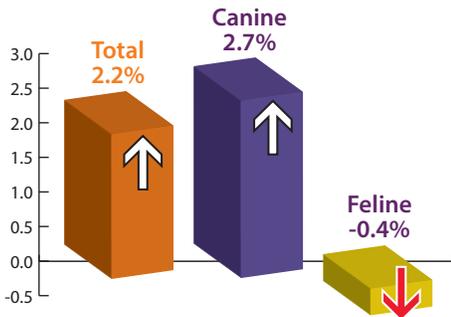


The Insider's Insight Benchmark Report is a publication provided by the Veterinary Hospital Managers Association (VHMA). The report tracks key economic indicators to determine how VHMA member practices are performing, as well as results from VHMA surveys on issues impacting the profession. There are approximately 600 VHMA member practices who contribute to the data for the key economic indicators. Data is representative of companion animal practices only.

## June, 2018 vs. June, 2017

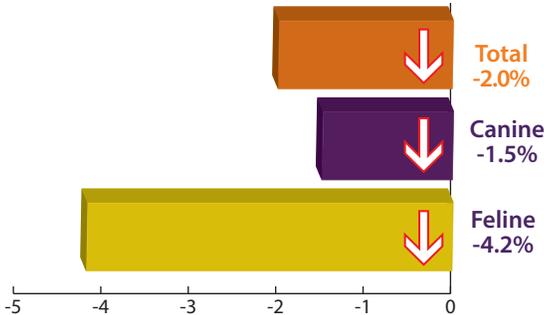
**Revenue Growth**  
June, 2018 compared to June, 2017



### Revenue Growth

Companion animal practice revenue for the 590 VHMA practices included in this month's study showed lower growth in June compared to all other months in 2018 except March. Total revenue growth was 2.2% from June, 2017 to June, 2018; both months had the same number of work days in them so that wasn't an influence. Canine revenue growth was 2.7% and feline revenue declined by 0.4%. Year to date growth for 2018 is 3.6%; this is lower than 2017 growth of 5.1%.

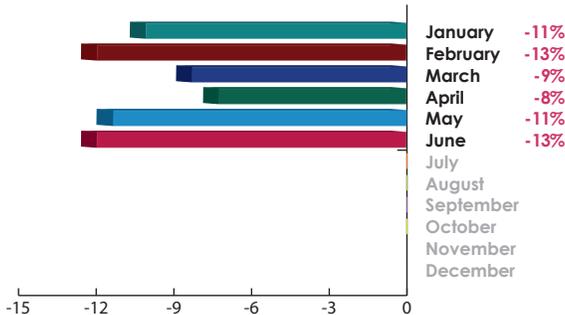
**Patient Visits**  
June, 2018 compared to June, 2017



### Patient Visits

Total unique patient visits actually declined by 2.0% in June, 2018 compared to June, 2017. Canine visits declined by 1.5% and feline visits declined by a disappointing 4.2%. As noted above, the number of workdays in June of each year was the same so this isn't a factor in the decline. Year to date visits for 2018 have declined by 0.3% compared to total 2017 growth of 1.3%. (Note that the term "visits" is defined as unique purchases of either products or services for an individual pet.)

**New Client Growth**  
June, 2018 compared to June, 2017



### New Client Growth

New client numbers in June, 2018 compared to June, 2017 declined by 13%. This continues to be a discouraging trend as these numbers have declined almost every month of the last three years. Total new client numbers for year-to-date 2018 have declined by 10.8%.

Remember that the above figures represent averages across all the practices in the study; in order to understand what is going on in YOUR practice, you need to look not only at what your revenue growth was during these months (and going forward) but also at the drivers of growth in YOUR practice such as changes in invoices, visits, ATC, fee increases, new clients and client retention. This will give you the information to make intelligent decisions about where to focus your time and efforts to increase growth.

## Inventory Management

by

Karen E. Felsted, CPA, MS, DVM, CVPM, CVA PantheraT Veterinary Management Consulting

Drugs, medical supplies and food costs are some of the biggest expenses a practice incurs and these costs are increasing in most practices. Effective inventory management is key to keeping these costs under control. Inventory control is sometimes seen as a boring and tedious task, but it can have a huge impact on your profitability and is actually much easier to control than all the ongoing staff drama!

This month's survey drilled deeper into how practices feel about their inventory control and various aspects of their inventory systems. The first question asked: **"Do you think your practice has an efficient and effective inventory system?"**

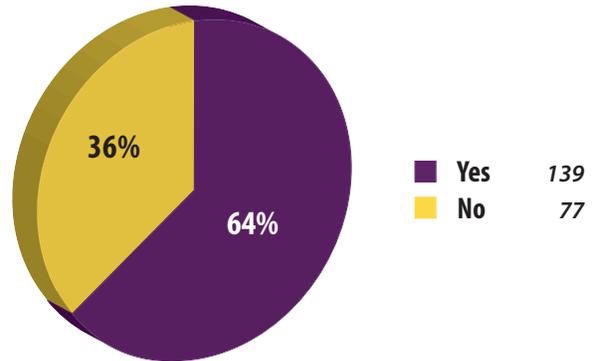
The majority of the respondents said "yes" but a surprisingly large number said "no." While inventory management is easier than some management tasks, it does take time and the right people to carry out effectively and it can be hard to know where to get started. Even practices with "good" systems have some areas that could be improved.

The next question asked **"In which area do you think your inventory system needs the most improvement?"** Respondents could select one answer.

A very small number of practices said no improvements were necessary. The rest of the answers varied greatly; this likely reflects the many steps necessary to keep

### 1. Do you think your practice has an efficient and effective inventory system?

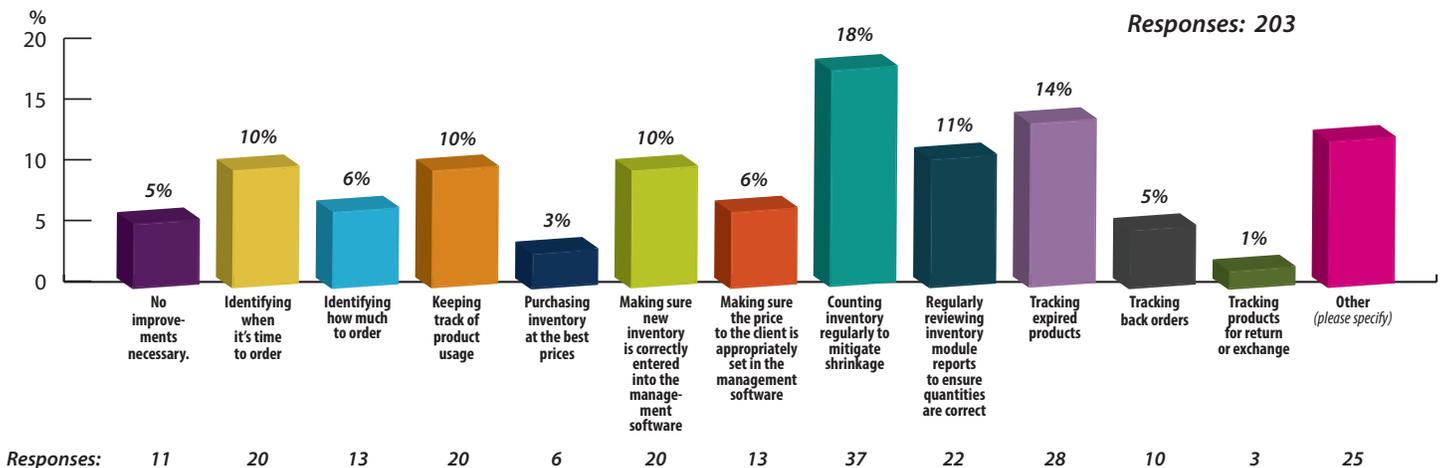
Responses: 216



inventory under control. Most of the respondents who selected the "other" category said they would have selected multiple areas or all areas for improvement. Several mentioned concerns about the quality of their PIMS inventory module or troubleshooting PIMS problems.

### 2. In which area do you think your inventory system needs the most improvement?

Responses: 203



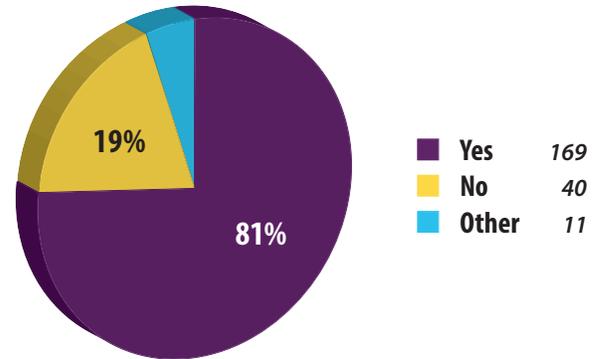
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Question #3 asked: **“Do you think your practice’s inventory costs (drugs and medical supplies, pet food, other pet products) are in line with or better than the average practice?”**

Just over 80% of the respondents said yes. Most of those who selected the “other” category said they didn’t know how their practice compared. According to the AAHA Financial and Productivity Pulsepoints 9th edition (2015 data), drugs and medical supplies (including flea, tick and heartworm products) represent 17.5% of gross revenue in a typical companion animal practice. Dietary product costs are 2.5% and OTC products are 1.2%. The AAHA report is generally meant to be representative of the average practice. Data from Benchmarks 2017: A Study of Well-Managed Practices (2016 data) shows 15.6% for drugs and medical supplies expense (again as a % of gross revenue) and 2.9% for dietary product expense. The Benchmarks study data comes from 100 hand-picked “well-managed” practices; in general it is thought that these practices perform better than the “average” practice and that is why their inventory costs are lower than those of practices included in the AAHA study.

**3. Do you think your practice’s inventory costs (drugs and medical supplies, pet food, other pet products) are in line with or better than the average practice?**

Responses: 209



The next question asked **“Which of the following tasks do you use to monitor your inventory system?”** Respondents could select multiple answers.

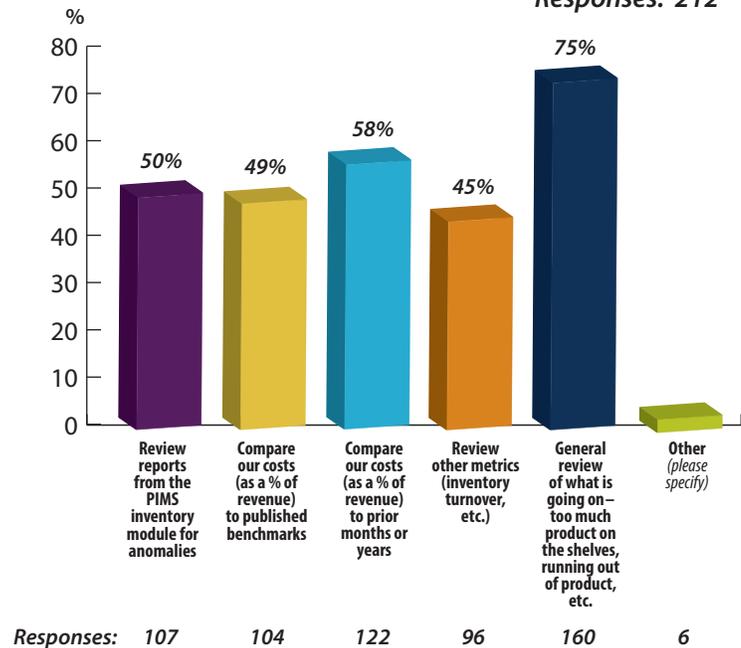
With the exception of answer #5, only about ½ of the practices perform specific procedures to identify whether or not their inventory system has problems or how their figures compare to others.

In order to improve your inventory control, you first must get a handle on the current situation by answering the following questions:

- What is the current or most recent dollar value of inventory? As of what date?
- Does this information come from your balance sheet or the practice information management system (PIMS) or a physical count? Are these figures accurate?
- What was the total dollar value of inventory expense for the past fiscal year and as a percent of gross revenue?
  - Drugs and medical supplies
  - Food
- What was the inventory turnover for the past year?

**4. Which of the following tasks do you use to monitor your inventory system? (select all that apply)**

Responses: 212



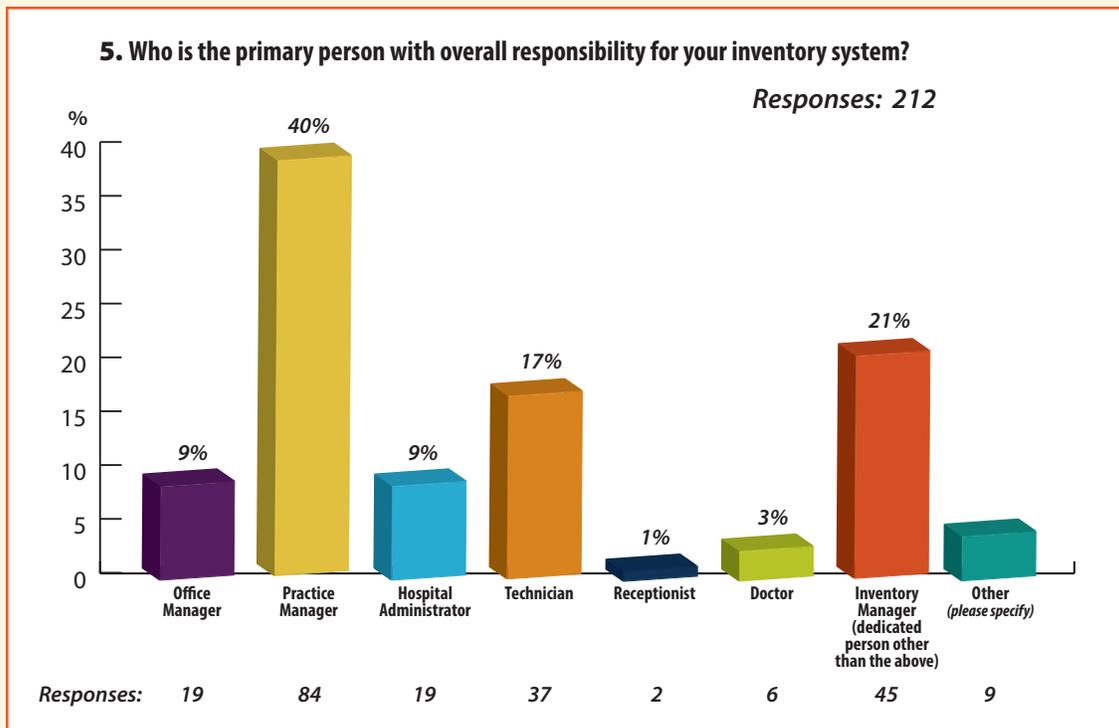
Most practices use a cash basis of accounting for internal purposes. This means that when the bill is paid, the expense gets recorded in the financial statements. In order to know what the cost of inventory really is, the expense in the income statement needs to represent what was

continued on pg. 4

sold to clients or used in the hospital during the month, quarter or year under review, NOT what was purchased. This means an accrual system of accounting needs to be used and the figure for total inventory shown on the balance sheet MUST equal what is really on the shelves and not some number that is purposefully or accidentally wrong. If the balance sheet is wrong and the Practice Information Management System (PIMS) inventory

reports are wrong, then the practice really has no idea what their costs are. The practice doesn't have to change to an accrual method of accounting to get this information; a separate calculation can be made regularly. It is important that the people doing the bookkeeping and the financial analysis have enough real accounting knowledge to understand the implications of cash vs. accrual accounting.

Question #5 asked **"Who is the primary person with overall responsibility for your inventory system?"**



Over 60% of the respondents said someone in a management role (office manager, practice manager, hospital administrator) was the primary inventory person. The answers in the "other" section contained some variations on the above choices or said a Veterinary Assistant handled this role.

Inventory costs can be high for a number of reasons including:

- Too much is paid for particular products
- Too much inventory sits on the shelves without being used

- Product is stolen by either clients or employees
- Product is accidentally or deliberately given away

Regular counting of the products on the shelves with comparison to the PIMS records is very effective in reducing product that is stolen or given away either accidentally or deliberately. The annual count done for tax purposes is not sufficient to make sure that the inventory system is working effectively. All items need to be counted on a more regular basis.

The last group of questions concerns the physical count of inventory; counts are a key control for insuring inventory isn't inadvertently given away or stolen.

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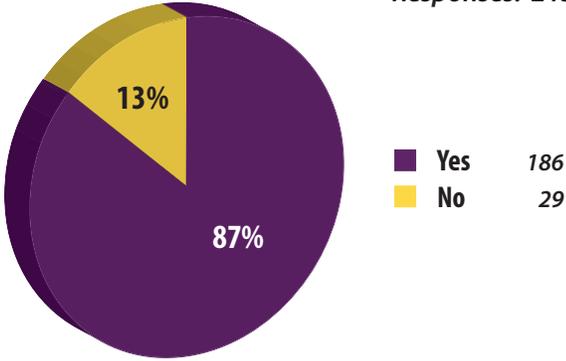
Respondents were first asked: **“Do you count all of your inventory at least once a year?”**

They were then asked: **“Do you perform periodic cycle counts of some products?”**

More than 85% of the respondents answered yes to both questions.

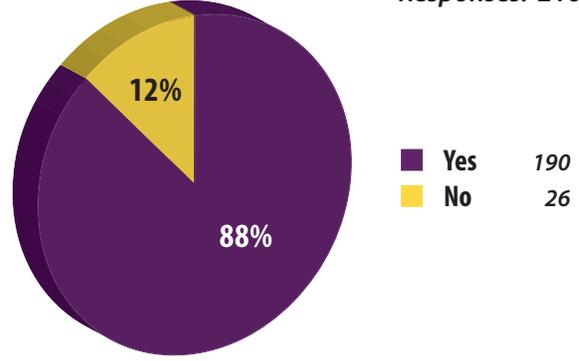
**6. Do you count all of your inventory at least once a year?**

Responses: 215



**7. Do you perform periodic cycle counts of some products?**

Responses: 216

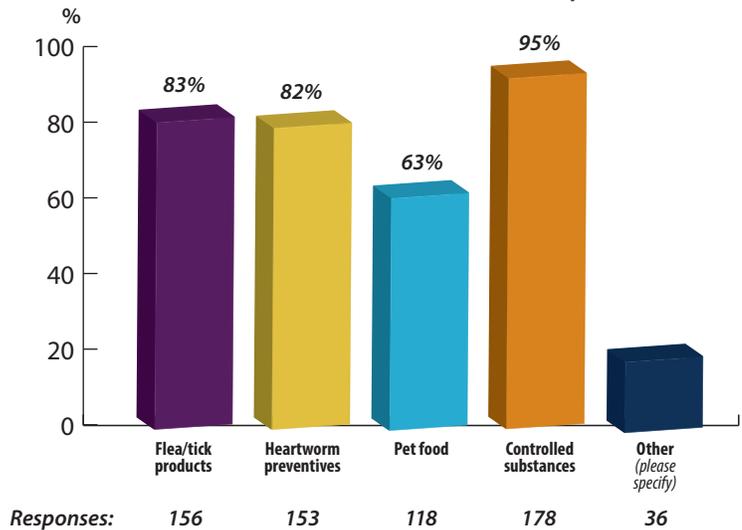


The next “count” question asked: **“What kinds of products are included in our cycle counts?”** Respondents could select all that apply.

Many of the “other” responses indicated that all drugs were included at some point in the cycle counts. Other respondents selected items other than those listed above based on certain criteria such as high dollar medications, medications sold frequently, retail (OTC) items, items that seem to regularly be “off” when counted, or certain categories such as NSAIDs or antibiotics. A number of people mentioned doing spot checks or randomly selecting some items for count.

**8. What kinds of products are included in your cycle counts?  
(select all that apply)**

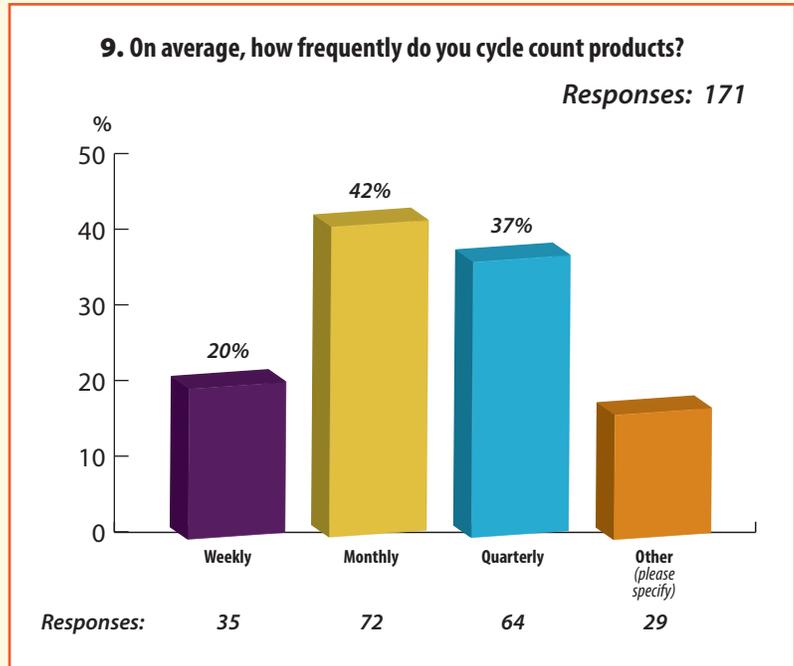
Responses: 187



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The last “count” question asked: **“On average, how frequently do you cycle count products?”**

Most of the answers in the “other” section were from practices that counted at different intervals for different products; for example flea/tick and heartworm products were counted monthly but vaccines were counted every two months.



## Physical Counts

Most practices said they were doing regular counts but here is some advice for getting started for those who don't or who aren't doing it for all products. If a practice hasn't been counting, there may initially be many discrepancies between the PIMS and what is on the shelves. Before implementing regular counting of certain products, it may be necessary to first count everything in the hospital and update the PIMS records. This project should generally be done when the practice is closed and it is essential that all inventory is counted. Going through every room of the hospital and making a list of all storage places (shelves, drawers, etc.) will help.

Once the actual inventory in the clinic equals the PIMS, a regular counting system can be initiated. The items most susceptible to theft are food, heartworm preventative and flea/tick products; these should be counted at least monthly to make sure they are not being given to clients without being charged for or stolen. In the beginning, it may be necessary to count them more frequently if the practice is having problems keeping track of the inventory.

Count the product on hand and immediately check the balance indicated in the computer for this product. It is critical to do these two steps right after each other so that the comparisons are between “apples and apples.” If the product is counted and the computer balance checked later, product could be sold or received and added or deducted from the computer balance which would then not agree with the amount counted.

The counts and computer work should be “visible”; i.e. done during business hours so that the staff is aware that this procedure is taking place. The counts should not be done before or after hours and they should be done when several staff members are around. The counts shouldn't be treated as an unusual procedure nor should it be suggested that they are being implemented due to the possibility of staff theft, but do let it be known that this is a new procedure that will be done regularly. If asked why the counts are being implemented it should be said that the cost of inventory is one of the biggest expenses in the hospital and with the growth of the practice, the owners want to control this cost a little better by improving the inventory system.

If there are discrepancies in the counts, ask the appropriate questions of the staff people:

- Are there any product purchase invoices that haven't been entered into the inventory module?
- Was any product used in-house that hasn't been recorded in the inventory module? (I.e. through a dummy client account?)
- Was any product sent home with either clients or employees that hasn't yet been recorded on an invoice? This is more often a problem with hospitalized or boarding patients than with out-patients.
- Was any product returned to the manufacturer that hasn't been deleted from the inventory module?

- Was product used for any other reason and not deleted from the inventory module?
- Is product stored in some other location which may not have been counted?
- Does the staff have any other ideas as to why the discrepancies exist?

Depending on the level of the discrepancies and whether or not reasonable explanations can be found for the discrepancies, it may be necessary to institute more stringent inventory control procedures until the problem can be found.

## Good Inventory Control is All About a System

Listed below are many of the critical steps in the inventory process and the questions to be asked in reviewing the system. Specific tasks should be assigned to specific people, done in the same way by all team members and reviewed by a supervisor. Ideally different people perform different steps; if one person does it all, the risk of theft increases.

- Who normally orders the inventory?
- How does the practice determine what is needed?
- How frequently are prices checked amongst vendors? Who does this?
- Are purchase orders used to order inventory? If not, how are ordered items kept track of?
- Have reorder points been determined?
- When the order is received, is the list of items ordered compared to the items received?
  - Who does this?
  - Is the order list initialed by the person doing the comparison?
  - Who follows up on discrepancies?
  - Are back ordered items tracked?
  - How?
- When supplies are delivered to the practice, is the packing slip or invoice included in the box checked against the items actually received?
  - Who does this?
  - Who follows up on discrepancies?
- Where is the packing slip or invoice placed after it is checked?
- Are the quantities received and item prices entered

Once this part of the system is in place for food, heart-worm preventative and flea and tick products, expand the counts to include other products. Unless the practice is experiencing a problem, the counts on the other products usually do not need to be done as frequently. Frequency will be determined by the \$ value of the item, its likelihood of being stolen or given away and your experience with this product in your clinic. Don't forget that controlled substances should be counted much more frequently.

into the computer after the order is received?

- When?
- By whom?
- Where is the packing slip or invoice put after computer entry?
- Are the prices charged to clients changed when the clinic cost changes?
- Are items included in group codes or packages checked each time an order of the item is received?
- Who tracks short dated or out of date product?
  - How is this done?
  - Who arranges for the return of product to the vendor?
  - How is this information communicated to the bookkeeper?
- Are packing slips compared to invoices?
  - Who does this?
  - Who follows up on discrepancies?
- Are invoices compared to statements?
  - Who does this?
  - Who follows up on discrepancies?
- Who writes the checks?
- Are the invoices reviewed by the check signer when signing the check?
- Who has the authority to sign checks?
  - Is there a limit to the amount?
  - What is it?

Good physical control of the inventory system is also important for several reasons:

- Helps insure inventory is properly stored based on its physical requirements; i.e. temperature and light
- Inventory that is well organized and easy to find makes it easier to assess how much is on hand, facilitates keeping track of short-dated product and allows for quicker and more accurate physical counts
- Proper organization and storage is a deterrent against theft and makes it easier to keep track of in-house usage
- Sensible organization facilitates good record-keeping

In general, good physical control requires:

- A locked central storage area with limited access—even here only small quantities of product should be kept
- Small quantities of products kept in exam rooms, pharmacy, lab area and other areas easily accessible to employees
- Empty boxes displayed in public areas

Other inventory control tasks which should be performed regularly include:

- Regular review of prices charge to clients
- Assess that inventory is adequately insured
- Medical record audits
- The number of individual products carried in a category
- Regular review of employee accounts to assess the reasonableness of purchase quantities
- Use of important reports used from the practice's inventory computer module including product usage, order history, inventory quantities, reorder points

While setting up and administering this system can seem daunting at first, good inventory control is actually one of the easiest things to achieve in a practice as long as the system is appropriately designed and all tasks are regularly performed.