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INVENTORY MANAGEMENT

Given the time of year, it makes sense to talk about Inventory. We've dedicated the bulk of this newsletter to the topic. You won't be disappointed.

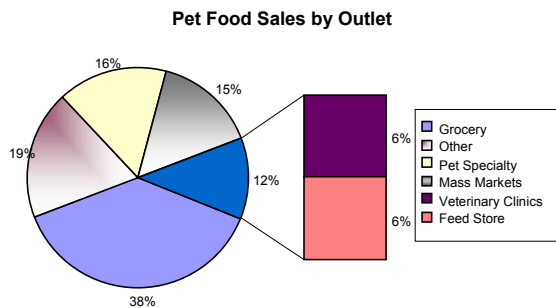
The following article was developed by one of our team members, Nicole Rinella, with help from some of her industry sources.

Is Your Inventory Controlling You?

What is the best solution to manage your inventory efficiently? We don't have a magic recipe but there are certain rules that need to be followed.

But before we get into that, let's look at the impact clinical nutrition might have on veterinary practice and what avenues are pet foods sold and where do veterinary clinic stands in the overall marketplace.

A survey done by the Pet food Industry Magazine - November 2000 * reveals that pet foods are sold in:



From the survey above, it clearly demonstrates that people still buy the bulk of their pet food from the grocery store without any kind of nutritional counsel at all. So, opportunity is knocking at your door. It's up to you and your staff to increase traffic into your practices. Your goal should be to have the pet owners into your clinics more often in order to have an opportunity to build a trust relationship with your clients. It's that relationship within the human/animal/veterinary bond that will make your recommendations of the utmost importance to them. But, you might say, how can that contribute to my bottom line?

The data will surprise you. A typical veterinary client generates 5.2 invoices per year with average sales of about \$339.00 for that year.

However, clients that purchase pet food have 10.2 invoices per year (an increase of +96%) and average sales of \$652.00 - that's an increase in revenue of +92% (Source: Indexx Informatics).

Boosting your bottom line could be as simple as recognizing that professional/retail products account for 27% of gross income in a small animal practice. Still in doubt? Compare that to the other cost centers in the practice: Professional services account for 20% gross income, Vaccines 16%, Surgeries 13%, Lab 9%, Hospitalization 3%, Radiology 3%, and Dentistry 2%. A 27% piece of the gross income pie is extremely significant.

For those of you that might be reticent in selling a product, you need to remember that you're actually building that trust relationship. Your clients will remember to ask you about other medical issues (like smelly ears, lump) if they are in your practice several times per year. As traffic flow increases, the opportunities for more OTC sales like shampoos, treats, grooming, etc., will also grow.

Several factors can influence your decision as to whether you should carry inventory - location might be one (are you close to a competitor, Pet Value - Wal-Mart?), space in your practice could be a possible issue; how large is your client base? But a decision to not carrying it or having a means to dispense it means that you're sending your customers elsewhere for information and services. Needless to say, carrying inventory is a good business decision.

Maintaining inventory is often very costly. In fact, your Drugs and Supplies costs are the single largest expense item in a veterinary practice. Therefore, poor inventory management can tie up valuable cash that won't be available for other purposes.

Your first rule of thumb should be to plan to be profitable and to charge accordingly for your knowledge and expertise.

Space will be the obvious factor on your decision on how many companies should you support. In the ideal world, you probably want to support as many as you can but that is not feasible, nor logical. Ideally, two companies should be your number one supplier with a third for only special orders. Involve your staff on your decision making if you want your retail sales to increase. If they are using the product on their own pets, it's even better. Mouth to mouth recommendation goes a long way. What you don't want is to simply be another person logging heavy bags of food that causes grief and take up space.

Inventory "turns" should be 8-12 times per year, such that product is not sitting on the shelf for more than 30-45 days.

When the decision of your main supplier is done, your second most important factor to the success of inventory management is to have ONE PERSON responsible within your practice of INVENTORY MANAGEMENT.

A key person responsible for the inventory management should have at least the following qualities: Organization skills, details oriented, good mathematical skills and computer skills.

Computerize everything for ease of management: There are excellent programs on the market that will help you with your inventory management. It is essential that you computerize your inventory in order to save time and ease of access by your staff regarding availability, prices and recommendations.

By having computerized your inventory, it will be quite easy to run a report whenever you need it. Whether be it to monitor your inventory of patient treatment items and medication with an easy to access database that tracks for you your inventory consumption, year to date, month to date, dollars sales and quantities, re-ordering trigger point, etc., what you want is to specifically format your reports so that when you want that information it is at your finger tips.

The more you computerize your inventory and have someone managing it, the more that person should be able every time something is sold or used (don't

forget those items used in-clinic) to automatically subtract it from the computer. Having someone in control of your inventory will help reduce over stock, out of stock, theft, expired products situations. Better yet, you won't tie-up huge amount of your money for products that just collect dust or slow movers. It's better to re-order more often and to carry no more than 3 weeks of stock at a time. By having a shorter ordering period it provides you with an opportunity to sell it, collect your money and then pay your supplier all within your 30-60 days allowed for your accounts payable so that you minimize on incurring interest.

Set time aside to do a physical count of your inventory on a quarterly basis, if you can. That will ensure data is accurate and stock is properly rotated. It will also minimize on possible infestation when stock sit collecting dust too long.

Proper location for ease of traffic flow

- It is imperative that you determine where you want to have your inventory. All life stage products, treats, shampooing, dental control products should be conveniently located in your front office for easy access by your clients. If space is an issue, convenient shelving can solve your problem. Your displays should resemble as much as possible what you see in a grocery store. A clean/organized display will add significant dollars to your bottom line.
- Try to customize your shelving. Shelves should be at eye level properly identified with name of product, size and price of each item. Heavier product should be on your lower shelves for easy access.
- Ensure you know your local representative and try to build a good relationship. Your representative can be of valuable help to you and your staff when managing your inventory. Solicit their help in setting up your display so that you can maximize on your retail sales.

Pricing: The big question - How much should we charge?

We are often asked what % margin or markup to charge on pet foods and OTC products. Instead, measure your profitability by how often that

product will be sold. For example, you may have a product that you sell only once a year but you make a \$50.00 profit on it. It might be tempting to keep that one. However, when you compare it to a 20 kg bag of dog food that turns 12 times/year and gives you a \$10.00 profit/bag it adds \$120.00 more to your bottom line. That is a profit of \$70.00 over your previous item.

Inventory items should be priced on the basis of the fair market value of the product considering its direct and indirect costs and with a sufficient profit margin.

Don't forget price increases. They should be reflected as soon as the new product pricing information is entered into the computer. If you labeled your merchandise, then make sure the new price is corrected.

It's important to be able to measure what you sell in your practice - if you cannot measure it, you cannot manage it. Remember the 80/20 rule applies to many things - including inventory. 80% of your sales will come from 20% of your inventory. Don't overstock. Keep an eye on your fast moving items to ensure you have sufficient stock at all time and reduce your slow moving one. Better yet, order it as needed.

How Can You Minimize Inventory Costs?

- If you can, place orders after the distributor's billing cutoff date so that the purchase appears on the next statement. It will provide more time to sell the product before payment is due.
- Remember, inventory is not an investment that appreciates in value the longer it is held. Profitability depends on the difference between revenues and costs and the ability to regularly "turn over" the inventory through product sales.
- Inventory "turns over" should average 8-12 times each year, such that the product doesn't sit on the shelf for more than 30-45 days.
- Don't carry more than needed. Very seldom does a deal of 3 months worth of inventory become profitable unless there are substantial savings and very little risks that the product will expire.

- Delayed billing can be cost effective only if the distributor provides a no-interest incentive in buying in bulk, as long as that product doesn't expire before being used. You will need to evaluate whether the money saved could have been used more profitably elsewhere.
- Price items accordingly on the basis of fair market value considering its direct and indirect costs and sufficient profit margin
- Ensure short-dated product is sold first before it goes out of date. Rotation is of the utmost - . First In/First Out.
- Monitor very closely what is being used "in-clinic feeding/use" as this will eat your profit.
- Computerize your inventory but also eye ball it at least 3 to 4 times per year to ensure accuracy of data.

In summary, your best defense in managing your inventory and being profitable is to keep an eye on it. It's a sure way to add to your bottom line.

Source: Pet Food Industry Magazine - November 2000

Source: Indexx Informatics

Reference: Your High Performance Practice - Merial 2003

Reference: Article by Lowell J. Ackerman, DVM DACVD MBA MPA, PHIE, Inc - Ordering Inventory Economically.

OVMA CONFERENCE

We are unfortunately not scheduled to exhibit at the 2005 OVMA conference. However, it wasn't due to a lack of effort on our part. When we submitted our application we were informed the Exhibitor's Hall had been sold out. We are on the waiting list (#14) and should the opportunity present itself, we will be there.

TAX TIPS AND TRPS

We have included two Tax, Tips and Traps newsletters for your enjoyment. And if you're really motivated, we've included the CGA's of Ontario guide to Personal Tax Planning for 2004/2005.

HAPPY HOLIDAYS

From everyone here at Business Affairs, we wish you all the best for the Holiday season, and health and happiness in the new year.