Veterinary Inventory Management Guide

A collection of materials and information from the veterinary industry.

Written By, Byron Farquer, DVM, CVA

Simmons
Veterinary Practice Sales & Appraisals

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Preface

Inventory is the second largest expense in the veterinary practice, next to the cost of labor. It often consumes 20% or more of gross revenue and, left unchecked, may swell to considerably more. Profitability becomes a challenge when large expense categories are not constrained to appropriate benchmark levels. This guide will help address some of the additional learning and knowledge needed to gain control of your practice's inventory and facilitate developing an efficient management program. Special thanks to all that contributed. It remains the hope of myself as well as others that this guide assists in some way, making the daunting task of inventory management a bit more bearable.

The Inventory Management Guide is designed to be a collection of information from the editor and various contributors. It is neither a cohesive work nor a comprehensive collection. Designed to be educational in nature and intended for your personal usage, it should not be distributed for any commercial application.

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Find Your Freedom.

How to Make Your Pharmacy Profitable

What Should I Do to Ensure My Pharmacy Is Profitable?

The shift in how consumers purchase products has greatly impacted the veterinary pharmacy. The pharmacy can still be a profit center for the practice, but this requires strategic planning and management. Traditional pricing structures can no longer be relied on in today's market. In the past, veterinary pricing strategies were often not based on sound business principles but were passed down by word-of-mouth. If a previous employer priced products by doubling the cost, that is what the associate veterinarian did when he or she became a practice owner.

Our current business model includes the veterinary pharmacy as an important generator of practice revenue, easily accounting for 25% to 30% of the total. However, it is time to consider what a new model might look like, one that retains the profitability of the pharmacy by managing it differently. One way to maintain profitability is by recognizing the relationship between products and services and providing owners with clear recommendations for products based on sound medical practice. Strategic management of inventory is likewise critical: with so many products available and even more on the horizon, practices can no longer carry everything and use the "easy" button when it comes to pricing. Instead, veterinarians need to view products in terms of how they are used and then use that information to implement solutions for maintaining profitability and control of the pharmacy. Finally, educating staff as to why clients should be purchasing products from your veterinary hospital is key to keeping your pharmacy healthy.

> *Practice owners and managers also need to disconnect from emotions when it comes to pricing—pricing products based on their perceptions of the client's wallet. This underestimates the value clients put on their experience in that practice.*
>
> *— David F. McCormick, MS*

What Benchmarks Should I Look at to Evaluate My Pharmacy's Profitability?

When it comes to profitability, practice owners cannot continue to look at benchmarks followed 5 or 10 years ago. The market has changed irrevocably. That does not mean abandoning the pharmacy—it means reassessing what is expected. First, practice owners need to find a strategy they can use to analyze their individual practice's needs. They need to start small but fix the larger problems first. Within a small period of time, they can use financial printouts (e.g., profit and loss statements from QuickBooks and practice sales reports from the practice management software) to examine some critical performance benchmarks in their practice. If practices are conducting a regular routine inventory, they can stratify that inventory to look at their top revenue producers and focus on implementation of management of those first before expanding to include all of their hospital products/goods. Practice owners will also want to know their practice's benchmarks, such as the relationship between the cost of goods and revenue. If the practice is spending 30% of its revenue on the cost of goods, how does that compare to the revenue being generated by those same cost of goods? That is where benchmarking can help.

> *The best thing to do is to start small and fix the macro things. Quit using the 100× oil immersion objective to look at management when you're not doing a good job with a handheld microscope.*
> *—Byron Farquer, DVM, CVA*

By utilizing their practice management systems, most practices will find macro problems that need to be fixed in relation to their pharmacies. Something as simple as an incorrect SKU number entered in the computer can wreak havoc on inventory management and tracking of sales. Once these are identified, it is necessary to uncover smaller issues.

Completing a physical inventory count is necessary to follow the 80/20 rule (i.e., managing 20% of the inventory that yields 80% of practice revenue). Practice owners cannot manage inventory without understanding their start and end points. Once an inventory count has been obtained, products can be culled. Why carry 4 products for the same indication when only 2 may be needed? Of importance, pick products that give the practice a competitive advantage. Limiting product choice and being thoughtful about which products to carry can create a competitive edge.

Benchmarking Resources

- American Animal Hospital Association (2010). *Financial & productivity pulsepoints*. Lakewood, CO: AAHA Press.
- American Veterinary Medical Association (2011) Veterinary Practice Business Measures and Veterinary Compensation. AVMA Biennial Economic Survey.
- Veterinary Economics and Wutchiett, Tumblin, & Associates. (2012). *Benchmarks 2012: A study of well-managed practices.*
- Veterinary Hospital Managers Association (vhma.org)
- VetPartners (vetpartners.org)

> *Veterinarians have to become better at promoting themselves and why it's better to buy from their practice. To me, it's about educating the client. Why would I want to go somewhere else if I have all these other benefits by going to my veterinarian? And I don't think veterinarians promote that enough, but they have to—nobody else is going to do it for them.*
> *—Denise Tumblin, CPA*

Should I Break My Pharmacy Down Into Categories?

So what should a new business model for the pharmacy look like? Our experts agree that it is time to start breaking the pharmacy down into categories, and there are several ways this can be done. First and foremost, however, the inventory must be organized, which means utilizing practice management software (see **Tools for a Healthy Pharmacy**).

The categories in the software need to match those in QuickBooks, for example, so expenses can be tracked— this is where income: expense ratio arises. Using these tools enables practice managers to finger the pulse of the pharmacy within minutes. Because this ratio is dynamic, it should be evaluated every month to quickly identify shifts in the ratio. Make sure that you use the AAHA Chart of Accounts as a starting point, so there is an ease in comparing your information with industry benchmarks.

> *It is important to maximize your tools correctly, especially your practice management systems and how they relate to your accounting software...If things are not entered properly, the results you see will not be accurate—in other words, garbage in equals garbage out.*
> *—Ernie Ward, DVM*

Your pharmacy categories should minimally include: 1) medical supplies, 2) other drugs, 3) heartworm preventives, 4) flea & tick products, and 5) miscellaneous. As you become more familiar with your practice's benchmarks, categories may be further divided as generics, controlled substances, injectable medications, and/or online pharmacy and in-house pharmacy. Separation of "urgent care" products (i.e., those needed for acute illness) and products used for chronic management of disease and wellness care has also been suggested. The key is to provide useful information that can ensure success in YOUR practice.

Regardless of how inventory is categorized, it is critical to use your practice management system effectively (to its greatest extent) as the foundation for financial management and planning, inventory control, and inventory turnover. Otherwise, it is difficult to identify which products are selling and harder to combat outside competition to your inhouse pharmacy sales.

Tools for a Healthy Pharmacy

Many tools can be used by practices to create and maintain a healthy pharmacy. For day-to-day operations, practice management software is number 1. Make sure that the company providing the software offers in-house training to assist your team in learning how to use the program. Second, make sure the practice manager understands how to use the accounting and practice management software.

One resource that tends to be underutilized is management consultations. Consultants can steer practices in the right direction, particularly if they do not know where to start. For less struggling practices, consultants can fine-tune and improve on what is being done.

Finally, remember to invest in skill sets at all levels. For owners, this means attending seminars and reading about leadership and business management. For associates, this means investing in communication and negotiation courses that may or may not be veterinary-related. Determine also whether the practice manager is truly doing the work of a practice manager (i.e., goal setting, benchmark compliance, profit growth) or is primarily involved in administrative tasks (i.e., paperwork, employee scheduling). If the manager is actually an administrator, invest in the education and training needed to have that person fulfill managerial responsibilities.

> *Practices have to understand they have different inventory with different purposes that tie into client perceptions. Some can be marked up to give a return, a margin, others you may only be able to break even—selling at unit cost, plus stocking fees and time. But you have to manage that and price it accordingly. What you're giving up over here, you have to deliberately build in somewhere else for the practice's financial health.*
>
> *—David F. McCormick, MS*

How Can I Educate My Associates and Staff on the Importance of the Pharmacy?

The veterinary team needs to understand that providing excellent medical care and service in a way profitable for the practice is their job. Cash flow to the practice is what funds their wages and benefits, improvements to the hospital, and the growth and sustainability of their jobs. If a practice is not profitable, people could lose their jobs. The practice owner needs to emphasize why financial health is vital.

Some practices may decide to do this by using open-book management, whereby the entire team is aware of everything on the business side of the practice.

Another approach focuses on the benefits to pets, especially when staff members are not motivated by money. For example, if a client is directed to purchase product at a store down the road, the team is actually creating an inconvenient scenario for the pet, especially if the owner decides not to stop for the medication that day, delaying needed treatment. Get the healthcare team thinking, "What is best for the pet?" rather than "What is best for the client's wallet?"

Often younger staff members lack business training—but they do understand pocketbook issues. Many might not be able to afford treating their own pet according to the standard of care the veterinarians tell clients is appropriate. This creates a wonderful

opportunity to shape the thought process of staff. Focus on the pet and emphasize the importance of a high standard of care. Make the entire team so excited about the practice's standard of care that they cannot imagine why the client would go elsewhere for their products. Educating the client is not where success starts. It starts with educating the practice team on what is best for the pet.

Educating the client is not where success starts. It starts with educating the practice team on what is best for the pet.

> *I wonder how many of us have started with our own team with that very basic, fundamental—make a case for "Why us? Why now? Why are we the best choice to get product from?" Because when your team cares and understands, they're the best sales people you have.*
> *—Karyn Gavzer, MBA, CVPM*

Meet Our Experts

Byron Farquer, DVM, AVA	Simmons and Associates
Karyn Gavzer, MBA, CVPM	KG Marketing & Training, Inc
David F. McCormick, MS	Simmons & Associates
Denise Tumblin, CPA	Wutchiett Tumblin and Associates
Ernie Ward, DVM	Owner, Seaside Animal Care, Calabash, NC
Moderator Ron Cott, DVM	University of Missouri College of Veterinary Medicine

Margin and Markup Table

This table is designed to assist in converting the different methods of arriving at a selling price. By selecting your desired profit margin, you can then use the proper markup multiplier. For example, to achieve 20% margin, you would use a 1.25 markup multiplier.

Profit Margin %	Markup %	Markup Multiplier	Profit Margin %	Markup %	Markup Multiplier
16.67%	20%	1.20	32.43%	48%	1.48
17.36%	21%	1.21	32.89%	49%	1.49
18.03%	22%	1.22	33.33%	50%	1.50
18.70%	23%	1.23	33.77%	51%	1.51
19.35%	24%	1.24	34.21%	52%	1.52
20.00%	25%	1.25	34.64%	53%	1.53
20.63%	26%	1.26	35.06%	54%	1.54
21.26%	27%	1.27	35.48%	55%	1.55
21.88%	28%	1.28	35.48%	56%	1.56
22.48%	29%	1.29	36.31%	57%	1.57
23.08%	30%	1.30	36.71%	58%	1.58
23.66%	31%	1.31	37.11%	59%	1.59
24.24%	32%	1.32	37.50%	60%	1.60
24.24%	33%	1.33	37.89%	61%	1.61
25.37%	34%	1.34	38.27%	62%	1.62
25.93%	35%	1.35	38.65%	63%	1.63
25.93%	36%	1.36	39.02%	64%	1.64
27.01%	37%	1.37	39.39%	65%	1.65
27.54%	38%	1.38	39.39%	66%	1.66
28.06%	39%	1.39	40.12%	67%	1.67
28.57%	40%	1.40	40.48%	68%	1.68
29.08%	41%	1.41	40.83%	69%	1.69
29.58%	42%	1.42	41.18%	70%	1.70
30.07%	43%	1.43	41.52%	71%	1.71
30.56%	44%	1.44	41.86%	72%	1.72
31.03%	45%	1.45	42.20%	73%	1.73
31.51%	46%	1.46	42.53%	74%	1.74
31.97%	47%	1.47	42.86%	75%	1.75

Inventory Guide

Inventory Control and Management

Second only to staffing costs, supplies consume the next largest amount of revenue in the practice. Inventory control can be challenging, but a few steps to understand inventory movement, sales influence, integration with software found in most management programs, and help from your suppliers can improve profitability and reduce shortages and overages. Your goal? Keep Cost of Goods Sold (Supplies) less than 20% of revenue, and it starts with good management.

Inventory Manager's Guidelines

Every veterinary practice needs someone to take responsibility for managing the practice's inventory. This person might be the Practice Owner, the Practice Manager, an associate veterinarian, or an experienced technician or assistant. In any case, the hospital's inventory manager must be highly organized, familiar with veterinary drugs and products, and fiscally responsible. In selecting the right person for the job, it's important to look at the required strengths for performing the necessary duties.

- Ability to look creatively at the 'big picture' and identify the specific steps necessary to carry out the Practice Owner's decisions and the Hospital Administrator's directives, and to work with all staff through the implementation process.
- Ability to differentiate between major and minor issues as they relate to inventory control and the care of clients and patients.
- Ability to handle misdirected negative emotions and behavior.
- Supportive and encouraging attitude towards staff. Expresses thoughts and ideas effectively. Recognizes the need to be "the support staff to the support staff."
- Flexibility with regard to unexpected requests taking priority over planned duties.
- Ability to stay 'on task' with minimal supervision and accomplish required tasks by designated deadlines.
- Willingness to do whatever it takes to get the job done when needed. Every hospital probably has more than a few people on the team who possess these strengths. An Inventory Manager must be at least "above average" in all these areas in order to perform the responsibilities of the job. A candidate who cannot stay 'on task' may quickly lose track of what is needed, and you'll find yourself running out of items. Alternatively, when an inventory manager fails to differentiate between major and minor issues, they may become bogged down with paperwork or meeting with representatives, overlooking the clinic's need to keep inventory flowing, so that patient care doesn't suffer. Once you've narrowed down your field of potential candidates, you should take a look at the responsibilities expected of the inventory manager at your clinic in order to find the 'best' candidate to fill the job.

Responsibilities

Here is a summary of responsibilities that can be incorporated into a job description for your inventory manager:

Authority

Defines who the Inventory Manager reports to and oversees.

- Report to Hospital Administrator (or Practice Owner, or Practice Manager)
- Liaison with all support staff and veterinarians.

Client Management

Responsibilities that are directly related to client service.

- Fill all online client requests and orders.
- Anticipate client needs by maintaining the "standing food orders" and the "special food orders," preventing clients from running out of specialty foods.
- Anticipate client needs by careful tracking of all special orders, notifying clients as soon as their orders have arrived.
- Audit the meds-out drawer each week, calling clients to determine whether or not they still need their medications.

Computer/Data Management

- Creation and maintenance of all inventory codes in veterinary management software.
- Creation and maintenance of all bill codes directly related to the dispensing of inventory items in veterinary management software.
- Creation of purchase orders for all incoming inventory via veterinary management software.
- Process all purchases via purchase order in veterinary management software, passing invoices/packing slips along to the Hospital Administrator on a daily basis.
- Submit website pricing/product changes to Webmaster on a monthly basis or as needed.

Financial Management

Responsibilities directly related to being fiscally responsible for the practice.

- Monthly adherence to the inventory budget. All budgetary overages must be reported to the Hospital
- Administrator (or Practice Owner) in a timely manner, with an explanation of the need for the overage.
- Price-shopping to negotiate and obtain the best pricing for the practice.
- Submit proposals for special "buy-in" opportunities to Hospital Administrator (or Practice Owner) for authorization.

Facilities, Equipment & Supplies

- Manage/order all drugs and hospital supplies for the practice.
- Manage/order all veterinary diet products for the practice.
- Manage/order all equipment for the practice after final approval by the Hospital Administrator (or Practice Owner).
- Manage all equipment repairs.
- Manage/order all x-ray supplies, including film.
- Manage/order all retail and over-the-counter products for the practice.
- Manage/order/purchase all cleaning supplies and client hospitality products for the practice.
- Maintain good working relationships with all vendors by meeting with them on a regular basis (monthly or quarterly is ideal).
- Stock all workstations twice daily (AM and PM).
- Stock hospital pharmacy daily (AM).
- Stock food display area twice daily (AM and PM).
- Stock retail display area daily.

- Keep all food supplies at optimum levels, keeping available space and client demand balanced. Rotate and organize all food supplies frequently (at least weekly at a minimum).
- Work hospital and kennel staff to keep the hospital cupboards and storage areas organized and at optimum hospital need levels (fluids, lines, needles, injectibles, anesthetic agents, etc.)
- Unpack all deliveries, as they arrive, rotating all inventory stock.
- Pull expiring medications off the shelves 30 days prior to expiration and submit to appropriate vendors for clinic credit.
- Conduct monthly inventory count for accounting purposes. Inventory count is due no later than the 7th of each month.
- Notify staff and veterinarians of any/all back-orders and/or changes to products, as needed.

Projections

Now that you've outlined the responsibilities relative to your practice, the next step should be to determine how much time this would take someone in your practice to perform on a weekly basis. It would be wise to do this yourself if you are the Practice Owner or Manager, and you are hoping to train someone else to perform these duties. I would recommend you do this for a full quarter cycle, so you will have a strong base to compare to once you've delegated the inventory responsibilities. This will also assure that the practice has a "back-up" person who can assume the inventory responsibilities in case of vacations or absences. Keep in mind that simply because you have an Inventory Manager, you cannot "wash your hands" of everything that has anything to do with inventory management. It is important to remember that oversight must be in place. Someone, namely the Practice Manager or Owner, must be a part of the checks and balances process. The Inventory Manager maintains control of a very large asset, namely the products that are kept on the shelf and sold/used in the course of practicing veterinary medicine.

Be S.M.A.R.T.E.R.

- **Strategize** – Establish inventory, management roles, prioritize, organize, develop budget.
- **Minimize** – Managing turnover, appropriate quantities, and reordering.
- **Accountability** – Use practice management software and other tools
- **Replenish** – Optimizing replenishment-purchasing, receiving, and returning.
- **Track** - Maintain accurate tracking of what is in your clinic. Conduct a proper cycle count
- **Engage** – The whole clinic team should buy-into and be involved in inventory management.
- **Retail** – Understand markup, margin, pricing, and merchandising in your clinic.

Purchasing

- Vendors ~ all are price competitive on 25+ item orders. Little gained from overdoing price shopping.
- 1 extra staff hour at $14.00 / 25 items = requires savings of 56 cents per item to cover that extra hour of time.
- On-line ordering from vendors saves time.
- Buy to maintain a 2-3 week supply, with balanced turn-over.

Expiration Dates

What if $5000 of drugs expire?

- Cost of item is only one expense.
- Don't forget staff ordering time, receiving, stocking, manage inventory.
- Lost profit opportunity
- $5000 is lost plus the 30% markup amount of $1500 creates lost cash flow (you never get the $1500)
- You now need $15,000+ in other sales to generate enough cashflow to cover loss of the $6500 above.

Mark-ups and Margins

Mark Up = % difference between actual cost of item and selling price.

- Margin = % difference between the selling price and profit. A 25% mark-up results in a 20% margin. **Example**: Cost = $100. Markup is 25%, Sale price is $125 Margin is $25/$125 = .2 or 20%
- Practices use mark-up to set price but confuse it with profitability.
- Additional profit robbers = Staff time, obsolescence, expiration, loss

Turnover

- High demand items should turn every 30-45 days
- Moderate demand every 60 days
- Low demand – discontinue or pre-order??
- On average, inventory should turn 4 to 5 times a year in your practice.

Competing Against the Big Box and Online Retailers

There have been many studies and articles written on this subject, two studies below point to common steps you can take to compete.

Iowa State and University of Missouri Studies

- **Keep brand loyalty (product/source)** - using brand name or private label products competes against generics.
- **Develop or sell an unbeatable product** – carry brands you trust and can advocate.
- **Give Customers an incentive** to repeat a purchase
- **Stand behind the product** – make the 'no questions asked' return a reality
- **Know your trophy customers** (80/20 rule) – never run out of items for your "A" clients
- **Make it easier to buy your brand** than competing brands
- **Go to your customer** – use online services to supplement your in-clinic purchasing
- **Become a customer service champion** – people buy from people, make them feel terrific.

#1 Reason Consumers Shop Online

Convenience #1 ~ Nielsen Online survey of 1000 shoppers.

- **81%** shop online for **convenience** (24/7)
- 77% liked the time savings
- 61% like to comparison shop
- 56% find products easier
- **46% low prices**
- 24% shipping costs

Product Brand Loyalty

Consists of a consumer's commitment to repurchase or otherwise continue using the brand and can be demonstrated by repeated buying of a product or service or other positive behaviors such as word of mouth advocacy.

Loss of Location Brand Loyalty (Your Brand)

Once a client begins purchasing from other sources, there's an erosion of brand loyalty to your practice. Your services and products risk becoming a commodity. US companies lose up to 1⁄2 of their customers every year, or up to 13% loss of clientele annually. To make up for this, achieving a 1% increase in annual sales growth requires increasing sales to clients (new and old) by 14%.

Inventory & Profitability of the Practice

In many practices, product sales are an integral part of the business model. Products are consumed in the provision of services but also often retailed in the form of OTC and prescription sales. It can be tempting to simply ignore the loss of a few sales here and there, but something seemingly small can have a big effect on the bottom line.

Cost of Losing Just Two Daily Transactions

Assume the practice's # of daily OTC and/or prescription sales transactions (ADT) = 40, and the Average Transaction Charge (ACT) = $45.00. Multiplying the ACT X ADT = Revenue per day Currently $45.00 X 40 = $1,800/day, however 2 less daily transactions $45.00 X 38 = $1,710/day Each day the loss of two transactions is a cost of $90.00 which may not seem much but its $19,800 per year. Assuming the practice nets 15% of every dollar in sales and that is $2,970 of lost profit. With many practices, a dollar of profit translates to five dollars of practice value, so the loss of $2,970 in profit causes the practice's value to fall $14,850!

Product Sales, Profitability, and Practice Value: Is There a Connection?

Most practices find that product and supplies costs often consume 20% or more of gross revenue and is second only to payroll as the most expensive cost of doing business. In order to manage inventory, one must have an inventory manager complete with a detailed job description. Simply giving someone the title Inventory Manager, without a clear roadmap, SOP's (standard operating protocols), benchmarks, and instructions is a sure way to encourage disappointing results. You need to manage the inventory, ensure someone is in charge, price things correctly, and market in ways you never have before. Do not give up your product sales; clients want to shop from you, they trust you, and product sales can be profitable if managed correctly. How?

1. **First, join a buying group.** Done well, these groups can reduce drug costs and benefit from an economy of scale. Use strategic markups rather than across the board rules of thumb.
2. **Urgent medications** (antibiotics, pain medication, injections, etc.) are not as sensitive to price shopping. The urgency of need facilitates a client's tolerance of cost. These items can have strong mark-ups.
3. **Pricing items that are no longer exclusive to veterinarians** (i.e., certain flea products, etc.) should be priced differently, usually lower than you've previously offered. You don't need to price match, but you need to be close. Once the exact same product you sell shows up everywhere else, you are now compared to everyone else. If I can Google a product you sell and find it readily available in many other locations, price becomes an issue. You can't price the product low enough to be competitive and still turn a profit? Maybe it's time to get those price-sensitive products off your shelf and replace them with another good quality substitute.
4. **Dump the dual-marketed products.** If a veterinarian used to be the only source of Product X but now every internet site, big box retailer, feed store, and catalog sells the same product, it's time to differentiate yourself. Yes, it might have been a big seller for you previously, but when you have the exact same product everyone else does, it becomes a commodity. Think about a coach airline seat between Denver and Chicago between noon and 2 PM. If 5 airlines all have flights, and all are reasonably the same regarding service and amenities, then price becomes a very important means of choosing which airline. But if there is also a chartered jet available with a ticket cost that is slightly higher but not exorbitantly, the choice becomes more difficult. The charter jet won't require a strip search before you board, will generally offer high-end refreshments and excellent customer service, it has no baggage claim delay, and no yelling children (unless you are bringing your own with you). Having a hard time letting go of certain 33 products because you've used or recommended for a long time? Ask yourself how long did it take you to discontinue selling flea collars, powders, and home foggers when the new generation flea medications came out years ago. Months? Years? No. Most of us strongly encouraged our clients to switch products in a very short period. They listened to you then; they will listen to you now.
5. **Surround yourself with veterinary exclusive products**. Exclusive products doesn't have to mean expensive, it simply means "access restrictive". When you fill your shelves with the same products clients can buy from Wal Mart, you give up your veterinary-exclusive advantage. You blend in. You are just one of many choices.
6. **Dump the generics**. Despite claims that all generics are equal to the original brand name or legacy drug, many of us have experienced variations in generic drug performance

both as veterinarians on the prescribing side as well as general consumers. The public expects generics to be cheaper in part due to competitive pricing, but also, as a result of their own experiences (perceived or real), they feel generics don't always perform as promised. When you dispense the same generic drug as Costco or Publix, your client expects price to be the most influencing factor. Most of the big box retailers avoid legacy drugs due to lower margins or restrictive sales policies imposed by manufacturers. They are focusing on price alone, and you usually can't win that battle very often. Legacy drugs offer you some level of veterinary exclusivity or differentiation. If you are preferentially handling generics because you are bent on "saving your clients money" in hopes they will like you better, you are dismissing reams of behavior research that indicates cost is not the single most important driver for consumer decisions.

7. **Add private labeled products.** You can have numerous pet products private-labeled. You can choose catchy names or something simple, but either way, it will also have your practice's name on it, and a client isn't going to find it for sale at any other veterinary practice, online, or at any big box retailer. In many cases, you can instill a wider profit margin on these products. Where are they going to price compare? One of the most popular private label products is therapeutic dog shampoos. A practice in California switched all of their shampoos to private labeled products and increased their prices on average 30-50% over current pricing. It brought in over $12,000 more in profit in a single year. Try that with Hartz or even Vibrac.

8. **Fight to keep the prescription, don't fax it!** When you talk to a client, make a solid argument why you the veterinary practice, rather than the retailer or internet warehouse, is the best source for pet meds, including verification of the chain of shipping, manufacturer warranties, and adherence to storage

and quality control. Don't just sign the fax request. Call that client. Talk to them about their desire to purchase somewhere else. Price will usually be the first comment but dig deeper - there is often more to the story. And don't be surprised if your client just thinks you are priced higher when, in reality, you are not. Some practices use signage or other client communications to show clients that they are truly price-competitive on certain products. If you really want to play the price-matching game, make your website's on-line pharmacy a bit more competitive than your in-clinic pricing, but impose the same purchase process restrictions as PetMeds, etc. The on-line shopper has to place the order, pay in advance, commonly pay shipping, wait for it to be delivered, etc., as opposed to walking into your practice, getting expert advice, and receiving the product right on the spot. People shop online for convenience by a margin of 2 to 1 over price. So you don't even have to have the cheapest price, but you do need to make products available for sale to your clients online since not everyone can get to your practice during business hours.

9. **Use prescription drugs when possible**. Consumers often perceive prescription drugs as more powerful, even when they are not; however, however, that may be true of some formulations. Many newly released drugs (newest pharma-technology) are only available by prescription. Prescriptions also require better record-keeping record-keeping than OTC medications. Prescription drug dispensing may require additional doctor examinations, offering benefits beyond additional revenue such as more frequent veterinary-patient client interactions, which translate to improved compliance and continuity of care.

10. **Stay in the loop of treatment**. Dispensing oral pills with instructions to return in two weeks if things don't improve opens the door for client compliance- induced treatment failure. Incorporating injectables (i.e., Convenia), technician applied treatments (i.e., every 5th day otitis flush and deep medication), or other techniques like smaller dispensed volumes for chronic treatment medications (thyroid or NSAIDs) requires more return visits. Client-patient touchpoints, and, of course, refills.

11. **Re-price your services**. The industry has been lax on seriously structuring its services-pricing. Annual "across the board" % markups are as sophisticated as many practices get with re-pricing. Many practices fail to adjust fees on services to make up for reduced product markups and their corresponding effect on profit. You can calculate the expected cash flow at a current drug's pricing level and then again at a new lower price. Take that expected lost revenue and spread it over a number of service categories in the form of price increases on service items. Nonshoppable services are ideal candidates. Cashflow is preserved, drug prices remain competitive, and services carry more of the load. When prices go up on drugs, and you feel you need to freeze your retail price or lower it, you need to redistribute the lost cash flow to other sales like services or watch your profit (and practice value) quickly erode.

12. **What business are you in?** Be realistic with your expectations. Are you in the high volume, low margin product sales business, or are you in the veterinary medical health industry? Do you provide prescription drugs because it's a useful tool in your arsenal to fight disease and dispense other products to enhance the pet's well-being, or are you trying to gain a competitive pricing edge on Walmart? It's ok not to be very price competitive when you offer uniqueness. Imagine Denny's trying to sell a cup of diner quality coffee for $5.95, or even Starbucks trying to sell its unique coffee in a Denny's at the same price?

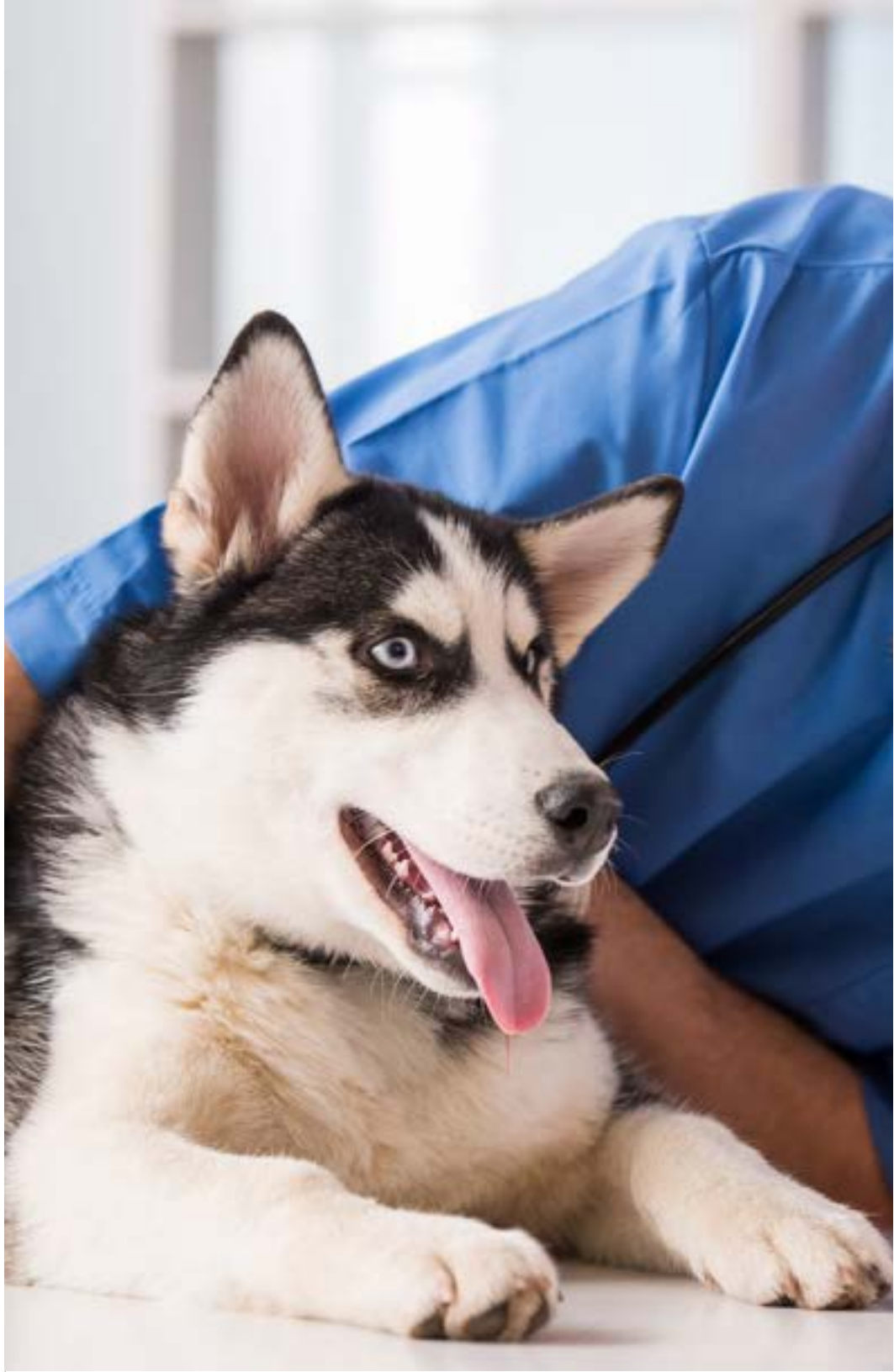
Pharmacy and product sales remain an integral part of the current veterinary business model. Until that model dramatically changes and until practices are able to develop a successful sale strategy that is nearly 100% services-only, we are going to need to preserve product sales. You can't blindly markup drugs 100% anymore, make across-the-board price % increases, and then give away your services. As much as we hate to hear it, we have to run practices like businesses. Luckily most don't require you have a master's in marketing and an MBA in order to remain profitable. You just have to be smart, competitive, and offer an exceptional sales experience between your staff and your clients.

Inventory Management – Just Prior to the Sale of a Practice

When you get close to the sale date, it's important to do an inventory count of the drugs, materials, and supplies you have on hand in the practice. I'd suggest you do the first inventory count about 3-4 weeks prior to the sale date to get an idea of where you stand, then repeat it right before the sale to have an accurate count on hand. In many cases, the inventory on hand doesn't match what was agreed to in the contract. This isn't a big problem if you are a little short; simply give the buyer an equal dollar amount discount on the final sale price to make up the difference. I would not order product to bring the dollar amount up; I would agree to a price discount. If you order product, the buyer will be getting it at cost, with no mark-up for you. You'll likely pay tax and shipping on those items and then have to pay ordinary income tax on them when you sell your practice. Discounting the purchase price of the practice solves the issue with no bad tax consequences. But what about when you have an excess? The contract says $40,000, but you have $70,000 on hand. Now what? There are a number of things that you can consider; here is a list of ideas.

1. Really, really slow down food orders. Don't order a bunch of bulk food; try to order just what is needed, and, when necessary, swap out different sized food, i.e., out of the 20lb bag? Send home a 10lb; if the client will wait a few days for a special order 20lb or send home two 10lb bags at 20lb price. You might not make anything on the sale if the two 10lb. bags cost more than one 20lb bag, but our focus is on inventory reduction and getting your money back out of the $70,000 stockpile.
2. "One to show, one to go" should be the stocking motto right now, especially on infrequently used items. You usually can get products quickly from your distributor. It might be easier to order 10, but it's better to only order a couple and if you need to, order again.
3. Avoid bulk pack items. If you're getting close to the sale date, and the item is usually ordered in a sleeve of 10 from the manufacturer because that's the cheapest per unit cost, check and see if your distributor has them individually. Yes, they might cost a bit more, but if you only need 2, then don't order 10 because you don't get to sell the other 8.

4. Check for expired drugs in this list. If there are any, remove them now and correct the computer inventory. For example, if the computer indicates there are 23 oral Bordetella vaccines at a unit price of $186.78, is that per dose or per flat (multiple doses)? If it's per dose, then obviously, there is a mistake in the computer on the unit price, inflating the overall inventory total.
5. Randomly spot-check a few items on the list. Is the quantity correct? Is "your cost" correct on the computer? Did someone make a mistake doing the inventory count?
6. Don't open anything that could be shipped back, if possible. Down to your last Heartgard of a certain size? Don't order a sleeve, see #3.
7. Watch ordering non-drug items. Almost out of a particular suture but not quite yet? Is there another one that could be used, maybe it's just not your favorite, but you know it's indicated for the procedure so therefore it's a fine choice? Then use some of it up and hold onto your diminishing supply of your favorite suture if you think you might have just enough to get to the sale date. Do you have both tie-on and rubber band surgical masks, and you have plenty of one but not the other? Tough it out and use the other.
8. Substitute and reduce. Do you have 2", 3", and 4" bandage material in stock? If the 3-inch is running low don't order more. It's likely you can apply any bandage you want with the use of 2" or 4".
9. Look for high-cost items. Without good reason and logic, things like elasticon are exceedingly expensive for what it is—same thing with certain drugs. Focus on managing these items, not super inexpensive items like brown gauze.
10. Get aggressive with following up on vaccine reminders. Be sure every past-due client gets a 2nd written reminder and/or a phone call if they aren't responding to past due notices. It doesn't take too many vaccine appointments to use up $5000 worth of vaccine, and it's usually pretty easy to squeeze in a



couple of extra vaccine appointments into a busy schedule.

11. Reduce class-duplicity. Do you really need to stock 5 different NSAIDs? In every size? Do we need 3 different kidney diets from 3 different manufacturers? Maybe the answer is yes, long term, but short term can we substitute and still be fine with the results?
12. Look for multi-location stocking waste? Meaning, something is spread out and stocked in multiple areas. If the practice just opened its last box of 22 gauge needles, but every drawer has 25 in them already, do we really need to replace that box? Maybe we need to redistribute some of them to other areas, and we'll have enough.
13. If it's a commonly available prescription drug, and you are going to run out, consider scripting it out to either an online source, or a local retailer like Costco. You wouldn't make a habit of this, but if you were down to the end of your 500mg XYZ drug that only comes in 500ct bottles, do you really want that many if the sale date is next week?
14. Run some discount specials. Do you have lots of doggy chews and treats in stock? Run a special; discount them towards or at cost. Sell them; get them off the shelves.
15. Skip the specially priced items from your distributor. Now is not the time to buy 10, get 2 free.
16. Contact your distributor and ask for some help with reducing your inventory. A good distributor rep will often be happy to help. You've provided them with a lot of commissions on product and equipment sales over the years, so asking for help should be considered an inconvenience. Maybe another practice in the area needs a couple of boxes of 3cc syringes, and you have 10. Your distributor may also be able to send some unopened in-date items back to the warehouse for credit.
17. Don't deplete any one category to get the inventory down. Don't sell and/or send back all of the Heartgard. The buyer is going to need a few on the day the buyer takes over ownership.
18. Consider ways to work with the buyer on an overage (more inventory than you were contractually obligated to provide). It may be difficult for the buyer to come up with an extra $20,000 on the sale date to buy the inventory excess so work together on a payment plan. Perhaps $1000 every two weeks until it's paid off. That gives the buyer time to sell the inventory and have the cash flow to pay you back. You'll have to exclude short date items if they will expire prior to the time expected for full payback.
19. Consider charity. It may not be possible to donate certain items to the local shelter or rescue group (i.e., prescription items), but many items could be donated. That may qualify for a tax deduction as well. Food is a great example. They aren't going to need a prescription for a 40lb bag of dog food to feed those hungry shelter dogs.

20. Stay focused on the big picture. Getting into a battle with the buyer over inventory isn't worth it. Never jeopardize a transaction that might be 100's of thousands of dollars, or perhaps a few million for a few thousand dollars of inventory items. If you've owned your practice for years, then keep in mind this issue is a one-time issue, and you won't have to go through it again anytime soon, if ever. So, given the option of losing the battle over a couple of thousand dollars in inventory vs. losing a two-million-dollar sale, it's logical to choose the first.

What can I do in 30 minutes to increase practice profitability?

Introduction

With any patient, assessment of health or disease starts with a good physical exam. The same goes for your veterinary practice. Every business consultant will tell you that performing a financial exam, even a quick one, is important. Not doing it is equivalent to leaving a growing mass undiagnosed—is it benign or a serious malignancy? You won't know until you do the exam.

The 15-Minute Financial Physical

Most veterinarians understand that it's important to assess their practice's financial condition. The hard part seems to be going from awareness to action—especially when the perception is that such an exam would take many hours. It's easy to put it off and get caught up in the daily distractions. To squeeze a financial assessment of your practice into your schedule, here are the steps for a quick "15-Minute Exam."

Keeping with the animal exam theme, the focus is on the big picture: limp-no limp, vomit-no vomit, etc. You may not be able to identify the urine to creatinine ratio, GFR, and degree of hydronephrosis in a five-minute exam, but you can identify whether the urinary system should be further assessed. Likewise, on the business side, in 15 minutes, you can quickly scan a set of data that's an indicator of your practice's overall financial health (or lack thereof).

For the 15-Minute Financial Physical, you'll need to gather the following data that should be readily available in a modern practice:

- Year-to-date income and expense statement (a QuickBooks-like report can be used)
- Year-to-date revenue production reports from the practice management software
- Revenue production report for the last completed month
- Your appointment book
- A copy of the above items from the prior year (same period of time)

First, take a brief walk around the practice. Quickly assess the overall volume of inventory on-shelf and lend a critical eye to the number of staff, the hospital busyness, and the condition of the facility. After the walk, look at the gross revenues for the past month and for the year to date, comparing the current year to the previous year. Where are you trending? Up, down, sideways?

The "Big Two"

If the results aren't what you wanted or expected, make a note, but don't dwell on it now—you'll research it later. Next, look at the expenses in the two categories below. Forget the rest of the categories during this brief assessment. Although every expense is worthy of your attention, these are the "big two" and typically consume 60 percent or more of your annual revenue. The other expense categories individually make up only a small percentage of total expenses.

Wages and Salaries

In most practices, this is the largest single expense category. As a general rule, the support staff wages as a percent of gross revenue should be 18–20 percent, and the professional staff wages (including

fair compensation to the owner for his/her veterinary work) should be 20–22 percent. The combined wages expense should be roughly 40 percent of revenues. Of course, this can vary significantly by geographic location and practice type (species and specialty). We're also talking about gross wages, not inclusive of payroll taxes or benefits, since those vary by state and the individual policies of each practice.

Learning what is typical for your practice helps you identify when undesired changes occur. Look for trends that point to wage swell (increased hourly rates or salaries due to employee seniority and employment longevity) and overstaffing. Too often, when staff members complain of being overworked, veterinarians will increase the number of employees instead of asking why the staff feels overworked.

Inefficiencies in scheduling, poor work ethic, and inadequate staff training can also erode the performance and capacity of the staff already present. If the expense as a percent of revenue is not where you think it should be, note it and move on to the next category.

Drugs and Medical Supplies

This will depend on how you categorize your expenses. If you account for "drugs and medical supplies" as a category separate from the other variable expenses (lab expenses, radiology expenses, etc.), then most consultants will agree that a maximum of 20 percent of gross revenue is a reasonable target. Inventory-savvy practices often hit 15 percent. If your drugs and medical supplies include all the variable expenses above, then 23–25 percent may be a more reasonable target. Remember that this is a ratio ¬even if supply costs are rock-solid; when your ratio is above 25 percent, you may very well have a revenue concern rather than a cost concern.

Notice that even if you can only attend to these two categories, you will have reviewed roughly 60-plus percent of your annual expenses in less than 10 minutes. Make improvements here, and you can nearly forget the rest of the categories (although you shouldn't!) since it's rare that any other individual category will consume more than 4–5 percent of the annual revenue. Also, take a look at the bottom line. Is it going up or down? Is it higher or lower than last quarter and last year? And is the change by intent or not?

What's Next?

Review the production data from your practice management software:

1. Look at each veterinarian and divide the monthly compensation of that associate by the associate's production. If the production-based calculation indicates the associate is being paid well over 25 percent of his/her production, you may have a problem. Long term, the practice can't support this 49 level of performance without requiring fee increases that have an impact on the financial health of the practice.
2. Review your new client numbers, number of transactions, and the average transaction fee by each doctor. How does it compare to the same period last month, last quarter, and last year?

Remember that average transaction fees can increase as a result of fee increases, often hiding decreases in total invoices, the number of client visits, and the number of new clients.

This is a quick review to help you understand how your practice is performing. As you incorporate this into your regular routine, you'll begin to notice more and more, 15 minutes at a time. Don't over-analyze—now is not the time. This is a cursory view of the practice's general condition, not an in-depth analysis. If you identify a data point that appears out of whack, set aside additional time to investigate it later.

Your goal is to look at big macro items, then note or highlight them for later investigation. The key is to develop a quick-look pattern that you always get completely through, every time.

Flag areas of interest and then schedule a specific time—Tuesday evening, Saturday afternoon, etc.—to sit down quietly for a couple of hours and explore it further. Don't try to identify and investigate at the same time. You'll never get it done, at least not consistently. In 15 minutes, you can take a quick look at your practice's financial health, and the more frequently you do so, the better you will be at identifying potentially significant problems at a very early stage, long before they become serious or difficult to reverse. The absolute worst thing you could do is delay your investigation or simply not look at all.

If improving profitability is your goal, here are some tips on what to do in the next 15 minutes:

Tip #1: Look for Discounted Fees

Pull your practice's income by treatment (or service or product) report for last year. Divide the annual income from that service by the quantity for that service. Compare that number to your practice's price sheet. Is your "pricing" of that service what you are actually "receiving"? This quick comparison can help identify areas of discounting (for missed charges, see Tip #2). If you're discounting certain services, be honest. What's the motivation behind the discounting?

Tip #2: Examine Missed Charges

Recently, a doctor commented that she increased her topline gross revenue without an increase in the client base. Her answer was interesting: she hadn't spent any more money advertising or attracting new clients, nor was she seeing more clients per day or raising fees. She simply increased the fee collection capture rate and now consistently captures 94 percent or more of all billable items.

Here's how to do it: Review the appointment book and make a list of those cases that would have had a relatively large and detailed invoice. Think hospitalized diabetic, not anal gland expression. Pull the medical records on these cases and have each attending doctor in your practice review a 51 summary of his or her charges versus the medical record. The purpose of this isn't to send the client an additional bill but to help the doctors see if there are missed charges. Is it a certain type of charge, day, or doctor that consistently contributes to the problem? Now you know where you need to focus your attention. If you're capturing greater than 94 percent of all possible charges, you're doing fine. If not, it's time to make changes.

Tip #3: Increase Fees – "The Rule of 25"

This isn't a replacement for carefully thought-out fee structuring but, if you need a quick boost in revenue and profit, this tip works well and is easy to do. First, print out a summary of your income by category, the report that lists all your services sold during a period of time. Limit the report to services only, with no product sales. Highlight the 25 most frequently sold services. There's one exception: you can't highlight a "shoppable" service. It's too easy for a client to compare a price change on a shoppable item, so ignore those and address them later in your annual or biannual across-the-board price change. Once you've highlighted 25 high-frequency, nonshoppable services, simply increase the current price.

If it's less than $30, increase it by $1. If it's more than $30, increase it by $2. What about items that are, say, over $100? Should they be increased by $5 or $10? No, because that amount is large enough of an increase to be easily noticed by staff and clients alike. In a busy practice, this simple increase of $1–$2 per item will increase cash flow and profit by hundreds or even thousands of dollars in the first month. Large practices can easily see their profit rise by more than $20,000 in less than 60 days.

Success of The Rule of 25 stems from the fact that no client or staff member will likely have an invoice that contains all 25 items, nor have a past one to compare it to. Usually, only a couple of items appear on any given invoice, resulting in just a few dollars' difference, which commonly goes unnoticed by staff and clients alike.

Tip #4: Discontinue Price Matching of OTC Item

Your pharmacy has costs built into it that are on top of the unit costs of the drugs sitting on the shelves. Taxes, insurance premiums, storage expenses, and regulatory costs also are incurred. Inventory on hand is also tying up a significant amount of capital that otherwise could be invested to generate income. When quantities on hand are in excess of managed levels, you risk additional costs that are associated with product obsolescence, expiration losses, and theft. These are referred to as "holding" costs. These hidden costs can frequently cost a practice an additional 8–20 percent of a product's unit cost.

If you decide to price match, you may need to accept that very little or no profit from these sales will reach your bottom line. The decision to match prices should include an analysis of how much profit you will lose from the loss of sales to a competitor versus the profit lost from reducing prices on an entire product line. As an example, let's say a product line's unit costs are $25,000 annually. After careful analysis, the practice appropriately decides to price the product to achieve $47,500 in sales revenues. This provides the practice $22,500 to cover the additional costs and to earn a profit. Later, to avoid losing sales to a perceived competitor, the practice owner chooses to reduce the product line's price and now can achieve only $40,000 in sales. This adjustment leaves only $15,000 for the practice. The associated costs don't change—only the profit is reduced.

In this example, if the practice didn't change its original pricing structure, it would have had to lose one-third of its sales in order to equal the consequence of the reduced pricing strategy. Would you have lost one-third of the sales to the retail competitor? Not likely.

Byron S. Farquer, DVM, is a veterinarian and previous multi-doctor practice owner.

He currently owns Simmons & Associates Pacific, Inc., and Simmons & Associates Southwest, Inc., regional affiliates of Simmons & Associates, Inc., the nation's oldest and largest veterinary practice appraisal and brokerage firm. He's a Certified Valuation Analyst (CVA) and has completed over 650 business appraisals. He is also an internationally recognized speaker and published author on the topics of business management, valuation and ownership transition.