

Inventory management in the large animal veterinary practice

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Abstract

“Inventory is money sitting around in another form.” This is the driving factor for this author’s obsession with inventory management. We, as food animal veterinarians need to stop looking at the products on our shelves or in our trucks as simply a product, and instead as stacks of money. Because that is what they are, an investment with the promise of a profitable return later. So why, then, are food animal practices not managing their inventories as closely as they do their bills, their accounts receivable, or as the cash in a cash drawer? Why do practices accept shrink as just another part of business when in reality it is reducing the practice’s bottom line? In this manuscript the author wants to challenge the reader’s thought process on how they approach inventory and shrink in general.

Key words: inventory, shrink, inventory systems, client services

Résumé

L’inventaire est de l’argent qui sommeille sous une autre forme. Cette observation explique l’obsession de cet auteur avec la gestion des inventaires. En tant que vétérinaires d’animaux de l’industrie alimentaire, nous devons cesser de considérer les produits sur nos étagères ou dans nos camions comme de simples produits mais plutôt comme des piles d’argent. Parce que c’est tout ce que cela représente : un investissement qui aura un rendement profitable dans le futur. Alors pourquoi les pratiques des animaux de production ne gèrent-elles pas leurs inventaires aussi étroitement que leurs factures, leurs comptes recevables ou l’argent dans un portefeuille? Pourquoi les pratiques acceptent les pertes comme faisant partie des affaires quand dans la réalité cela réduit les résultats de la pratique? Dans cet article, l’auteur veut défier le processus de réflexion des lecteurs sur leur approche des inventaires et les pertes en général.

Introduction

As we discuss inventory management, the author will often cite a commissioned poll of AABP members which yielded >50 responding practices. The results of this poll can be obtained upon request from AABP or the author. This poll found that 16% of clinics had NO inventory management

system, and only 66% had an electronic system installed in the practice. This leaves significant room for a technological push to modernize food animal practices to improve efficiency and inventory tracking as well.

Shrink

The efficiency and accuracy through which an inventory system operates is of the utmost importance. Without an efficient system it is unlikely that participants will adhere to its use. Similarly, without accuracies inside the system on both the human and electronic sides, the system will fail. Failings within these categories will result in what is known as “shrink.” Shrink is defined as the loss of goods either due to theft, damages/spoilage, or administrative errors when items move from a provider to an end customer. In veterinary medicine the majority of shrink occurs due to the last factor. True shrink can be calculated by dividing the dollars of product lost by the total dollars of product touched by team members within the practice. While no true benchmark exists for veterinary practice shrink, a good goal for a percent shrink would be 1.5%. This goal is adopted from the retail market industry which has to contend much more with theft than any veterinary practice would be exposed to, thus it should be readily attainable.

The impact of shrink cannot be understated. For example, if a practitioner sells a bottle of drugs for \$100 with \$20 of that as profit and then fails to bill the client for said product, the clinic is out \$80 of purchase cost and \$20 of profit. What is unseen is the fact that in order to make up the \$80 of purchase cost the next 4 bottles of the same drug will have zero dollars of net profit. This means that a failure to bill a single bottle of drugs in this case cost the practice \$100 of profit over 5 separate sales. The compounding nature and impact of shrink cannot be understated.

It is for this reason that shrink, which will happen, must be tracked and monitored. James Harrington has a good quote reinforcing this idea: “Measurement is the first step that leads to control and eventually to improvement. If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.” So the most important question now is, “Do you know how much shrink your practice had last year?” Our AABP survey suggested that 66% of practices have >1% annual shrink, with 43% reporting losses that were unknown or >\$10,000.

So how does a food animal practice reduce shrink? The practice needs to implement a solid and well supported inventory management system! The author's own practice transitioned from a once per year inventory system to a daily management system and was able to reduce shrink by 16-fold, resulting in an annual rate of <1% for the last 2 fiscal years. In addition to a solid system the practice will need to identify the location of most of its shrink. In our survey, 71% of AABP members responded that the majority of their shrink occurs in the field from mobile trucks or distribution centers. This suggests that practices need to find an inventory system that is strong not only within the clinic, but in the field as well.

Features of Ideal Inventory Systems

While many inventory systems exist from token/bin systems, third-part adapted systems and even veterinary software systems, there is not 1 system that fits all practices. In this author's experience there are some key features you should look for when evaluating an inventory system for implementation. First, the system must be portable. This means that it can run on a smart phone or tablet and can process in the field. It is this author's experience that inventory management is at its best when it is adjusted at the end of each bill or call. This prevents misbilling such as a failure to remember services or products rendered.

Secondly, the system must have real time or delayed time synching. This means that it will synch when the practitioner has a data connection, which allows for more accurate tracking as well as up-to-date inventory counts across the practice. Such a feature should also ideally not require practitioners to return to a "home base" and simply work through the cloud.

Last, the system must be easy to use. This means that the categories must be easy to navigate for staff as well as field operators and void of excessive menus or actions. The program must also process quickly to avoid excessive time being spent entering inventory bills, which will result in reduced compliance. If the system is not easy to use, then practices should consider a different system. This, in the author's experience, is the number 1 reason for failure of implemented inventory systems.

Implementing an Inventory System

Once the practice has identified a system with the characteristics of an ideal inventory system, it is time to implement it. This means it must commit to the transition. The entire team must commit to participating in the system. One failure to commit can result in complete failure of the project, so be sure to get the whole team on board. Once the team is sold on the system, identify the inventory manager. This person must be numbers and detail-oriented, flexible, supportive (sometimes doctors need motivation), and willing/able to focus for long periods of time back-tracking

transactions. But most of all, they must have a **significant** part of their time focused just on inventory. As the inventory transition facilitator, support this person and provide the resources needed to make implementing the system possible. Finally, once all the above steps are done, implement the system. Don't wait, every day is costing the practice money!

Get Your Inventory System Off to a Good Start

First, support the inventory manager at all times! Don't just grab drugs off the shelves! Be sure to talk to someone so that inventory gets adjusted accordingly and can be appropriately tracked. Secondly, keep the practitioners actively involved! Every time they take a drug off the truck, have them ask themselves, "Does the number of drugs on my truck match up with the inventory number." This will be a huge step in reducing shrink within the practice. Third, don't sweat the small stuff! Don't waste the inventory manager's time and sanity counting needles in a box; manage all disposables/materials by the box/package. Tedious tasks such as counting needles can cause burnout and a loss of attention to detail which may result in loss of a much bigger-ticket item. Some things are just not worth tracking that closely. Finally, remember no one is perfect. It's a given that team members will lose products. Identify the source of the loss, discuss it at a team meeting, and set a minimum goal for loss in this category. Then MOVE ON. Loss happens; at least you are now capable of identifying it.

Before moving on to alternative uses for inventory systems, the author would like to discuss creating accountability within the system. Veterinarians by nature are competitive people and you can use this to your advantage by posting monthly shrink totals for each practitioner in a common area. The simple peer pressure and competition will often result in people becoming naturally more attentive to their inventory management. In this author's experience, placing a small penalty on the current month's "inventory loser" is also a great motivator.

Alternative Uses for Inventory Systems

An inventory system does not just need to be used for tracking product sales. It can be used for many other things. The author's practice has used the system to create a restock program for the doctor's trucks. Each doctor's truck is set as a location within the system. Then minimum and maximum product thresholds are set for each of those locations. When the minimum threshold is surpassed, this flags the system for a restock. At this time the technicians populate a drawer with the minimum threshold drugs specifically for that doctor. The advantage of this is 3-fold. You will eliminate the grab-and-go mentality which can cause a lot of shrink within the clinic itself. As a result, you free up veterinary time which was spent on a mundane restocking task. As long as you make sure to have adequate product available on your trucks, the results

will be proper treatment as well as more product sales. This creates a win-win for clients and the practice.

Another interesting and novel use for an inventory system is monitoring client's inventories for them. It is this author's experience that on large dairy operations often the herdsman is responsible for drug stocking and ordering. Oftentimes this task is resented as a waste of time and herdsman would prefer it be passed off to another person. The author's clinic has had success in offering the inventory manager to several dairies where the herdsman wanted nothing more than to have this headache eliminated from the task list. Providing such a service can free up the herdsman's time, prevent drug shortages on the operation, and provide an opening for alternative clinic services. While on the operation, the inventory managers can pick up samples or do a myriad of other tasks, depending on their certification. This provides the practice another avenue to help the client.

Conclusion

There is no reason we as food animal veterinarians should accept loss from shrink. There are ample types of software present on the market for accurate inventory man-

agement at affordable prices. If a practice follows the above recommendations and supports their inventory manager, there is no reason they cannot achieve well below the recommended 1.5% annual shrink. If a practice can couple this financial savings with the benefits of the alternative uses for inventory systems, then there is no reason any food animal practice should be without a modern inventory system.

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