

# Veterinary Inventory Management Guide



A collection of materials and information from  
the veterinary industry

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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.



## **Inventory ~ It Started With a Paper Cut, *Stop the Bleeding from OTC Sales***

*Notes from a lecture by speaker: Byron Farquer, DVM, AVA*

### **Slide Deck Notes – (accompanies 1 hour presentation)**

#### **Inventory Management**

- Effect on Profitability
- Effect on Practice Value
- Hidden Costs of Loss of Inventory Income

#### **Why We Should Care**

- Inventory is a huge expense for the practice
- Most practices have not “managed” their inventory beyond the most basic level.
- Inventory sales changes (up or DOWN) neither increases nor decreases labor costs
- Loss of profit from inventory affects all other practice operations, and practice value itself.
- Inventory ~ 2nd largest expense in the practice

#### **Definitions**

- OTC ~ Over-The-Counter. Non-prescription, aka purchased “outside veterinary practice”
- Profit/Earnings ~ Bucket of money left after all necessary expenses of the practice are paid.
- Ethical On-line Retailer/Pharmacy ~ Sites working (embedded website) with the practice

#### **Dispensing History 101**

- Type of medication Sold % purchased from DVM
- Early compounding 100%
- Manufactured Meds 80-100%
- Prescriptions 1970 90%
- Prescriptions after 2000 70+%
- Prescriptions after 2010 ???

#### **Inventory Management Program**

- Personnel
- Inventory Placement
- Management techniques and software
- Purchasing
- Expiration dates
- Classifying by importance
- Audits
- Margins and Mark Ups
- Turnover

#### **Inventory Manager**

- Look creatively at ‘big picture,’ identify specific steps
- Differentiate between major and minor issues
- Supportive and encouraging attitude towards staff.
- Flexibility with unexpected requests

- Stay 'on-task' with minimal supervision & do whatever it takes
- Must be at least "above average" in all these areas
- Must develop efficient inventory count and ordering systems

### **Superb Duties Checklist**

- 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.
- Good working relationships with vendors, meet on regular basis (monthly or quarterly)
- 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.

### **Stay Involved/Oversight**

- With an Inv Mgr, you can't "wash your hands" of everything/ anything with inventory

### **Inventory Placement**

- Too many locations in the practice (too many places to count stuff)
- Difficult to visualize volume
- More time to audit
- Too many open bottles
- Improper merchandising ("retail rules" and OTC items display logic)

### **Inventory Problems**

- Central Storage
- Superdrugs, controlled substances, low margin items
- Clipboards and intra-hospital movement
- Drug Morgue ~ Use a central location, visibility enhances discomfort

### **Managing Inventory ~ Computer Software**

- Requires effort, inaccuracies from in-hospital use
- Can generate re-order lists (risk is blind reliance)
- Controls pricing and markup
- Remains the single most under-utilized software module in practices

### **Purchasing**

- Vendors ~ price competitive on 25+ item order. Little gained from price shopping
- 1 extra staff hour at \$14.00 / 25 items = a required savings of 56 cents per item.
- On-line ordering from vendor saves time
- Buy to maintain a 2-3 week supply, with balanced turn-over

### **Expiration Dates**

- Cost of item is only one expense
- Staff ordering time, receive, stock, manage inventory
- Lost profit opportunity
- \$5000 cost, 30% markup = \$1500 lost cashflow

- Need \$15,000+ extra sales to generate enough cashflow to cover loss of the \$6500 above
- FIFO – First In First Out. Mark it, and Move it

### Inventory ABCs

- Classify using the 80/20 rule
- Manage inventory by class (A,B,C,X)

Class A	Class B	Class C	Class X
Never run out	Lower stock	Special Order	Pink Slip
Strict Control	Moderate	Loose	Terminate
Count Weekly	Monthly	Quarterly	Decide Now
Central Storage	Shelved	Shelved	Retail Rules
80% income	20% income	Nominal	Loss
Antibiotic	NSAID	Urolith Diet	Hair-B-Gone

### Inventory Audits

- How much do you have!
- Daunting – break up the counting
- Coding – color stickers, marks, etc...
- Volume vs. Price vs. Need
- Stocking Rate – 20 needles in the cart or 200?
- Software linking - Use of a “hospital account” vs. linked procedures

### Mark-ups and Margins

- Mark Up = % difference between actual cost of item and selling price
- Margin = % difference between 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 day
- Low demand – discontinue or pre-order??
- On average, inventory should turn 4 to 5 times a year in your practice.

### Match Inventory 80/20 to Clients

- Review top 20% inventory sold to top 20% clientele. Both generate 80% of revenue.
- Look at top 20 clientele purchased items ~ keep it available, affordable, and convenient.
- Search your computer database, review your top client’s invoices then match the 20/20.

**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.

**Resources:**

<http://www.matsco.com/library/articles/59/1/Inventory-Management-Made-Easier.html>

<http://www.aahanet.org/education/vms1.aspx>

**Beyond Bottles, Pills, and Bags ~ Overlooked and hidden costs of losing inventory sales**

Big Company Advertising – Friend or Foe?

Recent Frontline Plus media advertising plan included print, web and prime time TV commercials, etc... The veterinarian flyer received said the campaign promised to reach 95% of the target audience “driving clients into your clinic as the flea season grabs hold”, but do consumers then go out and buy from you (the vet) or somewhere else?

Example: You can find Frontline Plus on Costco.com, Target.com, etc... and at other big box retail stores, Pet Med, Foster & Smith, etc...

**Parasiticides are big business – Many products are available at:**

- 900+ PETCO stores
- PetSmart
- WalMart
- Target
- Ace Hardware
- Cabela's
- Costco
- Feed Stores
- Online Auctions have over 2000 listings!

**Practice's feel the pain**

- Doses of parasiticides dispensed through 2645 veterinary practices vs. previous year (09 v 10)

Advantage -39.3%

Frontline -17.1%

Advantix -17.8%

Program -30.8%

Comfortis +14.6%

Source = VetInsite Analytics Study

## **Your role in a product lifecycle ~ Trailblazer, then Pimp, then...???**

### **Ethical Online Pharmacy ~ VetSTREET Survey 1000 pet owners**

- 63% would be more likely to be compliant with heartworm & flea product repurchasing.
- 75% would visit their vet's online website 4 times per year.
- 76% would request automatic reminders for services and treatments.
- 82% would schedule appointments online.
- 91% would use a reliable pet health library (on your webstore) and access it 8 times a year

### **Numerous Choices**

- VetCentric
- VetSTREET
- ProxyRX
- ePet
- 7/21/09 PetMed Express (1-800-PetMeds): net income of \$8.1 million, up from \$6.6 million a yr ago. Sales rose from \$68.4 million to \$77.2 million for that period. Qtr ended 6/30/09

### **#1 Reason Consumers Shop Online**

- Convenience #1 ~ Nielsen Online surveyed 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

### **No Online Service? That's OK!**

Then address these issues in your practice

- Ability to purchase M-Sun, before and after work
- Be efficient in the sale process (quick)
- Do the comparisons for them (newsletters/flyers/product info)
- Make it easy
- Be price competitive (doesn't = cheapest)
- No shipping! It's at the practice already.

### **Ask These Questions**

- Am I handling great products and stand behind them?
- Any incentive to **re**-purchase?
- Trophy Customers(Clients) – Am I serving their needs?
- Making it easier to purchase?
- Going to your customer?
- Customer service champion?

What's Your Score? 5 of 7 = 71% C- 4 of 7 = 57% F



**Customer Disconnect** = Mental and emotional conflict created when the actions of a trusted brand or product source departs from a familiar protocol.

**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 client begins purchasing from other sources, there's erosion of brand loyalty to your practice. Your services and products risk becoming a commodity.
- US companies lose up to 1/2 of its customers every yr, 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%.

### **Iowa State and University of Missouri Studies**

- Tips to keep brand loyalty (product/source)
- Develop an unbeatable product
- Give Customers an incentive to repeat a purchase
- Stand behind the product
- Know your trophy customers (80/20 rule)
- Make it easier to buy your brand than competing brands
- Go to your customer
- Become a customer service champion

**Voting with Their Dollars** ~ Clients are harder to get back than to acquire

**If they shop somewhere else, what will they buy?** Once a consumer/client begins shopping at other locations, there is a risk that the behavior will continue or increase

### **Loss of Inventory Revenue - Its Effect on Profits and Practice Value**

- Gross Production
- Production not just dollars is very important
- Production = clients x sales (services or goods)
- Revenue = Production x fees
- Revenues can go up when production goes down if the fees keep getting raised.
- Watching Gross Revenue ONLY is dangerous
  
- Gross Revenue vs. Production
- 15 clients x average of 8 items invoiced = 120
- 15 clients x \$100 ATF = \$1500
- 12 clients x 7 items invoiced = 84
- 12 clients x \$125 ATF = \$1500

Results: Client visits down 25%, Sales down 14.3%, BUT Gross Revenue +/- 0%

### Payroll Benchmarks

- 18 to 20% of Gross Revenue for support staff
- 20 to 22% of Gross Revenue for DVMs

### Cost of Goods Sold COGS Benchmarks

(18-20% of Gross Revenue)

- Typically includes: Drugs, Medical supplies, Animal Disposal, Lab
- Typically excludes - Office supplies

### Earnings/Profit 14-17% Benchmarks

- True profit after all necessary and required expenses
- Doesn't include discretionary expensing (IRS)
- Small animal practices should post earnings of 14 to 17% on average
- Large animal exclusive practices commonly exceed 20%, Mixed 12-14%

Calculate adjusted earnings / true profit

Gross Revenue - true or required expenses (labor, COGS, utilities)

+ One-time, non-reoccurring or discretionary expensed costs

- rent or mortgage

- owner compensation (both DVM comp. and management stipend)

= adjusted earnings/profit

### Cost of Losing Just Two Daily Transactions

- Average # of daily transactions (ADT) = 40
  - Average Transaction Charge (ACT) = \$85.00
  - $ACT \times ADT = \text{Income per day}$
  - Currently  $\$85.00 \times 40 = \$3,400/\text{day}$
  - 2 less daily transactions  $\$85.00 \times 38 = \$3,230/\text{day}$
- Each day the loss of two transactions is a cost of \$170.00, or, \$44,880 per year.  
Assuming the practice nets 15% of every dollar, that is \$6732.

### How Does This Affect Practice Value?

Impact on Value

\$1.00 of loss in earnings is a \$3 to \$6 decrease in value, so....

\$6732 in lost earnings means \$20K to \$34K decrease in value!

& you also never had the \$6,732!

### Example of how a drop in profit affects value

Practice A Practice B

$Ea/C = V$  (Adjusted Earnings / capitalization rate = Value)

$\$100,000 / .22 = \$454,545$   $\$125,000 / .22 = \$568,181$

Cap rate of 22 is equivalent to 4.54 x earnings

Difference in value between A vs. B? = \$113,636

### **It's not just about the money**

- More profit does leads to higher value, **but** pre-sale it allows you to:
- Invest in better equipment
- Provide better compensation and benefits
- Improve facilities
- Retire debt
- Increase marketing efforts
- Support community charities

### **Case Study - Improving Sales, Convenience, Profit and a Dream Practice**

Established 2+ Drs, flat revenues, needs new facility, desires better equipment, wants more RVTs, desires obtaining a regional referral reputation

Disappointing Practice Value: 577,000 (Tangible Assets 90,000 Intangible Assets 485,000)

Steps to Improvement: (Financial acumen, Re-branding, Marketing, **Inventory control and sales**, Fees, Client service oriented - *hours, on-line services*)

### **On-going Improvements**

- Advanced procedures
- Better diagnostics and equipment
- Careful selection of pharmacy and retail items
- Professional assistance / consultants

### **Case Study Practice**

6 years later - Practice Value: 3,150,000 (Tangible Assets 240,000, Intangible 2,910,000)

- Practice's Online Pharmacy – Pet Food & meds available online, & shipped from practice

### **Ponder Your Position**

- Invest time to consider the products you sell
- What you recommend
- Manufacturer loyalty
- Diversion
- Erosion of your practice's brand image
- Loss of clients and their purchasing
- Quality of customer service
- Inventory control

### **Confused? Read, Ask, Learn**

- Colleagues
- Seminars and Lectures
- Books and Articles
- Non-veterinary business info
- Ask the Experts
- Associations
- Manufacturers and Distributors

## **It Started with a Paper Cut – Recipe for Practice Failure**

How to make seemingly unimportant and nearly undetectable losses in inventory sales lead to a recipe for disaster:

Start with ½ cup of reduced inventory expenses (Yea!)  
Add 2 cups of reduced inventory income (Boo)  
Fold in decreased profit  
Add a dash of lack of reinvestment  
Mix in shrinking products and services sales  
Measure loss of client base, followed by loss of key staff  
Shake and Repeat until broke

### **You Need to Act NOW!**

- ✓ Get Control of Your Inventory
- ✓ Improve Your Sales
- ✓ Be Proactive
- ✓ Fight Back!
- ✓

**Speaker: Byron Farquer, DVM, AVA Simmons & Associates Pacific Inc**

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# Inventory Manager Guide and Job Description

By: Brenda Tassava, Certified Veterinary Practice Manager

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 emotion 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.

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

Oversee: N/A

## **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 to 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.

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 a 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. As a Practice Manager, I see every invoice and packing slip after it has been processed by the Inventory Manager. I see every order that is placed online via an email sent directly to my inbox once an order has been placed. I also calculate the net value of on-hand inventory based on the "count" submitted each month by the Inventory Manager, submitting these numbers to the bookkeeper each month. These steps are in place to balance and protect the Inventory Manager, as well as the Practice Owner's interests.

Once you know what you need, and what it's going to take to keep your inventory system flowing at maximum performance, take your time in choosing the person for the job. Management of inventory is one of the most under-appreciated jobs in the field of veterinary medicine, but it is a crucial one to the smooth flow of client service, patient care, and your practice's bottom line.

# 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.

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Author: Brenda Tassava is a Certified Veterinary Practice Manager and has been the Hospital Administrator at Broad Ripple Animal Clinic & Wellness Center. See more details at [www.vetmanageradvisor.com](http://www.vetmanageradvisor.com).



# Take the Lobby Challenge for 2010! (Part 1 of 4)

Brought to you by Angela Schneider, Inventory Management Consultant for MWI.



This can be a year to capture new revenue that is already available in your clinic. Your clinic's lobby and exam rooms are the most underutilized profit centers for your practice. With proper use of displays and marketing, these spaces can either become profit centers or be used to promote other services your practice can offer. In a practice producing \$300,000–\$400,000 in gross annual revenue, a well-planned lobby, exam room or retail space could generate \$20,000 in profit.

This is a four-part series that will focus on making the most of your lobby and/or exam room, creating eye-popping and engaging displays, and knowing what products to carry and how to market them.

Gather your team together and challenge your hospital to see how you can better utilize your lobby and exam rooms. It is a fun task that can be delegated to different members of the team and allow them to be creative. Remember to change your displays often and catch your client's eye. We would love to see the before and after photos.

## Making the Most of Your Lobby and/or Exam Room

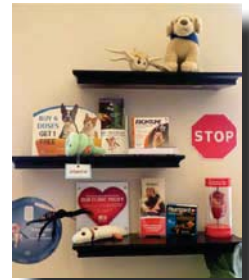
Where do your clients spend most of their time when they are in the clinic? This is a good place to begin so that you give the right amount of attention to the area with which your clients are engaged the most. Become the client! On a weekly basis, you or a team member should enter your practice through the same doors as the client does. See your lobby and exam room through their eyes. Because this is a profit center, is the location appealing? Is it tidy and free of dust and pet hair? Do you become engaged with the products, brochures and any other educational items that are on display?

## Get Your Clients Engaged

To sell your items, you need to understand the principals of why people buy. How does the placement of products stimulate us to buy? In what ways do we become engaged in a product? In a veterinary practice, we want to be able to provide services and sell wellness products without coming across as a salesperson. This can be done with proper utilization of product displays to encourage the use of your products.

### Make Changes (Merchandising)

Many times we get comfortable with the same layout (where products and items are kept on display) for our lobby and exam rooms. Many of your clients have new puppies, new kittens, or other pets that require regular care and may visit your practice as often as every month. If nothing changes from one visit to the next, there is nothing new to catch their eye and they stop engaging with products or educational displays. A well-planned lobby, retail area and exam room should have the displays changed on a monthly basis. This allows returning clients to become engaged with your displays every time they visit your hospital.



### Observances/Health Campaigns—A Great Marketing Tool

Making changes to your lobby, exam rooms and retail area on a monthly basis can require creativity, but some of that work is already done for you. There are many weekly and monthly animal observances that can be great marketing tools when you are remerchandising. These observances give you the opportunity to market products you have that pertain to that specific cause or even a service. For example, February is Dental Month, September is Senior Care Health Month and October is National Animal Safety Month. Even an emergency hospital can utilize their lobby to promote safety tips and services during National Animal Safety Month, while a small animal practice can display first aid kits available for purchase. A list of Month-by-Month animal health campaigns and observances is available at [www.mwivet.com](http://www.mwivet.com), through the AVMA, and Pet Product News. There are observances for large animals and exotics too.



SALES prove it! Don't forget holidays as an animal observance. A study in the October 2008 Consumer Report showed that 59% of respondents said they will be cutting back for the holiday gift giving season. However, among those, only 23% indicated they'd be reducing gift spending on their pets. This is also a great time to demonstrate community support either by offering baked treats from a local bakery or by donating part of the proceeds from toys available for purchase to a local shelter. The more you can utilize your lobby to promote businesses in your community, the more likely they are to offer support to your hospital in return.

Take the month of February to evaluate your lobby and exam room as a client would. Identify where clients spend most of their time when they are in your hospital and utilize those areas for marketing. It can be a challenge to find the space to create displays that will market your wellness products and services. This will be a good time to reevaluate any underutilized spaces that can be converted into revenue-generating profit centers.

# Take the Lobby Challenge for 2010! (Part 2 of 4)

Brought to you by Angela Schneider, Inventory Management Consultant for MWI.

You may have now started your Lobby Challenge by identifying where your clients spend most of their time in your hospital (lobby, exam room, etc.), delegated a team member to be responsible for merchandising, and have made it a monthly task to remerchandise your lobby or exam room.

The last Lobby Challenge article emphasized the importance of getting your clients engaged in your products, whether they are wellness or retail items, and promoting your services. This month, we will share some tips on how to create displays that encourage consumer purchasing.

First, identify what kind of display fixture(s) you plan to use. Fixture options include:

- **Wall Shelving:** Shelves are simple fixtures that can be used to create a focus on specific products or services. They can be a solution if you have limited space in your lobby or exam room, but still have an area that allows you to change the client's engagement each month.
- **Slatboards:** These can be an alternative to standing shelves and can work great if you have products that are best displayed by hanging (for example, toothbrushes, hair brushes, toys, etc.) because of how flexible they are with the use of pegs.
- **Gondolas:** These are the more common standing fixtures. You see these at grocery stores, retail stores and hardware stores. They allow you to change shelf height, have peg boards and create an ideal composition for organizing your products. One place to buy gondolas fairly inexpensively is from stores that are going out of business.
- **Brochure Wall Displays:** Counter and table space should always remain clear and neat. Piles of brochures on the counters and tables can take up space and look sloppy. Brochure wall fixtures are a great way to neatly organize your brochures on the wall rather than take up space on your counter. Try to display brochures only for your "A" products and services. Also, brochures should be near where clients check in or wait for their appointment, as this can open dialogue from clients who have questions regarding a brochure they saw while waiting.
- **Display Cases:** If you are concerned about having expensive or exclusive products in your lobby or exam room a display case will keep products both visible and protected. Keep in mind that if clients can't see your products, they don't know you have them. If you are worried about theft, but don't want display cases, put out empty or "dummy" product packages.

Secondly, the type of display location can be the key in successful product movement and getting the attention of your clients. Try to utilize these two important displays:

- **Point of Purchase Display:** We see point of purchase items every day. Most stores and gas stations have small items available for sale at the checkout counter (candy, gum,

lighters, etc.) that typically have high profit margins. Point of Purchase displays can be very successful for veterinary hospitals. Clients are compassionate after their pet has received a vaccine or wellness

exam. Having your retail treats, wellness treats and toys near your checkout gives your clients the opportunity to purchase a reward for their pet. Point of Purchase displays can be utilized for your monthly observance marketing plans. For example, if you promote February dental month, you can have toothbrushes and toothpaste available at the checkout and it becomes a compliance reminder for your client.

- **End Cap Display:** Grocery stores and other large retailers use end cap displays to draw customers to products that are new or on sale, and you can use them to communicate the importance of pet care. Any standing fixture or gondola can be made into an end cap display. Change the products at least on a monthly basis, and your lobby sales could increase by 100%. If you offer special pricing on those "products of the month," your lobby sales could increase by 300%.

After you have decided on your display fixture and type of display location, follow these tips on how to professionally organize your products.

- Divide different product evenly (same spacing in between) and in separate compartments or peg hooks.
- Organize products by similarity, size and color.
- Use caution when placing products (such as food) on or close to the floor because dogs are likely to urinate on them.
- Composition is the key to successful merchandising. Arrange products into a pyramid shape and ensure that all elements are visible. Plan the highest point of the composition to be in the center of the grouping and reduce the height of items toward the outer edges—use a pyramid shape as the outline for the edges of product. There can be small pyramids within the large pyramid composition.
- Each day, products should be "faced" forward and not pushed backwards on hooks or shelves. Not only does it look nicer, it gives the rack or shelf the appearance of being full with merchandise.
- Keep your products clean and dust free.
- Use focal points and props such as stuffed animals, bright signs, and/or manufacturer-provided displays to get the attention of your clients. Utilize your monthly observances to have fun with your focal points.





# Take the Lobby Challenge for 2010! (Part 3 of 4)

Brought to you by Angela Schneider, Inventory Management Consultant for MWI.

After reading part one and part two of our Take the Lobby Challenge 2010, you are beginning to understand what some consumer buying habits are and how you can strategically arrange your lobby and exam rooms to take advantage of these habits.

Inventory may constitute your second-largest expense; however, marketing your inventory through the utilization of your lobby and exam room can turn these areas into the most profitable centers of your practice. To create a successful profit center, both you and your clients need to find the value in your products. When this value is identified, it will help you resist the temptation to lower your prices to be competitive.

Price does not equal value. Value is an interaction of price, quality, service, functionality and convenience. **Here are some ways to provide value and be proactive to stay on par with your competitors, pet stores and online pharmacies.**

- Offer home delivery of products for your clients. The MWI/AAHA MARKETLink pharmacy programs can provide all your home delivery needs while keeping revenue within your practice.
- Utilize the reminder system in your practice management software to generate phone calls, postcards or emails to remind clients when their pet is due for a product or prescription.
- Take your lobby to the next level and start your own online store. This is a great resource for client convenience. Another advantage of having your own online store is that it allows you to offer products to clients that you wouldn't otherwise carry in your clinic. This helps reduce the amount of inventory you need to physically stock as well as eliminate duplicate products.
- Leverage your expertise and that of your team by educating clients on the products you carry and showing them how to use those products. This teaching relationship is crucial, and the more clients know about your team's expertise, the more value they will find in your practice. Education is important with clients who are considering using an online pharmacy. Rather than use scare tactics, utilize resources such as the FDA, "Purchasing Pet Drugs Online, Buyer Beware" client handout.

If you are looking for information about how to price your products and services, we recommend *The Veterinary Fee Reference* by AAHA Press.



## Here are some tips for implementing competitive and pricing strategies into your lobby:

- Utilize private labeling. This allows your products to be labeled with your hospital name and logo rather than the manufacturer's label. The product then becomes your own brand, which makes them exclusive because clients can get them only from your hospital. Private-labeled products can be reasonably priced for your clients and help discourage them from shopping for the same type of products online. Ask your MWI/AAHA MARKETLink sales representative for more information about what products are available for private labeling and how to get started.
- Put price stickers on all products in your lobby. Not having a price tag can decrease your sales significantly. Clients might be afraid to ask how much a product will cost because they fear they might not be able to afford it and be embarrassed. Having a price tag will assist in your client's buying decision. The key is to not place the price directly on the front of the product package. Instead, place the tag on the bottom of the product or on a back corner so that the client can become engaged with the product first and then find the price.
- On retail products, use prices that end in digits 5 or 9.
- When displaying products on your shelf, utilize the "rule of the right." Position products with a greater price, quantity or profit margin to the right of other similar products. Studies have shown that consumers always buy products from the right. If you have a flea product that is packaged by 3 doses or 6 doses, the 6-dose pack should be displayed to the right of the 3-dose pack. This will encourage the client to buy the 6-dose pack, which will result in better compliance for their pet. You can use this rule for sluggish sellers that you want to move quickly. Put the slower-moving products to the right of fast-moving items to encourage sales of the sluggish item.
- Signs can be a quiet but very effective seller for you. Add signs to your lobby as location identifiers (shampoos, flea prevention, toys, etc.) and for specials. You can increase sales by 100% if you offer specials and use signs to identify the specials in the lobby or exam rooms. If you offer specials, also implement social media in your strategy. You can use channels such as Facebook and Twitter to let your clients know of a product special you are offering.

# Take the Lobby Challenge for 2010! (Part 4 of 4)

Brought to you by Angela Schneider, Inventory Management Consultant for MWI.

Now that you know the philosophies of why people buy and how to use product placement strategies to make the most of your lobby and exam rooms, the next challenge is to determine what to display or carry.

Many of the products that you can display in your lobby or exam room, you probably already have in your practice. Having a team meeting can be a great way to assess your products and which ones to include in the lobby challenge. Ask your team identify some grooming products, behavioral products, dental prevention products and flea/tick products you currently carry and recommend.

Identifying the lifestyles of your patients is another way to either assess your current products or consider what new products to carry. If your typical canine patient is active, runs, swims, and sleeps on the owner's couch or bed, you might want to consider carrying joint products, shampoo/ear cleaner, brushes, and behavioral modification toys. Don't forget about your feline patients, too. Cats might not be as active as dogs, but they will either hunt or lounge around the house. You can place emphasis on deworming programs and weight management programs/diets. You can also utilize social networks such as Facebook and Twitter to conduct polls to create a test market in order to determine what products and/or services are of most interest to your clients.

As you start to choose your products and implement your placement strategies, keep in mind that some product types require special attention.

## Tips for displaying diets:

- Use the 60/40 rule for food allocation
  - ✓ 60% of space is used for dog items
  - ✓ 40% of space is used for cat items
  - ✓ For dog items, dry food will account for half and the other half gets split between moist foods and treats
  - ✓ Cat food is split evenly between dry and moist food, except for 5-10% that may include treats
- Always stock the heaviest items at the bottom (for safety and a balanced display)
- If you carry both prescription and maintenance diets, position them separately
- Keep canine and feline foods separate
- Place a sign near your large bags that says "A hospital team member will be happy to carry this to your vehicle." As with asking for prices, clients might be embarrassed to ask for help carrying out the food. This sign will help make it easier for the client to decide to buy a larger bag of food, which will lead to better compliance for the pet.

**Tips for displaying products on which you would like to increase compliance (flea/tick prevention, joint medications, etc.) or products that do not move quickly:**

- If you have products in different quantities such as 3- and 6-packs of flea/tick prevention, remember to use the rule of the right (as discussed in previous article). You want to encourage long-term compliance, so place the 6-packs to the right of the 3-packs. This will get the client engaged with a larger quantity.
- If you have products that do not move as quickly as you would like, put them to the right of faster-moving products. These products will then catch the client's eye when he or she is buying a frequently used product.

## Tips for displaying treats and toys:

- Make these products point-of-purchase items by placing them near where clients check out.
- Place treats at eye level for children and reachable for senior citizens. These two groups are the biggest purchasers of treats.
- Create an area that is called "Staff Recommended." This is a fun way to display items that your staff has used or is currently using with their pets. Include a brief testimonial from a staff member with each product that states why it is recommended. This works well for toys or items used for behavioral modifications, dental care, etc. and adds a personal touch to your retail strategy.

Remember, your lobby and exam room can be ideal profit centers. See your lobby and exam rooms as a client would. More importantly, make it a team activity and have fun! Use the tips given over the past few months and take the lobby challenge. We would love to hear about your lobby/exam room makeovers.



# 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	35.90%	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
24.81%	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
26.47%	36%	1.36	39.02%	64%	1.64
27.01%	37%	1.37	39.39%	65%	1.65
27.54%	38%	1.38	39.76%	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 MANAGEMENT

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*Management and Planning Series*

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### INTRODUCTION

"Inventory" to many small business owners is one of the more visible and tangible aspects of doing business. Raw materials, goods in process and finished goods all represent various forms of inventory. Each type represents money

tied up until the inventory leaves the company as purchased products. Likewise, merchandise stocks in a retail store contribute to profits only when their sale puts money into the cash register.

In a literal sense, inventory refers to stocks of anything necessary to do business. These stocks represent a large portion of the business investment and must be well managed in order to maximize profits. In fact, many small businesses cannot absorb the types of losses arising from poor inventory management. Unless inventories are controlled, they are unreliable, inefficient and costly.

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## **SUCCESSFUL INVENTORY MANAGEMENT**

Successful inventory management involves balancing the costs of inventory with the benefits of inventory. Many small business owners fail to appreciate fully the true costs of carrying inventory, which include not only direct costs of storage, insurance and taxes, but also the cost of money tied up in inventory. This fine line between keeping too much inventory and not enough is not the manager's only concern. Others include:

- ! Maintaining a wide assortment of stock -- but not spreading the rapidly moving ones too thin;
- ! Increasing inventory turnover -- but not sacrificing the service level;
- ! Keeping stock low -- but not sacrificing service or performance.
- ! Obtaining lower prices by making volume purchases -- but not ending up with slow-moving inventory; and
- ! Having an adequate inventory on hand -- but not getting caught with obsolete items.

The degree of success in addressing these concerns is easier to gauge for some than for others. For example, computing the inventory turnover ratio is a simple measure of managerial performance. This value gives a rough guideline by which managers can set goals and evaluate performance, but it must be realized that the turnover rate varies with the function of inventory, the type of business and how the ratio is calculated (whether on sales or cost of goods sold). Average inventory turnover ratios for individual industries can be obtained from trade associations.

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## **THE PURCHASING PLAN**

One of the most important aspects of inventory control is to have the items in stock at the moment they are needed. This includes going into the market to buy the goods early enough to ensure delivery at the proper time. Thus, buying requires advance planning to determine inventory needs for each time period and then making the commitments without procrastination.

For retailers, planning ahead is very crucial. Since they offer new items for sale months before the actual calendar date for the beginning of the new season, it is imperative that buying plans be formulated early enough to allow for intelligent buying without any last minute panic purchases. The main reason for this early offering for sale of new items is that the retailer regards the calendar date for the beginning of the new season as the merchandise date for the end of the old season. For example, many retailers view March 21 as the end of the spring season, June 21 as the end of summer and December 21 as the end of winter.

Part of your purchasing plan must include accounting for the depletion of the inventory. Before a decision can be made as to the level of inventory to order, you must determine how long the inventory you have in stock will last.

For instance, a retail firm must formulate a plan to ensure the sale of the greatest number of units. Likewise, a manufacturing business must formulate a plan to ensure enough inventory is on hand for production of a finished product.

In summary, the purchasing plan details:

- ! When commitments should be placed;
- ! When the first delivery should be received;
- ! When the inventory should be peaked;
- ! When reorders should no longer be placed; and
- ! When the item should no longer be in stock.

Well planned purchases affect the price, delivery and availability of products for sale.

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## CONTROLLING YOUR INVENTORY

To maintain an in-stock position of wanted items and to dispose of unwanted items, it is necessary to establish adequate controls over inventory on order and inventory in stock. There are several proven methods for inventory control. They are listed below, from simplest to most complex.

- ! *Visual control* enables the manager to examine the inventory visually to determine if additional inventory is required. In very small businesses where this method is used, records may not be needed at all or only for slow moving or expensive items.
- ! *Tickler control* enables the manager to physically count a small portion of the inventory each day so that each segment of the inventory is counted every so many days on a regular basis.
- ! *Click sheet control* enables the manager to record the item as it is used on a sheet of paper. Such information is then used for reorder purposes.
- ! *Stub control* (used by retailers) enables the manager to retain a portion of the price ticket when the item is sold. The manager can then use the stub to record the item that was sold.

As a business grows, it may find a need for a more sophisticated and technical form of inventory control. Today, the use of computer systems to control inventory is far more feasible for small business than ever before, both through the widespread existence of computer service organizations and the decreasing cost of small-sized computers. Often the justification for such a computer-based system is enhanced by the fact that company accounting and billing procedures can also be handled on the computer.

- ! *Point-of-sale terminals* relay information on each item used or sold. The manager receives information printouts at regular intervals for review and action.
- ! *Off-line point-of-sale* terminals relay information directly to the supplier's computer who uses the information to ship additional items automatically to the buyer/inventory manager.

The final method for inventory control is done by an outside agency. A manufacturer's representative visits the large retailer on a scheduled basis, takes the stock count and writes the reorder. Unwanted merchandise is removed from stock and returned to the manufacturer through a predetermined, authorized procedure.

A principal goal for many of the methods described above is to determine the minimum possible annual cost of ordering and stocking each item. Two major control values are used: 1) the order quantity, that is, the size and

frequency of orders; and 2) the reorder point, that is, the minimum stock level at which additional quantities are ordered. The Economic Order Quantity (EOQ) formula is one widely used method of computing the minimum annual cost for ordering and stocking each item. The EOQ computation takes into account the cost of placing an order, the annual sales rate, the unit cost, and the cost of carrying inventory. Many books on management practices describe the EOQ model in detail.

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## **DEVELOPMENTS IN INVENTORY MANAGEMENT**

In recent years, two approaches have had a major impact on inventory management: Material Requirements Planning (MRP) and Just-In-Time (JIT and Kanban). Their application is primarily within manufacturing but suppliers might find new requirements placed on them and sometimes buyers of manufactured items will experience a difference in delivery.

*Material requirements planning* is basically an information system in which sales are converted directly into loads on the facility by sub-unit and time period. Materials are scheduled more closely, thereby reducing inventories, and delivery times become shorter and more predictable. Its primary use is with products composed of many components. MRP systems are practical for smaller firms. The computer system is only one part of the total project which is usually long-term, taking one to three years to develop.

*Just-in-time* inventory management is an approach which works to eliminate inventories rather than optimize them. The inventory of raw materials and work-in-process falls to that needed in a single day. This is accomplished by reducing set-up times and lead times so that small lots may be ordered. Suppliers may have to make several deliveries a day or move close to the user plants to support this plan.

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## **TIPS FOR BETTER INVENTORY MANAGEMENT**

### **At time of delivery**

- ! Verify count -- Make sure you are receiving as many cartons as are listed on the delivery receipt.
- ! Carefully examine each carton for visible damage -- If damage is visible, note it on the delivery receipt and have the driver sign your copy.
- ! After delivery, immediately open all cartons and inspect for merchandise damage.

### **When damage is discovered**

- ! Retain damaged items -- All damaged materials must be held at the point received.
- ! Call carrier to report damage and request inspection.
- ! Confirm call in writing--This is not mandatory but it is one way to protect yourself.

### **Carrier inspection of damaged items**

- ! Have all damaged items in the receiving area -- Make certain the damaged items have not moved from the receiving area prior to inspection by carrier.
- ! After carrier/inspector prepares damage report, carefully read before signing.

### **After inspection**

- ! Keep damaged materials -- Damaged materials should not be used or disposed of without permission by the carrier.
  - ! Do not return damaged items without written authorization from shipper/supplier.
- 

### **SPECIAL TIPS FOR MANUFACTURERS**

If you are in the business of bidding, specifications play a very important role. In writing specifications, the following elements should be considered.

- ! Do not request features or quality that are not necessary for the items' intended use.
- ! Include full descriptions of any testing to be performed.
- ! Include procedures for adding optional items.
- ! Describe the quality of the items in clear terms.

The following actions can help save money when you are stocking inventory:

- ! Substitution of less costly materials without impairing required quality;
  - ! Improvement in quality or changes in specifications that would lead to savings in process time or other operating savings;
  - ! Developing new sources of supply;
  - ! Greater use of bulk shipments;
  - ! Quantity savings due to large volume, through consideration of economic order quantity;
  - ! A reduction in unit prices due to negotiations;
  - ! Initiating make-or-buy studies;
  - ! Application of new purchasing techniques;
  - ! Using competition along with price, service and delivery when making the purchase selection decision.
- 

### **APPENDIX: INFORMATION RESOURCES**

#### **U.S. Small Business Administration (SBA)**

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone

directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- *SCORE: Counselors to America's Small Business*, a national organization sponsored by SBA of over 11,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Free online counseling and training at [www.score.org](http://www.score.org).
- *Small Business Development Centers (SBDCs)*, sponsored by the SBA in partnership with state governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- *Women's Business Centers (WBCs)*, sponsored by the SBA in partnership with local non-government organizations across the nation. Centers are geared specifically to provide training for women in finance, management, marketing, procurement and the Internet.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722) or visit our website, [www.sba.gov](http://www.sba.gov).

### **Other U.S. Government Resources**

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. Find a "Catalog of Government Publications" at <http://catalog.gpo.gov/F>

Many federal agencies offer Websites and publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

#### **Federal Citizen Information Center (FCIC)**

[Http://www.pueblo.gsa.gov](http://www.pueblo.gsa.gov)

1-800-333-4636

The CIO offers a consumer information catalog of federal publications.

#### **Consumer Product Safety Commission (CPSC)**

Publications Request

Washington, DC 20207

[http://www.cpsc.gov/cpscpub/pubs/pub\\_idx.html](http://www.cpsc.gov/cpscpub/pubs/pub_idx.html)

The CPSC offers guidelines for product safety requirements.

**U.S. Department of Agriculture (USDA)**

12th Street and Independence Avenue, SW  
Washington, DC 20250

<http://www.usda.gov>

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

**U.S. Department of Commerce (DOC)**

Office of Business Liaison  
14th Street and Constitution Avenue, NW  
Washington, DC 20230

<http://www.osec.doc.gov/obl/>

DOC's Business Liaison Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

**U.S. Department of Health and Human Services (HHS)**

Substance Abuse and Mental Health Services Administration  
1 Choke Cherry Road  
Rockville, MD 20857

<http://www.workplace.samhsa.gov>

Helpline: 1-800-workplace. Provides information on Employee Assistance Programs Drug, Alcohol and other Substance Abuse.

**U.S. Department of Labor (DOL)**

Employment Standards Administration  
200 Constitution Avenue, NW  
Washington, DC 20210

The DOL offers publications on compliance with labor laws.

**U.S. Department of Treasury**

Internal Revenue Service (IRS)  
1500 Pennsylvania Avenue NW  
Washington DC 20230

<http://www.irs.gov/business/index.html>

The IRS offers information on tax requirements for small businesses.

**U.S. Environmental Protection Agency (EPA)**

Small Business Ombudsman  
1200 Pennsylvania Avenue NW  
Washington, DC 20480

<http://epa.gov/sbo>

Hotline: 1-800-368-5888

The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

**U.S. Food and Drug Administration (FDA)**

5600 Fishers Lane

Rockville MD 20857-0001

<http://www.fda.gov>

Hotline: 1-888-463-6332

The FDA offers information on packaging and labeling requirements for food and food-related products.

**For More Information**

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**

Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

- **Books**

Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.

- **Magazine and newspaper articles**

Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

- **Internet Search Engines**

In addition to books and magazines, many libraries offer free workshops, free access to computers and the Internet, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.



## Common Veterinary Product & Equipment Manufacturers

3M Animal Care Products	Fearing	Pet King Brands
A.M. Bickford Inc.	Felton Medical Inc.	PetAg
A.W. Mendenhall	First Priority Inc.	PetLabs360
Abbott Animal Health	Fisher Scientific	PetzLife (VetzLife)
Addison Biologicals	FlavorTek, Inc. (Flavor-Doh)	Pfizer Animal Health
Advanced Agri Solutions, LLC	FlavoRx Vet Systems	Pharma Chemie (Phycox)
Advanced Monitors Corp.	Four Flags Over Aspen, Inc.	PlasVacc USA
AFP Imaging Corp.	Freedom Health, LLC	Platinum Performance Inc.
AGFA	FreshPet Veterinary Nutrition	Plum Shade Farm
Agri-Labs	G & B Marketing Inc.	PractiVet Products
Agri-Pro Enterprises	Gaymar	Precious Cat Inc.
Air-Tite Products Co., Inc.	Genesis Ltd.	Premier Pet Products
Albion Laboratories, Inc.	Gimborn Pet Specialties	Preserve International
AllAcem (SANOS)	GLC Direct	Prima Tech USA, Inc.
Allegiance Brand Products	Glo-Marr Products	PRN Pharmaceutical Inc.
AllFlex USA Inc.	Glove'n Care	Probios
Allied Healthcare Inc.	Goodwinol Products Corp.	Propper Mfg. Co.
Allison Medical	Grannick's Bitter Apple	Puppysmarts
All-Pak	Greenies (S&M NuTech)	Radiation Concepts Inc.
Alpar Laboratories (FOR-BID)	H-Bar-S Mfg. Co. (Pet Piller)	Red Rock Biologics
Alpha Tech Pet (KennelSol)	H&W Products LLP	Rena's Equine Dental Instruments
Alpharma	Hagyard Pharmacy	Resco Pet Products
Alvedia	Hanford Pharmaceuticals (G.C. Hanford)	Research Associates
American Animal Health Inc.	Harlmen Corp.	Rexam
American Protein Corp.	Hasco Tag Co.	Rockway (Estroject)
Anchor Products Co., Inc.	Health o meter Professional	Rockway (StopLick)
Andis Company	Helmec (Evercare)	Royal Canin USA, Inc.
Andover Healthcare, Inc.	HexArmor	Royer Animal Health
Animal Dermatology Labs (ADL)	Hobart Laboratories, Inc.	Rusch
Animal Health Options (AHO)	HomeoPet LLC	S.J. Eganhouse Inc. (S.Q.R.U.B.)
Animal Healthcare Products Inc.	Horse Guard (Equine Nutrition Inc.)	S&M NuTech LLC (Greenies)
Animal Nutritional Products	Hot-Shot (Miller Mfg.)	Schuco
Animal Science Products Inc.	Ideal Instruments (Neogen Corp.)	SCIL America Inc.
Animal Technology Inc. (Calf Pro)	IDEXX Laboratories Inc.	SECUROS Veterinary Orthopedics
AHC Products Inc. - Ani-Med	I-Med Pharma, Inc.	Sedecal USA, Inc.
Ansell	ImmuCell Corp.	Sentrx Animal Care
Apexa	IMMVAC Inc.	Sera Inc. (Seramune)
ArthroDynamic Technologies LLC	IMV Technologies	Sharn Veterinary Inc.
Auburn Laboratories (APF Plus)	INGfertility Inc.	Sharps Compliance, Inc.
Automated Ophthalmics (Accupen)	InoSol Co. LLC (California Bander)	Shielding International
Aventix	Innovative Veterinary Products	SkyLabs, Ltd.
Bacti-Lab (Hardy Diagnostics)	International WIN, Ltd.	SmartPractice
Bar-Ray Products	Intervet/Schering-Plough Animal Health	Smiths Medical
Bausch & Lomb	IVX Animal Health (DVM)	Sogeval Laboratories (Vitality Systems)
Baxter	Johnson & Johnson	Sparhawk Laboratories Inc.
Bayer Animal Health	Jorgensen Laboratories Inc.	Spectronics
Beaumont Products, Inc.	Kacey Inc.	Springer Magrath
Becton Dickinson & Company	Kala Health	Stamina Plus
BeluMedX	Kalayjian Industries	Starbar (QuikStrike Fly Bait)
Best Veterinary Solutions	Kamar Heatmount Detectors	StatSpin Inc.
Bexco Pharma Inc. (HY-50)	Kane Enterprises (Neogen)	Stone Mfg & Supply Co.
Bimeda	Kendall (Covidien)	Summit Glove Inc.
BioMed Diagnostics	Kentucky Performance Products USA	Summit Hill Laboratories
Biomedica Labs	Keragenix Inc.	Summit VetPharm
Bioniche Animal Health	Ketchum Mfg., Inc.	Sundown Industries (cow magnets)
Bio-Nutrition Labs	Kimberly-Clark	SurgiVet
Bio Pro Research LLC (Urine Off)	Kinetic Technologies	Swift Instruments Inc.
BiteNot Products	KMG Chemicals, Inc.	Synbiotics Corp.
BodyGardz Apparel	Kodak	Target Probiotics
Boehringer Ingelheim Vetmedica	Kongskilde UK Ltd.	TechMix Inc.
BOMAC Vets Plus	L & H Manufacturing Co. (branding irons)	Teco Diagnostics
BoviDr Laboratories, Inc.	LA-CO Industries, Inc.	Temple Tag Inc.
Bramton Company (Simple Solution).	Lake Immunogenics Inc.	Terumo
BSN Medical	Laube (Kim Laube & Co.)	Teva Animal Health (DVM Pharmaceuticals)
Bulbtronics Inc.	Life Science (Ceva Animal Health)	

Burton Medical Products Corp.	Lilly	Texas Vet Labs, Inc.
Campbell Pet Co.	Lloyd Inc. (Vet-A-Mix)	Thornell Corp.
Carrington Laboratories Inc.	Lonestar Veterinary Blood Bank	Ticked Off, Inc.
Cetylite Industries, Inc.	Lupine, Inc.	Torpac (gelatin capsules)
Ceva Animal Health (Butler Sales Associates)	Macan Manufacturing Co.	Treasure Valley X-Ray Inc.
Cincinnati Surgical (Swann Morton)	Macleod Pharmaceuticals, Inc.	Troy Biologicals
Classic Products	MAI/Genesis	Trudell Medical (AeroMask)
Coburn Co., Inc.	Manna Pro Corp.	Tuttnauer
Colorado Serum Company	Mars Veterinary	UltiMed Inc.
Colostrum Technologies Inc.	Mastitis Management Tools, Inc.	Unico
Continental Plastic Corp.	Matrx by Midmark	United BioNutrition (Magnitude)
Control Solutions, Inc.	Medical Concepts Development	United Pharmacal (UPCO)
Cook Global Vet Products (Smiths Medical, Inc.)	Medical Illumination Intl.	United Radiology Systems, Inc.
Corlex International (StopBite Collars)	Medicatech USA	US Whip
Corona Products	MediVet Products Inc. (MediPaws)	Valleylab (Covidien)
Corta-FLX, Inc.	Medline Industries Inc.	Vanbeek Natural Science
Cotran Corp.	Med-Pharmex Inc.	VEDCO
Cottrell (Certol Intl.)	Melatek LLC	Vet Classics
Covidien	Merial	Vet Planet Corp.
Crosstex	Meridian Animal Health	Vet-A-Mix (Lloyd, Inc.)
Cryosurgery Inc. (Verruca-Freeze)	Merrick's Inc.	Vetericyn
Cubex	Merry X-Ray Corporation	Veterinary Co. of Australia
Cut-Heal Animal Care Products	Midland Bioproducts Corp.	Veterinary International Products
D M S Laboratories Inc. (RapidVet)	Midmark Corp.	Veterinary Products Laboratories (VPL)
Dairy Association (Bag Balm)	Mila International, Inc.	Vet-Kem
Davis Mfg. (Pro-Fit Boot)	Millers Forge Inc.	Vetland Medical
Dechra Veterinary Products	Miltex	VetLife Inc.
Dee Veterinary Products	Minitube of America	Vetline/Larson Laboratories, Inc.
Delmarva 2000	Minnesota Glove, Inc.	VetOne
Dentalaire	Miracle Corp.	Vétoquinol USA Inc.
Dent-X, Inc.	Modern Vet Therapeutics (Respiram)	Vetri-Science Laboratories
Derma Gel Americas	Mount Ayr Vet (Calf Claim)	Vettec Inc.
DermaPet Inc.	MPCO LLC (One AC)	ViaPac Packaging & Supply
Digicare Animal Health	Multimin, Inc.	Vink
DMS Laboratories (RapidVet)	Nasco	Virbac Corp.
Double K Industries Inc.	Nellcor	Vita-Flex (Farnam)
Dr. Naylor	Neogen Corp.	Vitality Systems (Sogeval)
DVM Pharmaceuticals (Teva Animal Health)	Nestlé Purina PetCare Co.	Vmed Technology (Vet-Dop)
Dynax	Nich Marketers	Volu-Sol
Eagle Laboratories	Nikon Instruments	Vortech Pharmaceuticals (Fatal-Plus)
Eastern Veterinary Blood Bank	No-Bull Enterprises LLC	VSSI
EasyCare, Inc.	Nonin Medical Inc.	W. F. Young
Ecolab	Norbrook Laboratories Ltd.	Wadsworth Mfg.
Edemco	Novartis Animal Health	Wahl Clipper Corp.
EFA Labs, Inc.	Nurtured Pets	Waterbury Companies
EJAY International (KVP)	NuTopicals	WCM Waste & Compliance Mgmt.
Elanco Animal Health	Nutramax Laboratories, Inc.	Weck (Pilling Weck Surgical)
Ellman International Inc.	OcularVision, Inc.	Welch Allyn
Engler Engineering	OCuSOFT	Western Instrument Co.
EpiCare Ltd.	Oralx Corp.	Western Plastics
Equi Aid Products Inc.	OrthoPets	X-O Corp.
MiracleCorp (Equi-Block)	OrthoVet	Xttrium Laboratories
Equimed USA	Oster Professional Products	Y-Tex Corp.
Equisportz LTD	Owens Brockway	Z Tags
Ethicon	Oxbow Pet Products	Zoalogix (FibriVet)
Eudaemonic	Pala-Tech Laboratories, Inc.	Z Wire
Exel International Medical Products	Partnar Animal Health	
Farnam Companies Inc.	Pedigo Products, Inc.	
Farrier Product Distribution (Lily Pads)	Performance Products Inc. (Biozide)	
	Pet Health Solutions (Joint MAX)	

# INVENTORY TRACKING FORM

Log Inventory **into** central supply/storage and **log out** inventory when moved to hospital display/pharmacy or ambulatory vehicle.

[illegible]

## Are You Surviving or Thriving in Ownership – Leadership Success Stories

**Byron S Farquer, DVM, AVA**

Over 24 years of analyzing 1000's of small businesses the following truth has been identified: Small businesses don't work, the people that own them do. And they work them too much.<sup>1</sup>

Each year over one million business start yearly, but by the end of the 1<sup>st</sup> year 40% fail and are gone, by the 5<sup>th</sup> year 80% are gone, that's 800,000. And the good news you ask? If you made it 5 years, you have a shot at making it past the next 5, since most that survive year 1 thru 5, fail in years 5 thru 10. Granted, veterinary practice isn't the typical small business, nor do we see this level of failure rate in the industry. However, the industry does suffer from the very problems that all small businesses face, imbalance between ideas, implementation, and management.

Four pillars exist in business success, much like 4 legs of a stool. These four areas of business are: Marketing, Facility Design and Location, Financial Asset Growth, and (*Practice*) Management.<sup>2</sup> Although veterinarians receive varying degrees of management training, most are completely devoid of marketing and financial prowess and have limited or incomplete understanding of the specifics surrounding facility architecture, design and demographics. Like a one or two legged stool, your company remains unbalanced and teeters precariously towards a fall.

#1 Myth, Entrepreneurs start businesses. False, and this falsehood is the most important factor influencing failure of a practice. Understanding the basis behind this falsehood improves your success rate.

Failure is not considered to be defined only by bankruptcy. In fact if one considers that many pursue ownership to apply their own philosophies, to influence the health of the practice and pets, to educate clients, earn a fair income, and obtain a successful standard of living it is not often strived for in the absence of also trying to obtain a balance between professional fulfillment, money, personal and family time. Providing charitable citizenship, and creating a safe and fun work environment for others. And when you find that many are lacking or out of balance in many of these areas, then it could be considered a "failure", despite the practice continuing on even with significant growth.

Most doctors that are successfully balancing the business needs have created a Business Development Process, whereby the tasks and duties performed in the business has been systemized and made into processes, and when incorporated into every aspect of its business operation the business stays young and thrives. Others tend to manage by luck, chance, trial and error and subsequently become stagnant and disorganized. If you are disorganized your business will be too. Change is important, and it starts with you. Your idea of what a business really is and what it takes to function is the most important change you should go through. So why do veterinarians do too much work "in" the practice rather than "on" it, often at the expense of their own success?

"They intoxicate themselves with work so they won't see how they really are." Aldous Huxley.

Does this sound familiar? Rather than address the most challenging issues today, veterinarians do what? Right, we go see another client, review a lab report or return a client call. It's easier to immerse yourself in your daily tasks (do your business) than to meet the management challenges head on (run your business). And it's emotionally rewarding! We are good at doing our job, so there is positive reinforcement being the "Doctor" rather than the "Business Owner". Michael Gerber refers to this part of your professional life as the "Technician" the one trained to do the actual tasks. (Not to be confused with Veterinary Technician)

Why do owners lose their drive, excitement and motivation previously present on day one? Where did this energy go? The entrepreneur spirit was there at the onset but it left quicker than it should have. It occurs because of the misconception that businesses are started by entrepreneurs in America, when in reality they are not. In most cases, businesses are started by people who were "technically trained" to do a task, service, or make a product – aka the Technician. Working for someone else you know "how to do" your job, and were often trained to do so with substantial education. Then something triggered you to decide that "enough is enough" and you made the leap to ownership! You were stricken with what author Michael Gerber refers to as an "entrepreneurial seizure". Thoughts moved through your mind that sounds similar to "why am I working for him, I

can do this.”, “There are so many things I would change if I owned this practice!”, “I’m never going to get to add my influence or look out for my well being as long as I’m building someone else’s dream.” “If it were not for me, this practice wouldn’t be doing as well as it is right now”. Sound familiar? As soon as that happened, you were terminally infected with the need to do it *your way*.

You fell victim to a critical issue in small business, and it charts the business from grand opening until you sell, liquidate or walk away. If you understand the technical side of this business then you understand the business of running a business. This just isn’t true. The technician that starts the business doesn’t see this fact clearly, and sees the opportunity as a place to go to work or practice his or her trade. Since they are good at what they know how to do, they perceive they can run a company that provides that service or product.

If one was not technically trained to do the actual work, the person would have to make the business work efficiently hiring other people who know how to do the tasks. Not true of the technical-trained person. She knows how to do the work part of the business, which is but one of the many things that needs to be done. She doesn’t necessarily know how to *run* the business, and that more than anything else is critical to the company’s longevity and financial success. Paraphrasing a quote from Sam Walton asked during an interview asking how he was so amazingly talented as to build an international retail giant, he responded “I was never the smartest nor the most skilled person in my company, I simply hired and surrounded myself with the best people I could find who knew how to do everything that I didn’t know how to do.” Others find clarity of this concept in the results of a Cornell University study that discovered that the Ignorant are doubly cursed. A person that is truly ignorant of knowledge on a subject or skill is not only wrong in their deductions, but has a high likelihood of not consciously recognizing that he or she is wrong in the first place.

What happened to my dream practice? Those bit by the ownership bug take the tasks or work they love and pound it into toils of labor. Exhilaration becomes terror, despair follows exhaustion. Characterized as the loss of Purpose, Self and Hope.

According to Michael Gerber, eloquently outlined in the book E-Myth, everyone is actually 3 people in one, Entrepreneur, Manager and Technician. And although all three personalities want to be the boss, none want to have a boss, so they start a practice together to get rid of the boss. How do you turn it around? Simple, cut your “I’s” out! I meaning you. It is the same concept of saying “There is no I in Team”. You must quit “doing” everything, failing to delegate, failing to give enough latitude to let staff fail, learn, fail and finally become successful, and accepting that the end rather than the means is most important. It’s accepting that successful task completion is not always as you would do it, which opens the possibility that it will be sometimes better. Can you let go? Can you?

You must face the fact that despite being in a position of “having the answers” in the practice in the capacity of the Chief of Staff / Doctor, you run the risk of letting that Technician confidence (you really do know how to do the medicine of the business) spill over into thinking you have all the answers as the Manager and Entrepreneur. You work daily and successfully in a capacity of authority as the Technician of the business, however misguidedly many automatically transpose that confidence to the other positions of Manager and Entrepreneur.

What causes imbalances? Entrepreneurs are creative. It’s the creative side of even the “non-creative” person. They need control of people and events to concentrate on their dreams. The dream, they visioncast, but there is chaos. Someone must do the job, ie build the widget or perform the widgetomy. So who does this? The Technician, the “know-how person”. The Manager has the duty of getting the things done right, and doing things right at the right time. It’s all about order, and structure and status quo. Entrepreneurs have to have open ended vision, growth, change, innovation, new equipment, new services, and new opportunities. Managers must however ensure what needs to be done today, gets done, not what needs to be done or developed for tomorrow. While the Entrepreneur dreams forward, and sees what could be, the Manager see the past and what should have been. The Technician works in the “now” and has to do the work today that is presented. For the Technician, there is little time to ponder the future unless it’s regarded a necessity to today’s task. Managers fret about the *process*. Entrepreneurs are distracted by what *could be* done, the next new idea, diagnostic tool, or procedure to learn, while the Manager frets about *how* it’s going to be done, at what cost, by whom, and, and, and....The Technician is left to perform the task, and distrusts the dreamer (his or her own entrepreneur personality that creates the chaos as well as the manager personality who must keep order and accountability). If all were equally balanced, the person and its company would be harmonized and efficient, but rarely is a doctor

this balanced. The veterinarian is likely 10% Entrepreneur, 20% Manager and 70% Technician. When you roust from sleep with the next idea for your practice you must now wrestle with the management of the idea, whilst you probably just revert to doing the task as-is.

As the business grows, as the challenges and tasks mount what happens to you, the juggler that has been keeping all these balls in the air? You start dropping a few balls here and there. Your solution? Just work 10 hours if you are now working 8, 12 if you are working 10, and so on.<sup>3,4</sup> You decide to spin the rat wheel faster *yourself*, consuming the personalities of the dreaming Entrepreneur that gives vision and life blood to your practice and from the much needed focus of the Manager than must reduce chaos, provide order and structure and adherence to procedures. You take over tasks you once did, from others. "If you want it done right, do it yourself" you proclaim! And no one loves your business like you do, or can do it your way, so you juggle, juggle, juggle until you drop to the floor in exhaustion grasping for the few balls that you were already dropping.

How do I change? First, read business information that you need to gain understanding. Second, practice the skills, they aren't inherent and get rusty. Third, learn from others by getting help from pros and colleagues AND from other successful business people outside of your industry. What if I don't want to run my business, what if I don't want to deal with management and the vision-casting of the entrepreneur? Then you may need to leave the position of ownership. If all you want to do is do what you know how to do, (the Technician) then you must pursue only "doing". Feed the Technician personality, exclusively. If you intend to maintain ownership, then you must coax and feed the other personalities equally. If you can let those two grow, the Manager and the Entrepreneur, you'll achieve a level of success that feels second nature. And you won't be able to hold back the seemingly magical success you are witnessing at your practice.

<sup>1</sup>E-Myth Revisited, Michael E. Gerber. Harper Audio. 2006

<sup>2</sup>SmartStart Practice, Donald Erceg, et. al, Business Course for Veterinarians. VetMark, 2006.

<sup>3</sup>One-Minute Manager, Dr. Ken Blanchard and Spencer Johnson MD. Candle Communications 1982.

<sup>4</sup>The Seven Habits of Highly Effective People, Stephen Covey, Fireside, 1990.



# The Fundamentals of Inventory Management

Article brought to you by Angela Aisbet, Inventory Management Consultant for MWI. To inquire about additional information about our Inventory Management Consultation program please contact your sales representative.

## Personnel

*Inventory Location*

*Practice Management Software*

*Purchasing*

*Expiration Dates*

*ABC Analysis*

*Physical Inventory Counts*

*Margin & Mark-Up*

*Turn-over*

Either with your recent headaches of doing an end-of-the year physical inventory count or with the economy frequently making headlines, paying attention and creating a strategy on your inventory control should be a New Year's resolution. One of the largest assets and variable expenses in a practice is the inventory; however, it rarely gets the attention in management and control that it needs.

Furthermore, inventory is one area where the entire team can be involved with making the practice a more cost effective business. It's important for the entire team to be involved with the structure and the follow through of a good inventory management system. Effective inventory management is the result of both the utilization of human and technological elements along with resources made available.

In this collection of articles we will be covering the nine fundamentals of an effective inventory management system, beginning with the first, Personnel.

## Personnel

### • DEVELOP A PRACTICE INVENTORY TEAM LEADER

Inventory management can be a fun challenge if you love organization and numbers. An inventory manager/leader is usually a highly motivated employee and is a good project manager that enjoys mapping out projects. Yet, too many times the team member given this responsibility has little to no inventory training. It should be encouraged that when your practice develops an inventory management system, that learning the fundamentals of inventory management and control is a priority. This position should also be empowered which begins with a job description and a written standard operating procedure (SOP).

### • JOB DESCRIPTION

Because inventory control is so crucial to the health of the practice, the inventory manager/leader should be treated as an important position. Having a job description could be a communication vehicle to ensure that you and your owner/manager can agree on performance expectations. Since this job requires quite a bit of time management, the job description should include a timeline of what is expected on a daily, weekly, monthly and yearly basis.

### • STANDARD OPERATING PROCEDURE (SOP)

When developing a written SOP of the inventory management system, it should be able to be taught to the staff and should incorporate the basic who, what, when and where details. It should include the practice procedures from when a purchase order is made, when the order is received and the control of the inventory all the way until it is sold. This allows the inventory system to run consistently, effectively and with accountability. It also plays a role when the inventory manager is away on vacation or a new person steps into the role.

### • GETTING THE STAFF INVOLVED

Having team meetings that involve games geared towards guessing the Cost of Goods Sold (COGS) for various items is a great start. Educating the staff that the COGS isn't just what the practice pays for an item but also all the costs endured on an item from the time that it takes for someone to purchase the item to the receiving and maintaining of that item. Sometimes even putting a \$20 bill next to a product on the shelf will get the staff to ask why is there money just laying there, this will give you an opportunity to educate them on how similar that is to inventory remaining on the shelf. Education will give your team a perceived value of interest in the importance of controlling inventory.

**MWI Veterinary Supply**

# The Fundamentals of Inventory Management (Part 2 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

Personnel

## Inventory Location

Practice Management Software

Purchasing

Expiration Dates

ABC Analysis

Physical Inventory Counts

Margin & Mark-Up

Turn-over

### Inventory Location

Inventory Location refers to the organization of your inventory products within your facility.

Clinics will tend to have too many locations for products and this makes it difficult to visualize your quantity on hand and will result in the re-ordering of products that are currently in the practice but that cannot be found because they are in unlikely locations. The next column discusses Inventory Location design.

### Central Storage

Keep your safety stock and bulk stock in a central location—ideally, a central storage room from which all areas of the hospital are stocked. This area is like the “store” of the practice. The receipt, storage and distribution of all drugs and supplies should be done through this central storage location and staff should have limited access to the location. Even if your practice does not have the room or storage area to create a central storage, locked cabinets can work if they are large enough to hold your bulk syringes, white goods (gauze, bandage material) and sundries (items too small or numerous to count) along with any valuable products. Because you don’t want to keep count of every needle and syringe, keep track of your disposable items by unopened box or roll in the central storage and once you distribute these items to other parts of the clinic, consider them “used.” For

example, if you have four boxes of syringes in the central storage and you bring one box out to distribute in drawers, you would have three boxes of syringes as your quantity on hand.

### Zones

Whether or not you utilize a central storage, it is important to map out where all your products and supplies are kept around the facility. It works best to document zones/locations by rooms, shelves and drawers by top to bottom and left to right. Have a map of these zones available for the entire clinic team to help them locate where products and additional supplies are kept.

### Drug Morgue

Although having expired drugs is a poor inventory practice, it does happen and these products should be isolated and controlled (especially if you have a hard time letting go of these products). This is especially true for expired controlled drugs, until the quantity is financially sufficient to have them destroyed according to your local regulations. Your morgue should be locked, especially if it contains expired controlled drugs. Also, a separate log book should be kept for your expired controlled drugs.



MWI and AAHA MARKETLink offer Inventory Management Consultation ranging from one-on-one discussion of basic principles, to formalized training through our PRISM Educational Program, to tactical inventory control tools such as our SWEEP™ System. To discuss how our Inventory Management Consultation Program can benefit your practice, speak with your representative.





**MWI Veterinary Supply**

## The Fundamentals of Inventory Management (Part 3 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

*Personnel*

*Inventory Location*

### Practice Management Software

*Purchasing*

*Expiration Dates*

*ABC Analysis*

*Physical Inventory Counts*

*Margin & Mark-Up*

*Turn-over*

### Practice Management Software

Good recordkeeping starts with item control and accountability on all levels. Utilizing your practice management software's inventory module will help you:

- Track quantity and the total usage of an item on hand
- Identify quantities ordered
- Run daily order reports and expiration reports
- Control markup and cost increases from suppliers

Unfortunately, practice management software inventory modules are underutilized and few practices implement them successfully. It is important in good inventory recordkeeping to track not only the inventory that is sold as retail or dispensed but also supplies that are internally used and never dispensed.

Your practice management software will allow you to bundle products used for treatments and procedures to help maintain an accurate quantity on hand for an item. Utilizing operating-room usage forms and in-hospital tracking forms will help employees accurately invoice charges along with the supplies used.

Reconcile your inventory by doing spot-checks and having a cycle counting system to be sure the number matches with your computer's quantity on hand. Your practice management software will allow you to create inventory locations so that you can monitor where you have items throughout the practice and control how much of a product you want in each location. You can also set your re-order points, minimums and maximums within a location.

It is also recommended to make a house account in your practice management software. This is an account to which you can invoice items and supplies that are for in-clinic use (i.e., a box of syringes or needles) and it will deduct from your computer's quantity on hand. Some practice management software programs already have a built-in module that you can use to remove in-clinic products from your inventory quantity on hand. Check your software to see if this option is available before you create a house account.



**prism**  
practicing responsible inventory supply management

**sweep**  
inventory simplified

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**What practice management system do you use? It doesn't really matter...**  
**Vetstreet integrates with nearly all of them, and requires no double-entering of data!**

  
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MWI Veterinary Supply

## The Fundamentals of Inventory Management (Part 4 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

### Purchasing

Our nine-part series has so far taken us through Part 3, covering the topics of Personnel, Inventory Location, and Practice Management Software. Let's begin the second trimester of this series by discussing the topic of Purchasing.

The time spent shopping for the best price, placing orders, and even maintaining physical storage space are indirect costs of a product. Because prices are very competitive between vendors, it is more cost-effective to limit the number of vendors you use. Because of this competitive market, your primary distributor should also be

judged and rewarded based on their customer service, timely shipping of items, and additional services they offer that help you effectively run your practice. Limiting the number of times you order a week can help limit your indirect costs as well. Most vendors/distributors offer a web service that allows you to order online, which can minimize the time spent ordering on the phone or trying to reach your inside sales rep.

*Personnel*

*Inventory Location*

*Practice Management Software*

### Purchasing

*Expiration Dates*

*ABC Analysis*

*Physical Inventory Counts*

*Margin & Mark-Up*

*Turn-over*

Balancing inventory levels between "enough" and "too much" can be the purchaser's biggest challenge. Because inventory is a cost to a practice rather than an investment, and it is only worth something

when it is sold, you should try to keep on hand only a 2- to 3-week supply of products and you should have products on your shelf for no longer than 30-45 days. But keep in mind that manufacturers often offer favorable terms on product purchases that will allow you to keep multiple months' worth of product at minimal holding costs because they include delayed billing over several weeks or even months. This gives you time to sell or use the product before you have to pay for it, allowing you to take full financial opportunity gain. Choose deals that will benefit your practice financially.

Your inventory records, either in your practice management software or your purchase order history on your vendor's website (another advantage to utilizing one vendor is that you can retrieve your entire purchase history in one place), can help you establish your re-order points and the maximum quantity of a product you should have on hand. Your computer system can flag your re-order points and print daily reports or suggested purchase orders. A manual card system can work but will require that products be readily visible to ensure the cards are not overlooked.



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MWI Veterinary Supply

# The Fundamentals of Inventory Management (Part 5 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

*Personnel*

*Inventory Location*

*Practice Management Software*

*Purchasing*

## Expiration Dates

*ABC Analysis*

*Physical Inventory Counts*

*Margin & Mark-Up*

*Turn-over*

### Monitoring Expiration Dates

In the veterinary field, it is unacceptable to have outdated products. Being able to utilize your practice management software to track expiration dates, having a FIFO (First in First Out) rotation system and doing weekly monitoring on products can limit the amount of products that become expired in your practice. Ensure that your oldest products are in front of newer

expiration date on the product.

**Tip:** Because many of the practice management software programs only allow you to enter one expiration date at a time for a product, have a tag or sticker on unopened products (like a bottle of Cephalexin), then when that bottle is opened, it is a reminder that the date needs to be changed in the computer. Keep a basket near the pharmacy for these tags to be placed and when time allows, change the dates in the computer.



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arriving items. Prescription foods and items that are dispensed to clients should definitely have a routine monitoring system. Regularly evaluating your inventory by looking for expired or soon-to-be expired drugs will allow a more efficient credit or replacement from your vendor. With your regular cycle counts be sure to look at the



**MWI Veterinary Supply**

# The Fundamentals of Inventory Management (Part 6 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

*Personnel*

*Inventory Location*

*Practice Management Software*

*Purchasing*

*Expiration Dates*

## ABC Analysis

*Physical Inventory Counts*

*Margin & Mark-Up*

*Turn-over*

### The ABCs of Inventory

ABC is an analysis of inventory, properly known as the 80/20 rule. Developing this analysis allows you to categorize your inventory based on its value to the practice. This analysis is a great prioritization tool for time management. Begin developing a system for items that account for the top 20% of revenue, value and/or consumption of your practice. Once you get the top 20% items under control, then work your way through

Each stage/  
class can  
and should  
be handled

in a different way, giving more attention to the “A” class items. The ABC analysis can also be used in designing your cycle physical counting system.



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the remaining 80%. You can do this by stages, such as an “A” class, “B” class, and “C” class. Your “A” class items will typically account for 20%, “B” class will account for the next 30%, and then the “C” class will be the remaining 50%.

### ABC Analysis Guidelines

“A” Class	“B” Class	“C” Class
Don't Run Out! (especially the products that are A's on the total sales and usage reports).	Keep a lower safety stock / reorder point.	Find out if any of these products can be a special order from here on.
Strict Control (especially the products that are A's on the cost/value analysis).	Moderate Control	Loose Control
Count weekly to monitor shrinkage and to be able to react if a product needs to be replenished.	Count Monthly	Count Quarterly
Maintain in a central/secure storage.	Monitor these items for appropriate turnover (either by computer or by tagging these items).	Monitor these items for appropriate turnover (either by computer or by tagging these items).
When developing an inventory system or protocol, you can start with your “A” products and then work your way through the “B” and “C” products.		Analyze these items to see if any are duplicates of one another.

**Tip:** If you do any client appreciation gifts or cards, you can create an 80/20 Rule to find the top 20% of clients that make up 80% of your revenue.



# The Fundamentals of Inventory Management (Part 7 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

*Personnel*

*Inventory Location*

*Practice Management Software*

*Purchasing*

*Expiration Dates*

*ABC Analysis*

## Physical Inventory Counts

*Margin & Mark-Up*

*Turn-over*

### Physical Inventory Counts

When you think of physical inventory counts, you probably think of a time- and labor-intensive year-end project. Clinics typically don't give themselves enough time to investigate missing or extra inventory. Instead, the inventory is adjusted and left as is. Inventory errors will ultimately affect the practice's financial statement. So why do we wait until the end of the

year to find out we have too much inventory? Developing a good cycle counting system (a process of counting portions of the inventory on a regularly scheduled basis rather than counting the entire inventory all at the same time) not only has many benefits but also can replace your year-end physical inventory count.

When designing your counting system, utilize your ABC analysis. This will help you determine which products should be counted more frequently and allows you to make a schedule of what needs to be counted and when. The "A" class (which should include your biological products, food, and heartworm and flea preventives) should be counted anywhere from weekly to monthly. When you have designed your counting schedule, create count sheets to make it easy to delegate the counting process to other team members. The sheets should be by location and list what products should be there and where. Blind counts should be performed, meaning that the person doing the count doesn't know how much of each product should be there. Breaking larger bottles down to smaller bottles of pills can help with counting (for example, sorting a 500-count bottle of an antibiotic into five pill vials of 100 tablets each). Remember, overstock leads to theft and shrinkage (items not accounted for or invoiced), damage and outdated. Scheduled counts can help minimize this and help you watch your bottom line.

**Inventory management applications have become valuable tools for organization and efficient stock management. Tools such as MWI's SWEEP™ can save you a significant amount in costs associated with doing manual inventory counts and can help you avoid running out of products. It also gives you a structured method of accounting for incoming inventory in your facility by allowing you to export inventory values to a spreadsheet.**

**A comprehensive cycle counting system allows you to:**

- track your "A" and "B" class items more frequently.
- monitor any overstock of items and verify that products are getting enough turnovers.
- reconcile with your practice management system's record of inventory on hand.
- identify outdated or soon-to-expire items.
- monitor the cleanliness of products and the areas in which they are stored.

If you are cycle counting, you can be sure that you will not be stuck



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# The Fundamentals of Inventory Management (Part 8 of 9)

Brought to you by Angela Aisbet, Inventory Management Consultant for MWI.

Personnel  
Inventory Location  
Practice Management Software  
Purchasing  
Expiration Dates  
ABC Analysis  
Physical Inventory Counts

## Margin & Mark-Up

Turn-over

How is your inventory investment working for you?

### The M&Ms of Products You Sell

Is there a difference between mark-up and margin? Absolutely. Frequently in the veterinary industry, these two terms are being used interchangeably to mean gross

margin or profit. Remember, mark-up and profit are not the same.

### Definitions

**Mark-up:** The percentage difference between the actual cost of an item and the selling price or the amount added to the cost to determine the selling price.

**Margin:** The percentage difference between the selling price and the profit.

It is not true that when a product is marked up by 25%, the gross margin/profit also will be 25%. A 25% mark-up is only a 20% profit margin.

### How to Calculate Mark-up Percentage

Product X costs \$100 and you mark up the product 25%, making the selling price \$125.

$$\$25 \div \$100 = 0.25 \text{ or } 25\%$$

### How to Calculate Profit Margin

With the example given above, the mark-up amount is \$25. Margin is the percentage difference between the selling price and the profit, so the result is a 20% gross margin percentage.

$$\$25 \div \$125 = 0.20 \text{ or } 20\%$$

### Which Is Preferable, Mark-up or Margin?

Although mark-up is often used in veterinary clinics to set prices, it often confuses the profitability of the item. Because mark-up is always a larger number when compared to the profit margin, many people mistakenly think they are obtaining a larger profit.

### Minimizing Mark-up vs. Margin Mistakes

It is important to remember that more factors affect the selling price than just the initial cost. Your cost of goods sold includes your team's time in ordering, maintaining the product, and what the market will bear (what the customer is willing to pay), all of which will ultimately affect the selling price. Take these steps to avoid confusion when working with mark-up vs. margin rates:

- Use a pricing sheet or pricing tool (mark-up/margin calculators are available online). Use the tool to calculate both the mark-up percentage and the profit margin percentage.

- Educate your team about the difference. By targeting the gross margin percentage rather than the mark-up percentage, you can throw an additional 2-3% profit to the bottom line.
- Mark-up is an art, not a science. You should figure out an individual mark-up for each product and not rely on your computer using a standard mark-up. Cheaper products can usually have a higher mark-up, while more-expensive products will usually need a smaller mark-up.

### Examples of Differences:

15% Mark-up = 13% Margin  
20% Mark-up = 16.7% Margin  
25% Mark-up = 20% Margin  
50% Mark-up = 33.3% Margin  
100% Mark-up = 50% Margin



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*Personnel*

*Inventory Location*

*Practice Management Software*

*Purchasing*

*Expiration Dates*

*ABC Analysis*

*Physical Inventory Counts*

*Margin & Mark-Up*

## Turn-over

### Inventory Turnover

Currently, the industry's recommended inventory turnover in a veterinary practice, including equine practices, should be 5-8 times a year. However, the more frequently you turn your inventory, the greater your profits will be, so you should make an effort to increase this to 8-12 turnovers a year (where products don't sit on your shelves longer than 30-45 days).

An example of this would be

if you purchase a year's worth of a product in January for \$15,000. The total revenue received from the sales of this product by the end of the year is \$17,500, so you would make \$2,500 gross profit on an investment of \$15,000.

Now, what if you purchase this same product in 12 turnovers? You will spend only \$1,250 each time you buy a 30-day supply of the product. At the end of the year, you will still make \$2,500, but you will have invested only \$1,250 at a time. Investing only \$1,250 rather than \$15,000 frees up \$13,750 that can be used for other things such as buying new products or equipment that can generate additional profit.

An easy way for you and your team to notice and identify products/items that are not having enough turnovers is to tag items (for example, with a red circle sticker) and monitor monthly for items that still have the tags/stickers on them. If a product on your shelf has a tag/sticker on it for 3 months or longer, it is not getting enough turnovers and you should reassess your reorder points on this item and/or only special order it in the future.

Keep in mind that manufacturers often offer favorable terms on product purchases that will allow you to keep multiple months' worth of product at minimal holding costs. Choose deals that will make financial sense for your practice. These types of deals and terms allow you to bring in product with delayed billing over an extended period of time. This will allow you to sell or use the product before you have to pay for it, allowing you to take full financial opportunity gain.

### Conclusion

No matter what inventory system you design, you need to make the time for inventory management. It may seem overwhelming at first, but it's easy to start simply by identifying your higher-valued products with an ABC analysis. You should also ask yourself what you can do to make your inventory management more economical and efficient.



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## Other Resources:

[www.vetmanageradvisor.com](http://www.vetmanageradvisor.com)

[www.dvm360.com](http://www.dvm360.com)

[www.inventorymangement.com](http://www.inventorymangement.com)

<http://www.matsco.com/library/articles/59/1/Inventory-Management-Made-Easier.html>

Blackwell's Five-Minute Veterinary Practice Management Consult

<http://www.slideshare.net/windleh/inventory-management-2888902>

[www.vhma.org](http://www.vhma.org)

[www.vetpartners.org](http://www.vetpartners.org)

[www.vbma.biz](http://www.vbma.biz)

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## About the Editor:

### **Byron S. Farquer, DVM, AVA**

Byron S. Farquer, DVM is a Boettcher Scholar, and graduated from Colorado State University with honors in 1991 with both a BS and Doctorate Degree. He completed an advanced research project in equine orthopedics and assisted in the development of academic programs for use in the veterinary graduate training program at CSU while receiving additional education in enterprise budgeting and analysis prior to entering private practice. With a portfolio of experience that includes veterinary hospital ownership, advanced business and real-estate education, and a recognized expert in ownership transition planning and valuation. He is a frequent industry lecturer and author on business development and structuring, practice financial analysis and profitability, professional image, and strategic business planning including alternative exit strategies for business owners including the book "Your Veterinary Practice: Buying, Selling & Merging", Adagio Press, 2009. Currently Dr. Farquer owns two Simmons & Associates practice appraisal and brokerage firms located in Nevada and California, and serves on a number of industry advisory boards. He is the founder of a business management educational company SmartStart Practice, LLC in Portland, OR ([www.smartstartpractice.com](http://www.smartstartpractice.com)) that improves profit performance for small business owners, a principal and content advisor for a national multi-media medical education network, emebaVet, LLC, ([www.emebavet.com](http://www.emebavet.com)) COO of a national small business lenders resource website and an original Charter Member of the Association of Veterinary Practice Management Consultants and Advisors now known as VetPartners ([www.vetpartners.org](http://www.vetpartners.org)). He is an accredited valuation analyst, certified by NACVA. National Association of Certified Valuation Analysts (NACVA) Receives Accreditation of its CVA and AVA Designations from the National Commission for Certifying Agencies (NCCA). CVA/AVA designations are the only valuation credentials accredited by the National Commission for Certifying Agencies (NCCA).