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| ***Appendix Six: Cost Analysis for a Professional Service*** |

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* What is the “Cost of Service?”
  + salary, wages and benefits of all service personnel
  + non-salary direct costs: special education/training, information resources, marketing and promotion
  + materials and supplies routinely consumed during delivery of the service
  + equipment used to support the service
  + fair share of overhead costs
* Why should you know your service delivery costs?
  + to make pricing decisions if a price maker
  + make participation decisions if a price taker
  + assess productivity/efficiency of staff
  + evaluate new processes or procedures
  + assist your state and national associations to represent your interests!
* How is the Cost of Service Delivery Calculated?
  + **Direct Costs** – would not be incurred if the activity were not performed
    - **Variable** – fluctuate with volume (materials, supplies)
    - **Fixed** – do not fluctuate with volume (education/training, information resources, marketing and promotion, capital equipment)
    - What about Personnel?
  + **Indirect Costs** – would be incurred even if the activity were not performed (e.g., overhead)
    - each indirect cost in the operation must be allocated to the activity being costed using a reasonable criterion
* Additional Considerations
  + **Will offering the service require adding additional staff?**
  + **Will it require diverting existing staff from other revenue generating activities?**
  + **Can you substitute lower cost staff for some service delivery activities?**
  + **Do you want this program (and price) in your book of business?**
  + **What are your objectives for this Service? Why are you doing this??**

For additional guidance and resources on cost analysis for professional pharmacy services go to: [www.pharmaccount.com](http://www.pharmaccount.com/)