Provision for bad debt	1,735,217	121,510	1,452,985	1,222,397
Personnel costs	2,610,353	2,896,148	2,888,331	3,332,321
Other Operational expenses	3,970,353	6,293,669	6,911,951	6,333,834
Total expenses	8,408,343	12,268,988	12,518,516	10,977,721
<b>Loss from Operations before grant income and taxation</b>	(890,663)	(1,201,753)	(199,632)	(1,314,465)
	\$ (445,331.50)	\$ (600,876.50)	\$ (99,816.00)	\$ (657,232.50)
<b>Grant Income</b>	937,410	1,716,327	3,720,900	-
<b>(Loss)/Profit before Taxation</b>	46,747	514,574	3,512,268	(1,314,405)
<b>Taxation</b>	-	(2,260,720)	(501,767)	88,405
<b>(Loss)/Profit for the year after taxation</b>	46,747	(1,746,146)	3,019,501	(1,226,000)
	\$ 23,373.50	\$ (873,073.00)	\$ 1,509,750.50	\$ (613,000.00)

Source: Data from NMS Financial Statements, FY 2005/06, 2006/07, 2007/08, 2008/09



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# National Medical Stores: Business

Analysis of Key Financial Ratios can show how well a business is performing

- how many times stock is turned in the warehouse
- how well management uses assets to generate profit
- how well could the business clear liabilities if they were called on to do so.



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## National Medical Stores: Key Financial Indicators

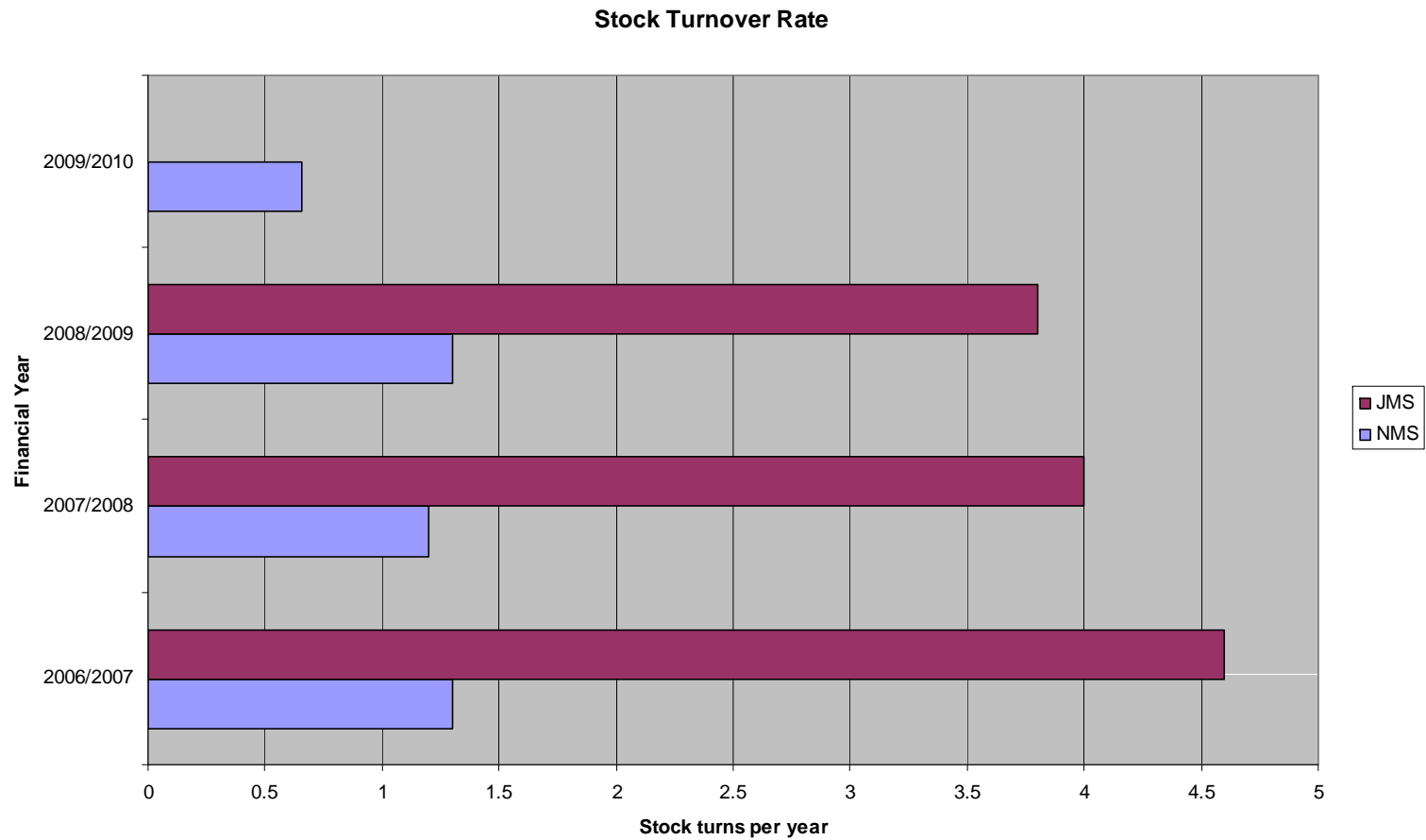
Ratio	2006/07	2007/08	2008/09	2009/10	Norm
Stock Turn	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	<b>0.7</b>	3
Quick Ratio	1.8	<b>0.9</b>	1.2	1.7	1
Current Ratio	5.3	2.3	2.7	3.0	>1
Return on Assets	<b>-3%</b>	<b>-1%</b>	<b>-3%</b>	N/A	>0
Asset Turn over	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.3</b>	> 1
Collection days	<b>230</b>	<b>215</b>	<b>224</b>	<b>284</b>	30
Supplier Payment days	<b>230</b>	<b>180</b>	<b>135</b>	<b>85</b>	30
Gross Margin	49%	49%	40%	40%	Profit
Net margin	<b>-11%</b>	<b>-1.1%</b>	<b>-5.4%</b>	N/A	Profit



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# National Medical Store and Joint Medical Store: Stock Turnover Rate Comparison

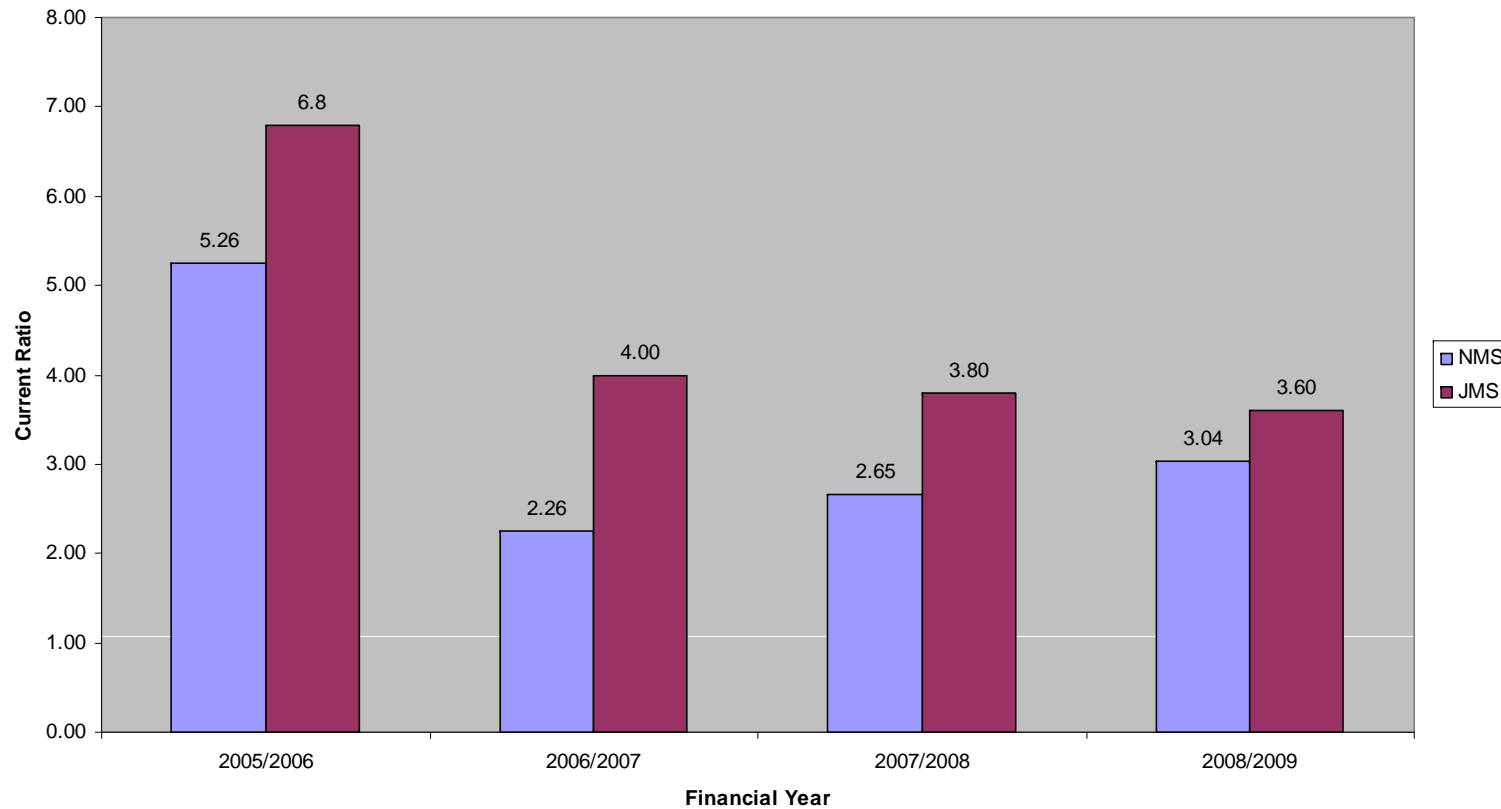


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# National Medical Store and Joint Medical Store: Current Ratio Comparison

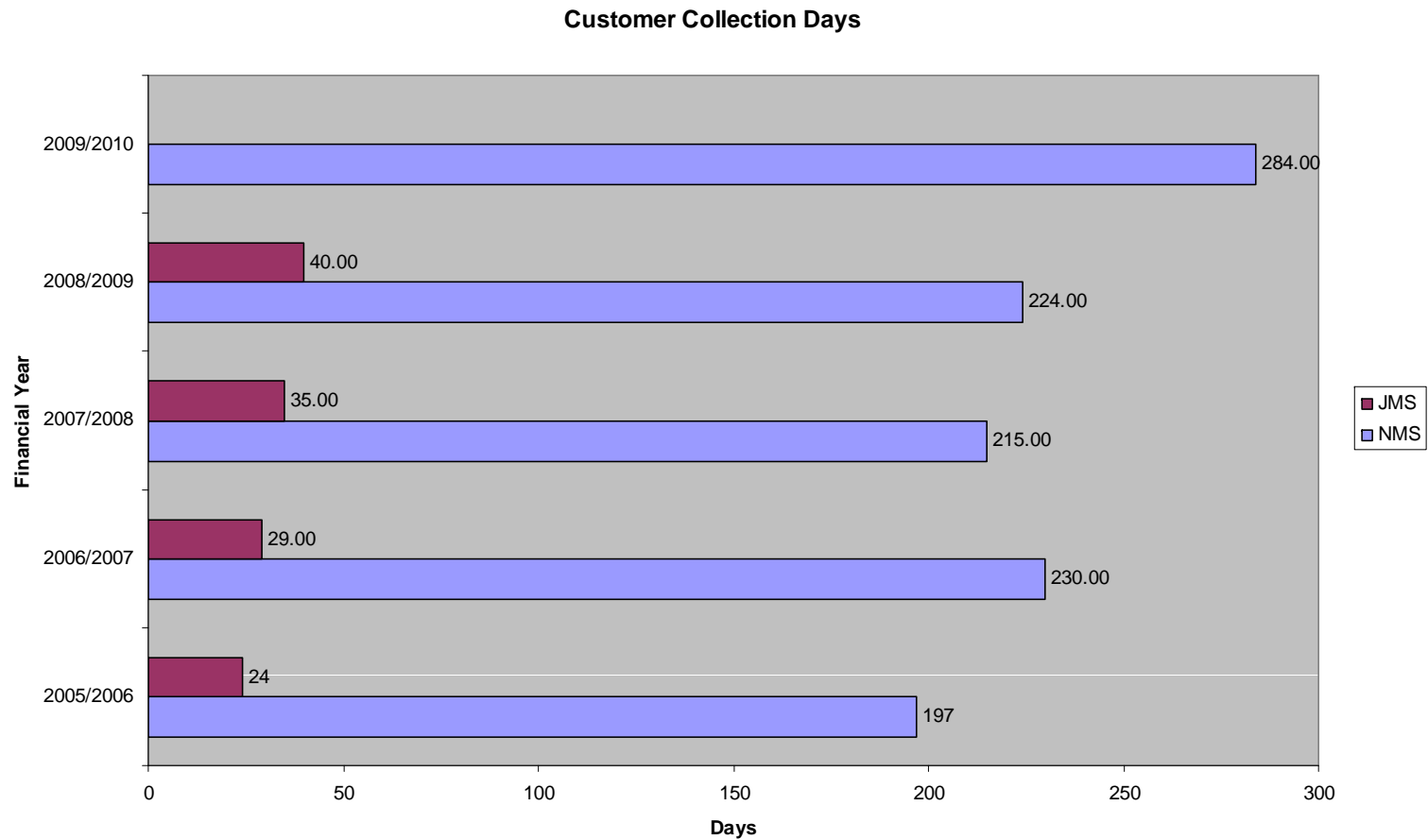
Current Ratio = Current Assets/Current Liabilities



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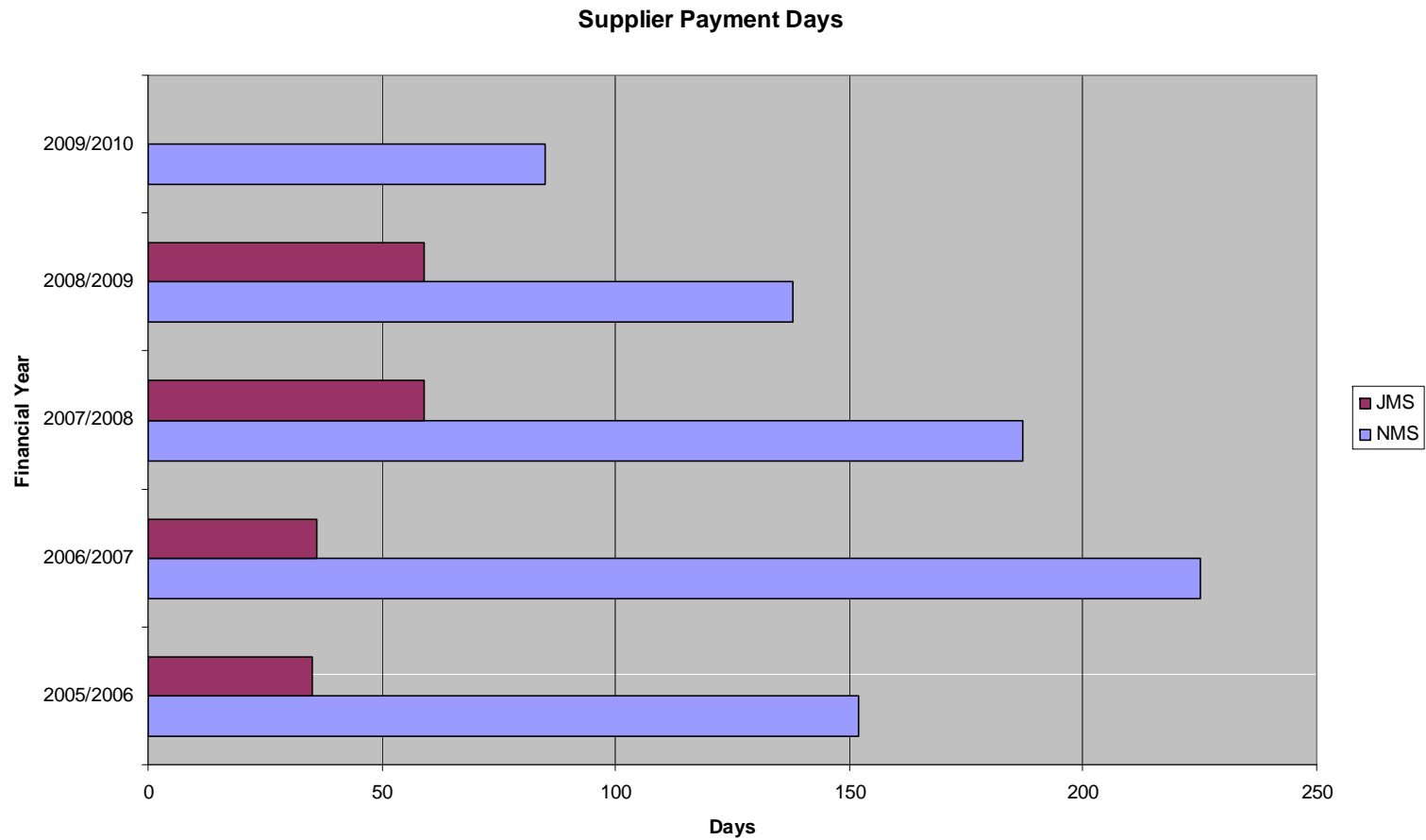
# National Medical Store and Joint Medical Store: Customer Collection Comparison



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# National Medical Store and Joint Medical Store: Supplier Payment Comparison

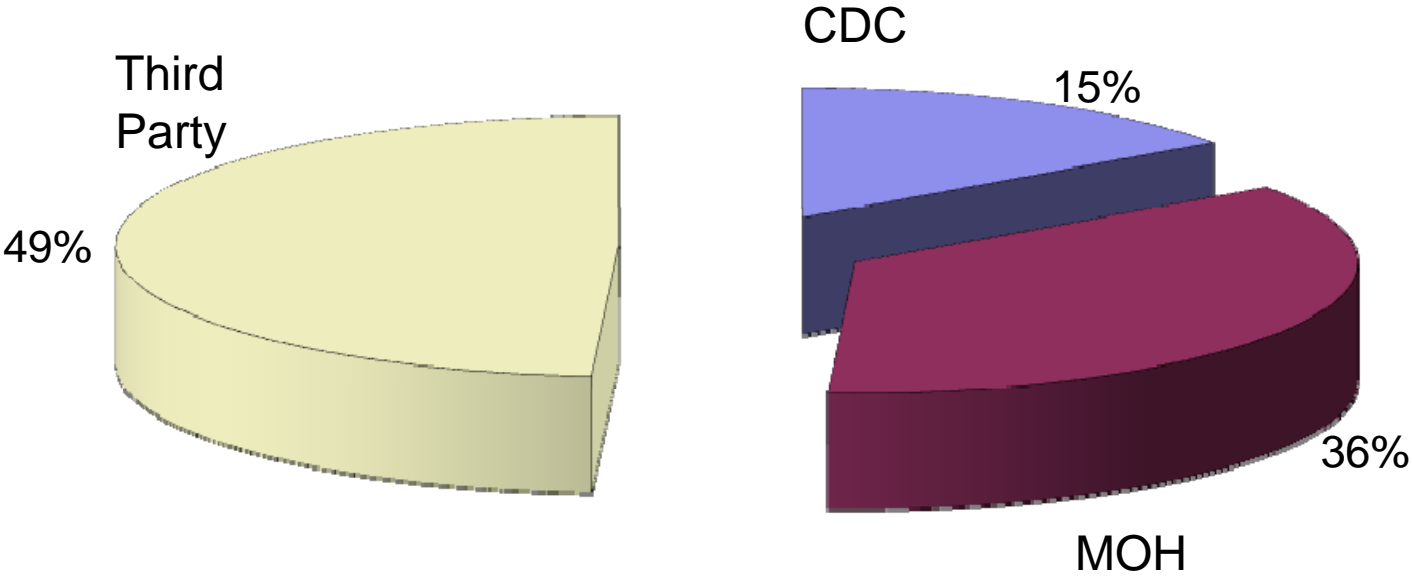


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# National Medical Stores Income Streams



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# National Medical Stores: Third Party Handling Fees

Third Party Client	Handling Fee
Clinton HIV/AIDS Initiative	8%
United Nations Family Planning Association	10%
Supply Chain Management System	7%
AIDS Control Programme	7%
Uganda National Malaria Control Programme	7%
Diflucan <sup>®</sup> Donation	7%
Neglected Tropical Diseases/United Nations Children's Fund	10%
JSI/Injection Safety	10%
Uganda Global Fund	7.5%



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## Contribution to NMS bottom line by income stream

			Scenario 1		Scenario 2	
UGX Million	CDC	MOH	3rd Party	Total	3rd Party	Total
Fee %	15	18	7.5		10	
Stock Value	8,538	16,648	55,066	80,252	55,065	80,252
Income	<b>1,281</b>	<b>2,997</b>	<b>4,130</b>	<b>8,407</b>	<b>5,507</b>	<b>9,784</b>
Personnel	32	61	203	296	203	296
Distribution	313	2,314	500	3,127	500	3,127
Storage	510	994	3,289	4,794	3,289	4,794
Procurement	166	323	1068	1,557	1068	1,557
Total Costs	<b>1,021</b>	<b>3,692</b>	<b>5,060</b>	<b>9,774</b>	<b>5,060</b>	<b>9,774</b>
Net Profit/(Loss)	<b>260</b>	<b>(695)</b>	<b>(930)</b>	<b>(1,367)</b>	<b>447</b>	<b>10</b>
%	<b>20%</b>	<b>-23%</b>	<b>-23%</b>	<b>-16%</b>	<b>8%</b>	<b>0%</b>

# NMS and the implications of Vote 116

- Only income is from handling fees
- No longer sells to facilities, but acts as a procurement and logistics agency for MFPED
- No longer pays for stock but still has contractual responsibility to the supplier



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# NMS and the Implications of Vote 116 (3)

- At the End of June 2009 NMS had UGX 11.3 Billion of Stock that can no longer be sold under Vote 116

	Before Vote 116	After Vote 116
Stock Value Recovery	Cost + Mark Up	18%
Profit or (loss)	Mark Up	<b>(82%)</b>



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# NMS and the implications of Vote 116 (2)

- Facilities charged a mark up of 31% for products supplied (SURE Pricing Survey 2010)

Facility Credit



NMS Charge



Products Supplied



Products Not Used



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# National Medical Stores: Procurement Operations

- 5 procurements managed since July 2009.
- Procurement operation
  - 11% of cost of goods (NMS)
  - 3 to 5 % of cost of goods (Private Procurement Organisations)



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# Observations

- Framework contracts in place, covering 12 months
- No contracting can occur until funding is available
  - Procurement team run tenders up to contract signature stage, and then hold the process until funds in place
- MFPED releases funds three weeks after NMS request (under Vote 116)
- For FY 2009/10 it is a concern that NMS will only have 1.5 – 2 months to complete the procurement before funds revert to Treasury, leaving suppliers unpaid
  - Procurement process times up to contract signature is approximately 3.5 months then supplier lead-times need to be added

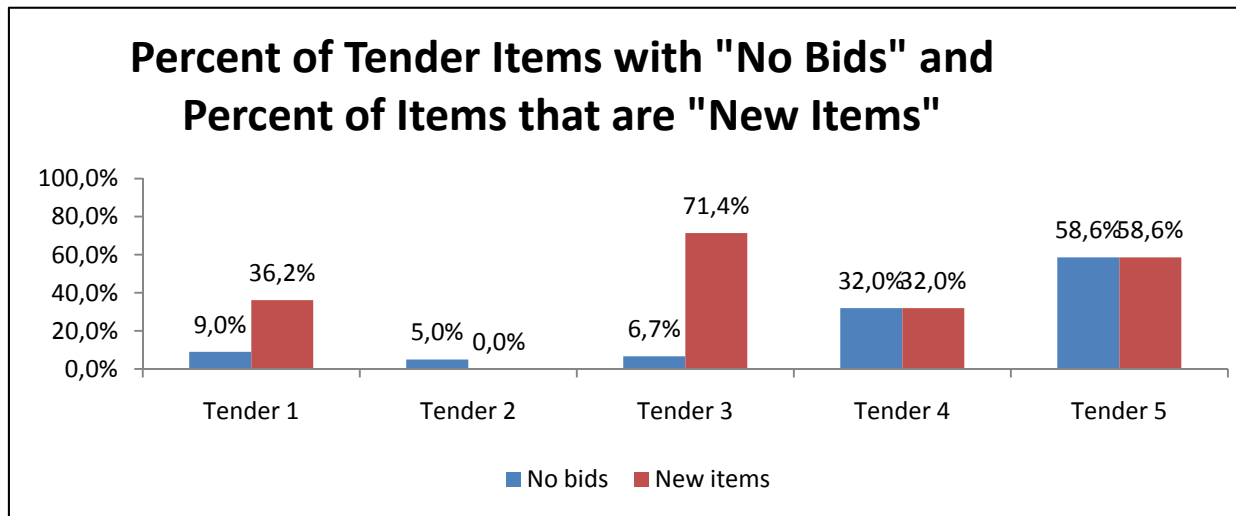
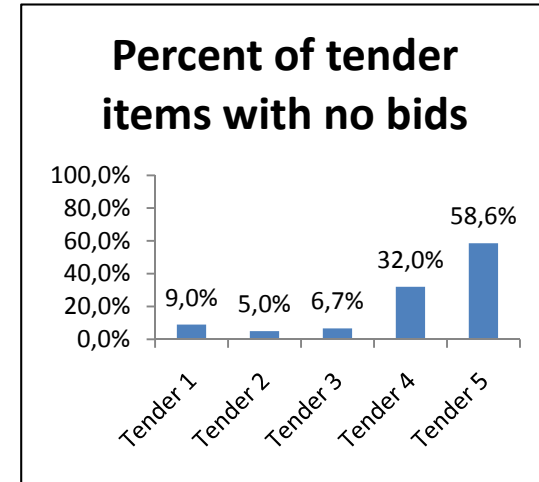
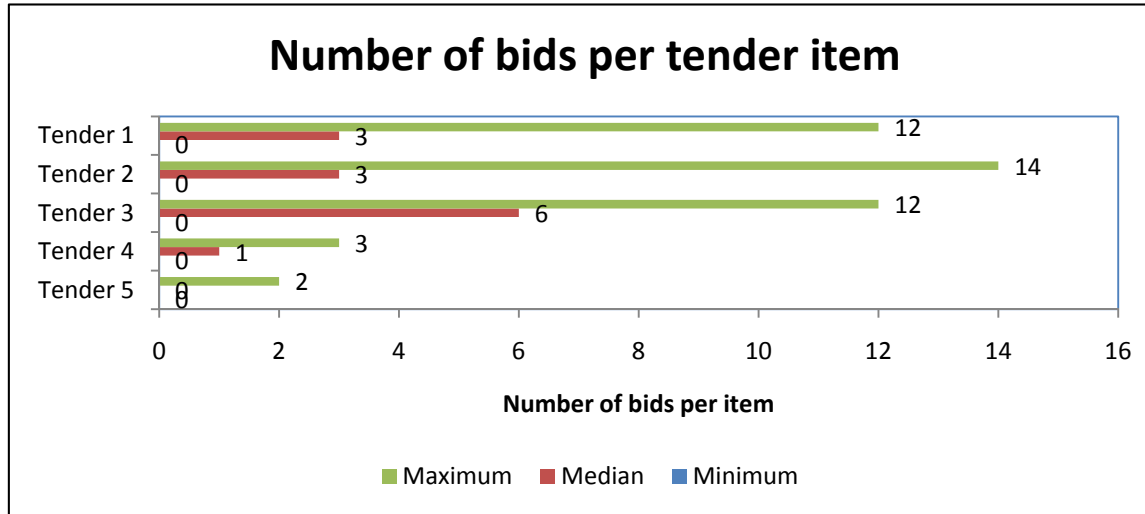


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# Supplier Response to NMS Tenders 2009 - 2010



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# National Medical Stores: Storage

- Using the PHD Warehouse rating system
  - Warehouse management, infrastructure, security, signage, offices, regulatory, health & safety

Platinum	Gold	Silver	<b>NMS</b>	Bronze	Basic
100	87	58	<b>40</b>	30	14

- National Medical Stores are operating between Bronze and Silver rating
- Rwanda's CAMERWA rated Bronze
- Mozambique's CMAM rated Basic



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# National Medical Stores: Storage Operations (continued)

- Some actions needed for National Medical Stores to achieve Silver status
  - Have temperature control, and cooling systems
  - Formal cleaning register and pest control
  - Full and recent process maps showing value added and non value added processes linked to up-to-date Standard Operating Procedures (SOPs)
  - Process to monitor and update SOPs
  - Full regulatory and safety signage
  - Clear health and safety processes, equipment



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# National Medical Stores: Storage Operations (continued)

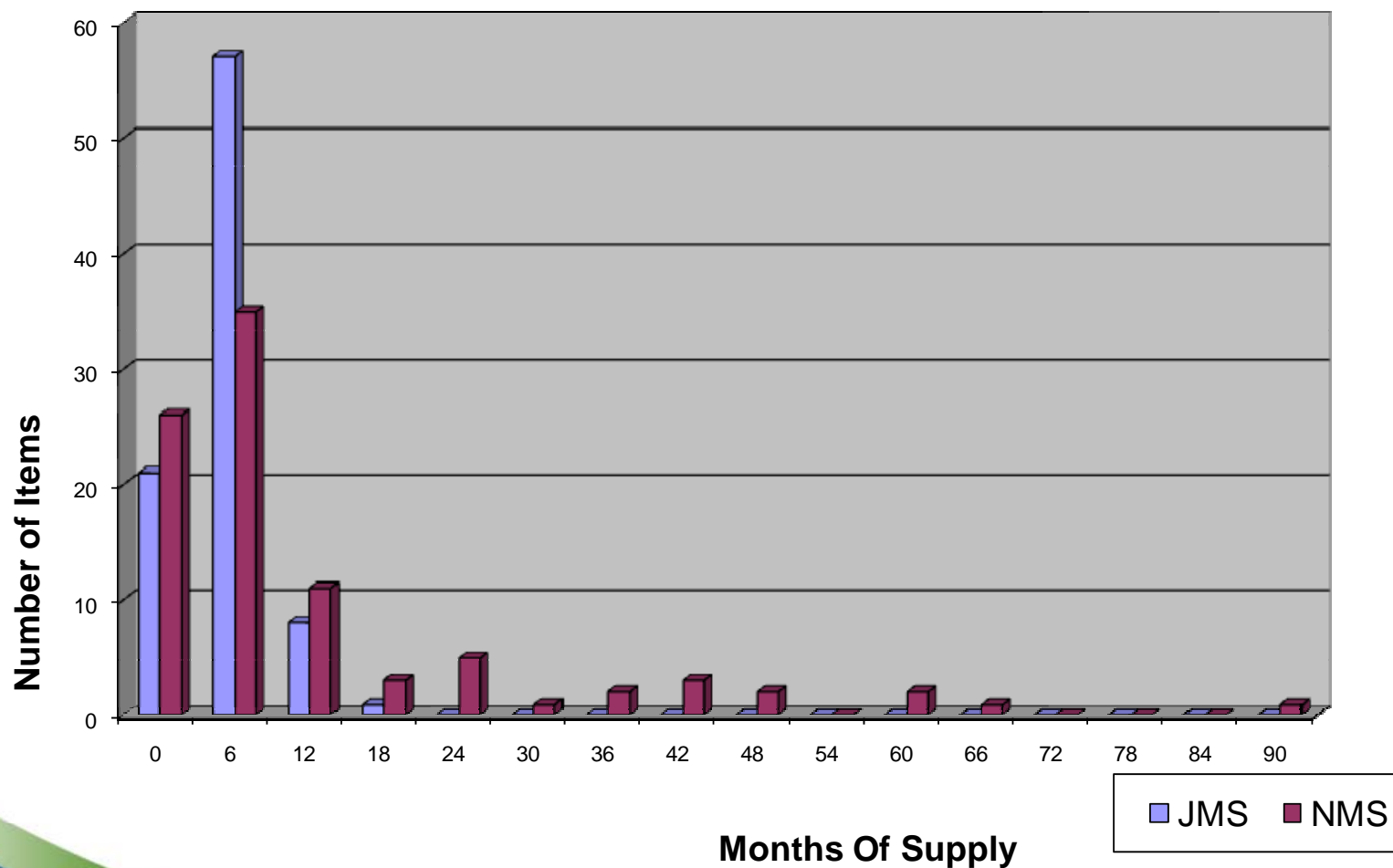
- Storage utilization by client
  - CDC (10%)
  - NMS (74%)
  - Third Party (16%)
- Storage utilization by commodity type
  - Bulky items occupy over 20% of space



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# National Medical Stores Inventory: Comparison with Joint Medical Store

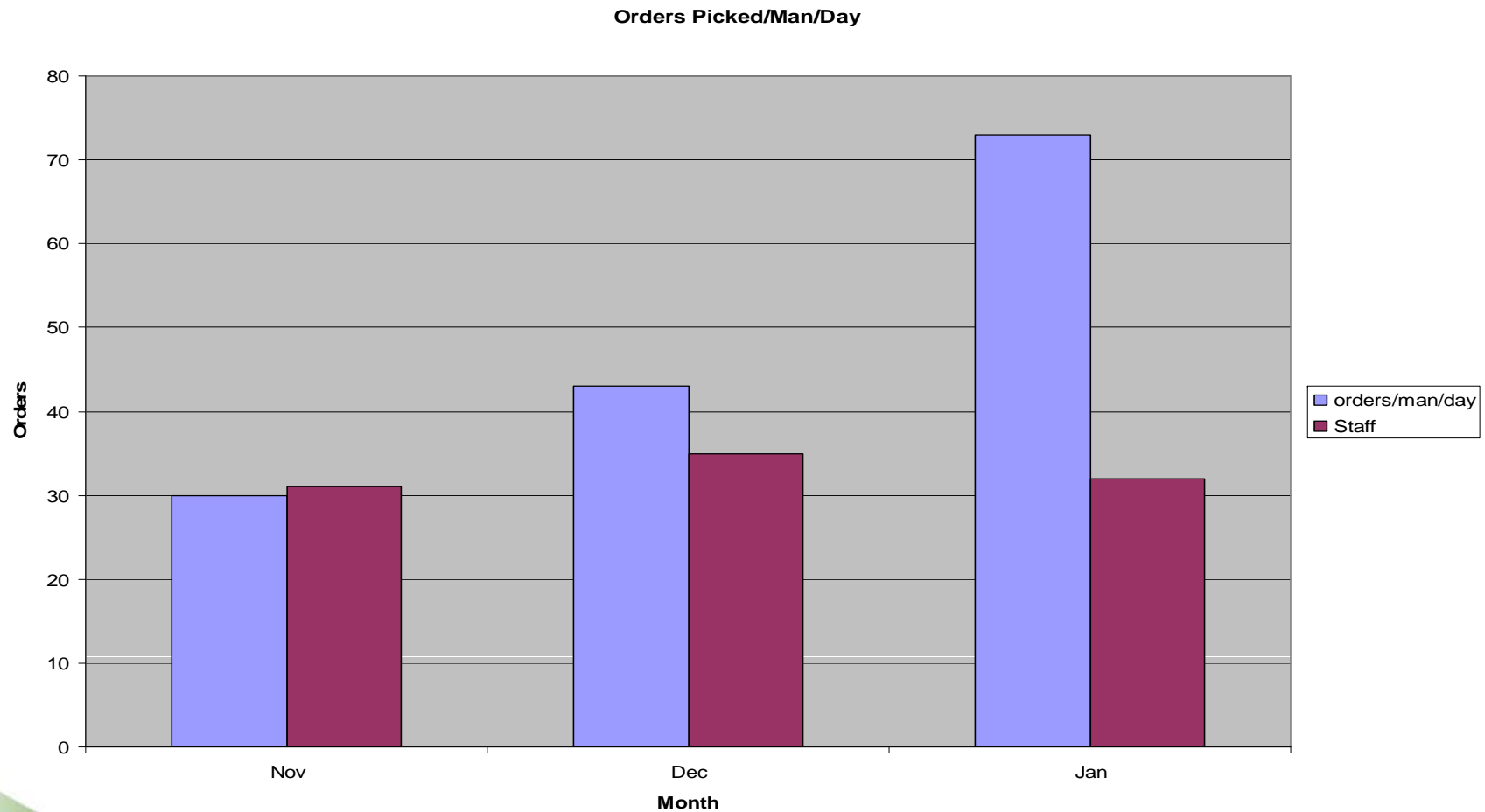


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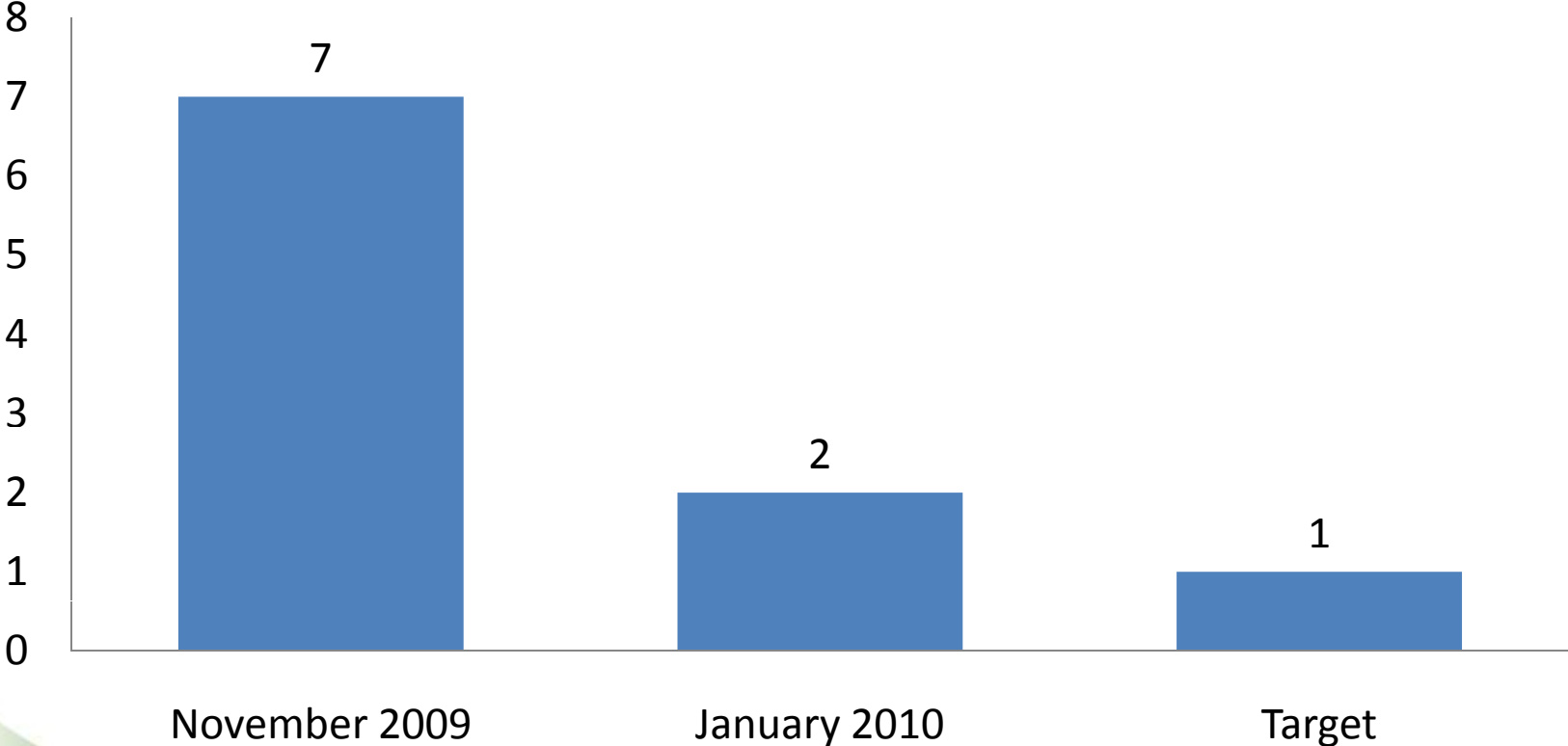
# Operational Efficiencies: Order Picking



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# Operational Efficiencies: Goods Receipt



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# Order Fill Efficiency from NMS

	ITEM	DESCRIPTION
1.	Review Period	July 2009 to December 2009
2.	Population	All orders processed for the six months
3.	Sample Size	<ul style="list-style-type: none"><li>▪ 50 level II</li><li>▪ 33 level III</li><li>▪ 12 level 4</li><li>▪ 9 hospitals</li></ul>
4.	Sampling Method	Systematic randomized sampling
5.	Variables	<ul style="list-style-type: none"><li>▪ Number of items not supplied (Nil Lines)</li><li>▪ Up ward and downward adjustments made</li></ul>

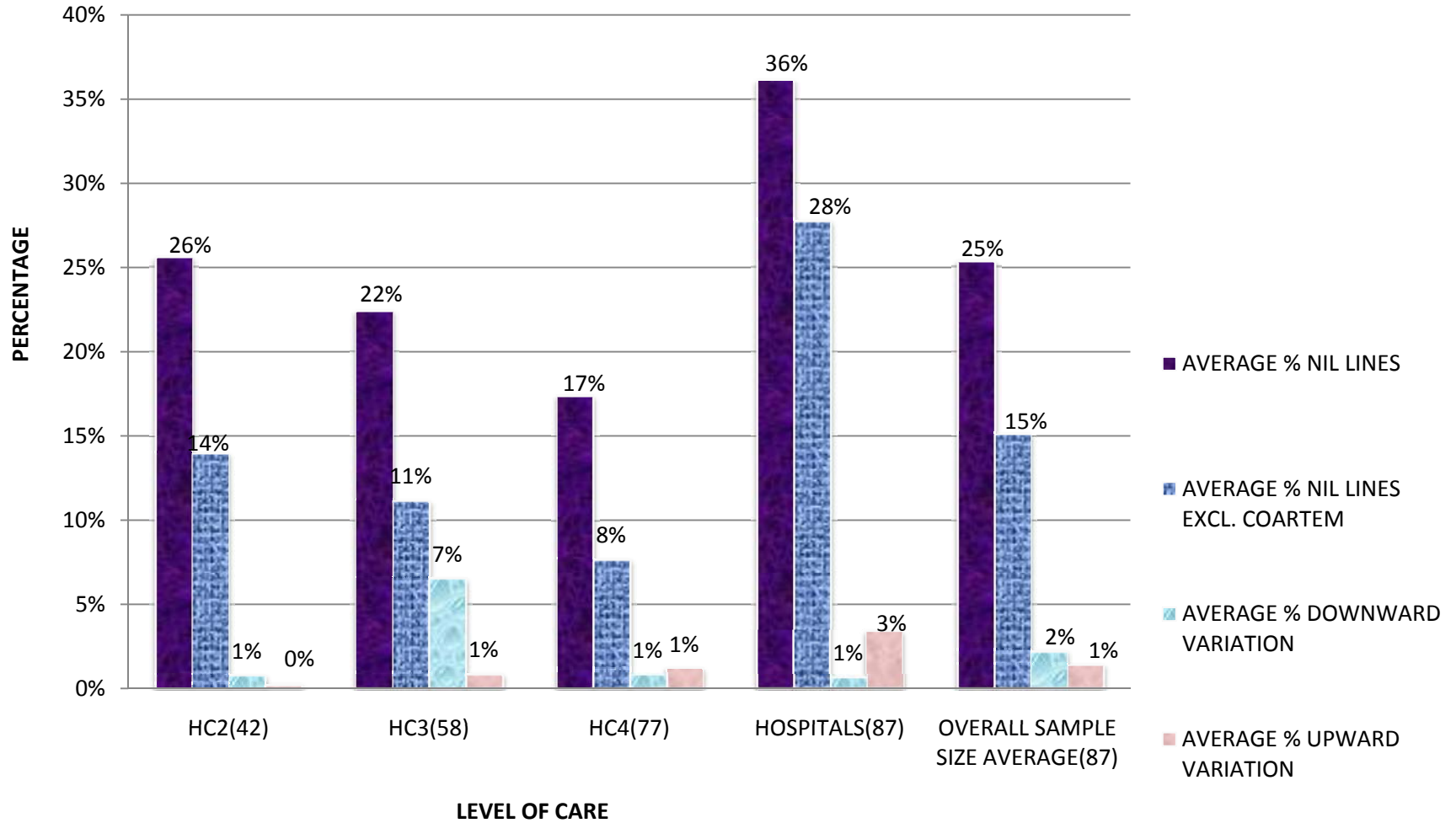


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**GRAPH SHOWING AVERAGE PERCENTAGES OF NMS ORDER FILL LEVELS**



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# Distribution Dynamics

- Annual distribution costs are UGX 3.1 billion
  - 21% cost of goods (excluding Third party)
  - 5% cost of goods (including Third party)
- Own fleet of vehicles, with tracking devices, delivering to Health District Office
- Delivery schedule endeavours to deliver once a month



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# Capacity Utilization

Capacity Utilization	To Health District Office	To Health Sub District
8 vehicles (monthly average)	81%	115%
12 vehicles* (available)	54%	76%

Capacity Utilisation: number of work-days vehicles are needed to work divided by number of work-days vehicles can produce. Benchmark is 100%.

\* 4 of the vehicles are over 13 years old



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# Distribution Costs to Health District Office and Health Sub district

Destination	Total Cost
Health District Office	UGX 3.1 billion
Health Sub district	UGX 3.6 billion



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