Inventory Management for Success

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1. Introduction

The cost of drugs and supplies for use within the practice and for resale to clients is one of the largest expenses associated with the practice of veterinary medicine. A substantial dollar investment is on your shelves at any given time in the form of inventory. If the practice is not mindful of the balance between ordering, storing, and using inventory, it may find itself in a poor cash flow situation. By understanding the way inventory works and by creating inventory controls, you can make a difference in the cash flow and profitability of a practice. Are you efficient and effective in your inventory management?

What is considered inventory? In most veterinary practices, inventory consists of medical and surgical supplies, computer and front office supplies, and janitorial/maintenance supplies. A large number of veterinary hospitals seem to believe that more of something is better. There seems to be an underlying fear that they might run out of something and have difficulty acquiring the product quickly. Then there are the “specials” that sound too good to pass up, when in actuality they cost most practices more money than they save. The practice manager and inventory managers need to analyze and understand the aspects of controlling, ordering, storing, and using inventory.

2. Benefits of Inventory Control

Inventory is an asset and not an investment. An investment appreciates in value with time. In the case of inventory, it is not going to earn you any more today than it will 30 days from now. In fact, in 30 days, it has cost you money. Inventory is a means to make a profit when you use it in the hospital or dispense it. It will not make you money sitting on the shelf.

One of the reasons that companies like Dell Computer, Gateway Computer, and Honda are so successful each year is the use of “just-in-time” (JIT) inventory. JIT allows these companies to control inventories by only having what they need on hand for the day. In other words, they turn the inventory an incredibly high number of times each year. Do these companies spend less on inventory? No. The real savings is in being able to reduce storage and labor and to allow their money to work for them by investing it instead of tying it up in inventory.

As an example, when you deposit money in the bank, the bank will charge a fee for the deposit and, in some cases, an item charge for each check in the deposit. The bank refers to this as the price of doing business with them and invests your money for their gain. By not controlling your inventory, you are tying up money or cash flow that could be invested in a simple Money Market account and earn interest monies for the hospital. Does it make
sense that veterinary hospitals continually tie up cash in inventory and then allow it to sit on the shelves for extended periods of time? The answer is no. Why do veterinary hospitals continue to overstock their shelves with inventory? The answer is simple. It is the fear of possibly running out of a product, but the underlying reason is the lack of internal controls and the fear of change. Is your practice isolated so that you would be unable to receive an order within 48 h or less? Probably not, so why fear this scenario?

The goal is to make sure adequate quantities of supplies are on hand while minimizing the costs of ordering and handling inventory. To accomplish this task, it will take an inventory manager to run a well-controlled purchasing department. By creating, monitoring, and establishing goals to measure your success, inventory management can be efficient and effective for the practice.

3. Inventory System

A good inventory control system will ensure that the hospital has adequate product available to use and to dispense to the clients while effectively optimizing the resources of the hospital. To accomplish these goals, it will take planning, organizing, implementing, evaluation, and review of the system. It is a dynamic process that establishes goals that will be measured and adjusted as needed.

An inventory control system needs to be a well-orchestrated process that ensures availability of product and profitability for the practice. It is not something to be taken lightly and must be treated as a profit center with checks and balances. How you handle planning, organizing, and evaluating the system can mean a big difference in both cash flow and profitability of the practice.

If at all possible, consider establishing an inventory management team to create and implement the protocol (written) for the hospital. The team will develop protocols on how to handle the big end of the year mega sales and introduce the new wonder product sure to solve all the problems of the horse. The team needs to set protocol in conjunction with the owner and practice manager to ensure that all parties understand their roles in inventory management. Inventory is a large portion of the expenses of the practice and should be monitored and reviewed with accurate, detailed reports to the management team on a regular basis.

The future of inventory management is changing. In years gone by, inventory was a large percentage of the revenue of most practices. One of the reasons for its high stature in gross receipts for a practice was related to its ease of selling. The veterinary practice was the only game in town selling the product, making it a sure winner for the practice. Veterinarians charged a high dollar for the product and in the process undercut the charge for services. Something happened that changed the revenue stream for the practices. It was a combination of the internet and market demand by the consumer.

These changes meant the veterinarian needed to adjust the way he purchased and sold products. Inventory management became of paramount importance, but at the same time, reviewing the ratio of product sales to the gross became a quality benchmark. Healthy practices began to be less reliant on product sales and more on the services provided by the practice.

Practices began to realize that clients had choices when it came to products. It was no longer an exclusive club, which meant now a veterinarian was attempting to compete with large corporations where volume of sales led to smaller profit margins. The small mom and pop operations cannot and should not try to compete with these corporate giants. That meant adapting to change and either becoming more cost conscience or outsourcing the sales to third parties.

The model of veterinary medicine is evolving into more of a gatekeeper concept similar to human medicine. The generalist practitioner is performing the wellness on the patient, and when more complicated procedures develop, they refer to the specialist. The same is true for product sales. Veterinarians are turning to alternative methods of product use. They are writing more scripts, using third party vendors, or handling a limited variety of products for resale. The rationale is to optimize the inflow and outflow of the dollars for the practice.

Inventory management is not just what you purchase for resale but also controlling your monies. Until it is realized that inventory is money sitting on the shelves not earning anything for you, it will remain a problem. Each practice needs to create its own strategy to optimize product purchase and use to enhance the bottom line. It is not gross that is important, it is what is retained as profit that is important, while constantly providing quality care for the patient, creating outstanding client satisfaction. Money is important, but it is a balance with providing benefits for the horses, the clients, and the practice.

The goal is to create an inventory management system that will aid in lowering your cost of goods sold and inventory by creation of better reorder points to optimize cash flow. This program will allow you to order product, sell product, and pay for the product. This is akin to a positive cash gap similar to the JIT described earlier. Start using other sources for products for your clients when necessary. You cannot be all things to all of your clients. Concentrate on your core business, veterinary medicine/surgery, as much as possible and use or dispense products when necessary.