How to Easily Monitor Your Finances Using the Moving Average

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The business of veterinary medicine is dynamic. Waiting until your taxes are done to evaluate your progress is not the best way to monitor your practice. The moving average is a simple business tool that can help you stay in touch with the current trends of all aspects of your business. Author’s address: PO Box 485, Millersburg, Kentucky 40348; e-mail: MBAVet8@gmail.com. © 2010 AAEP.

1. Introduction
There seems to be a constant bombardment of economic news every time we listen to the media. The upswings are followed by the downturns that are followed by the next wave of financial drama. With all this uncertainty, it would be very easy for the hardworking practitioner to ignore everything financial and just focus on the horse jogging back and forth. Whether the news of the day directly affects our daily lives will always be up for debate; but what is certain is that, as a practitioner, you share common ground with the nation’s economy—you are a financial entity. Therefore, you will certainly have various trends within your practice. Some months you will have an uptrend and some months you will be financially down.

So, how does a busy practitioner keep tabs on their own economic climate in a timely manner? Certainly there are a plethora of financial tools to choose from: budgets, ratios, valuations. Even if you had the knowledge and were motivated to analyze your financial business, would you have the time to do it? How do you avoid being overwhelmed with numbers and still have consistent usable information to manage your business?

Traditionally, many veterinarians gauge the success of their practice by the results handed to them in the spring by their accountants. Unfortunately, the use of the 1040 tax form as a type of profit and loss statement is very common. Even less fortunate is the fact that, if the business is in trouble, it may be too late to make a change. How about if you had that information monthly instead of in the middle of next year? Better yet, what if that information was as easy to obtain as taking an average of a few numbers?

There is hope and there is a tool, as simple and as versatile as a hammer and just as powerful. In fact, like a hammer in construction, this tool is used in business every day. The tool is the moving average.

2. The Moving Average
The moving average is a simple business application that will allow the practitioner to assess on a timely and consistent basis how they are doing in general or in specific areas of their practice. Used effectively, you will no longer have to wait until next year to see how your business is doing.

Technically, the moving average uses a set of data points taken over a period of time. The sum and
the average are compared as time progresses. Because the data are from past events, they are not a definitive predictor of future results, but they do give you an idea of current trends. The use of the moving average as a forecast tool comes from your ability to look at the data and explain the trends with information that you know.

For the equine practitioner, the best use of this tool is to evaluate your current trends monthly using an annual basis. This will help to smooth out short-term fluctuations in the numbers that you see with the various busy seasons. The result will give you valuable long-term trend information. No longer will you have to worry if the sales figures for this month are affected by the early or late start of the season.

The bonus of this statistical simple tool is the versatility. In the simple form, the moving average can be used for a quick view of your sales trend, which can be seen as soon as you plug in the new figures. But dig deeper into the financial health of your practice and see the power of the moving average when different averages are combined.

3. Example

Keep in mind that the use of a moving average is to see a trend. A simplified example can be seen using something we are all familiar with—grades. Let's look at your grades in organic chemistry. Over the course of the semester, you have eight exams. For the first four tests, you put all your effort into this course and you make all As. However, after the midterm, you find there is more to life than studying, and you start to play. These extracurricular activities cause your grades to slip. Can we see the trend? Let's look at the eight grades:


Of course if you take the average grade for the semester you get a welcomed B. However, if you want to see if there is a trend, group the grades into blocks of four to see the moving average: (A A A A) B C D = A average; A (A A A B) C D F = A average; A A (A A B C) D F = B average; A A A (A B C D) F = C average; and A A A A (B C D F) = D average.

True, the final average for the semester is a “B,” and for most of us, that grade in organic chemistry is a gift. However, you also see the downward spiral that the extracurricular activities caused. Now think of how powerful this could be for your practice. Yes, at the end of the year, you may have a B. The reality is, however, that you may very well be in a downward spiral. Now wouldn't you want to have that information sooner rather than later?

The best way to get started using the moving average is to use a number that you currently look at every month. For example, at the end of the month, most of us look at the gross sales figures. Does this number currently have meaning? Normally, we dig out the figures from the same month last year and see if we are improving. However, the moving average can tell you so much more. Take that monthly sales figure and combine it with the last 11 mo and take an average. Now save that number and repeat the process next month and compare the two averages. Within a month you can tell whether your practice is in an uptrend or a downtrend without the uncertainty of the various seasons.

The moving average is relatively easy to use; but it is most effective when it is used consistently. Once the average is set up, adding subsequent numbers takes very little time. In fact, if you graph the averages, you can really visualize the trends.

4. Summary

At times, every practitioner questions the success of various components of their practice. Now you have a tool to use. Beneficially, the moving average only takes up a few minutes a month. Collect some figures and take an average. The information that results is powerful.

Once you see the power of this simple tool, expand your horizons. Are your sales up or down? How about the collected revenue? Are your expenses trending upward? How about staff? Are your labor costs rising even though you never seem to have enough help? You can even combine moving averages from different areas to see the trend. For example, combine the moving average of the gross sales minus the moving average of the gross expenses, and you have a rough view of the trend of your net. Do you have a net gain—a profit? Wouldn't it be nice to see on a monthly basis that you have a profitable trend? Now you can practice with a smile.