

# *Get Your Sh\*t Together With Inventory Management*

JENN GALVIN

Inventory isn't just a bunch of stuff sitting on your shelves. It's one of the biggest expenses and assets in your practice. Unfortunately having mismanaged inventory can cost a lot of money and cause a lot of headaches.

Common challenges we often see practices face with their inventory management can include:

- Running out of frequently dispensed items which makes the doctors, staff, and clients mad.
- High vendor statements with too little profit (high cost of goods).
- Practice software issues - inaccurate counts, duplicate and unused items, items not priced correctly.
- Poor cash flow due to inventory that sits for too long.
- No budgeting in place.
- Panic ordering.

## **Does the thought of dealing with inventory make you want to vomit?**

Inventory management (though challenging) doesn't have to feel impossible, so why is it so painful? What's stopping you from getting started? Where the heck should you even start? I frequently hear there's not enough time, there's too many choices, too many vendors, budgeting takes work, and retail is taking over. I promise there are ways to deal with all of those things and accomplish a sane system for your hospital inventory.

## **How About Some Inventory Basics?**

You need to know some basic stuff first and how it will fit into your inventory management plan so anyone (notably **not you**) can follow the standard procedures you set.

**1. Cost of Goods Sold (AKA COGS)** - 20-24% of your revenue is spent here and is broken it into five parts.

If you are spending more than you should be you need to know the cause. Are you ordering responsibly? Is it a fee or cost issue?

- Meds/Drugs/Supplies (8-9%)
- Preventatives (5%)
- Inside Lab (2-3%)
- Diets (% is based on previous diet sales)
- Other - includes cremation/disposal/waste/outside lab (4-6%)

## **2. Is it Worth Carrying?**

- Avoid duplicate items that do the same thing. Use your online pharmacy.
- Sticker items to see how long they sit on the shelf - 30/60/90 days
- An item's turnover is how many times the item is bought and sold in a specific time frame - the goal is to sell it before you pay for it.
- 80/20 Rule - 80% of your inventory profit is generated form 20% of your inventory items. You want to turn the top 20% of your inventory frequently. If you aren't turning an item can you get rid of it or replace it with something else?

## *Get Your Sh\*t Together With Inventory Management*

JENN GALVIN

### 3. Storage Considerations

- Check your floor plan and current inventory storage - what needs to change?
- How will you organize - alphabetical vs. categorical?
- How can you make it easy to audit?
- How can you make tagged items easy to assess and reorder?
- How can team members know what's open?

### 4. Garbage in is Garbage Out

- Become grossly familiar with the inventory section of your PMS.
- Start with clean practice management system information including correct inventory counts, correct costs, no duplicate items, deleted inactive items, and make sure your items are coded and classified correctly.
- **Set Reorder Points = Average Daily Use X Lead Time**
- **Set Reorder Amounts = Average Daily Use X Turnover Goal**
- Decide if the item will be tracked in your PMS or by tags.

### 5. Ordering

- Refer to your reorder points and quantities.
- Vetcove vs. Vendors
- Understand your lead time - how fast can you get it?
- Bulk purchases might not be worth it.

### 6. Pricing - Can't I just double it and add a packaging fee?

- You can, but this is not a sustainable or profitable way to price inventory anymore.
- With inventory management comes labor costs and the costs of utilities, rent and insurance. Also, if a doctor sells it and you're paying them a percentage of that item you need to include this in your cost!
  - Labor cost - 23% of the item
  - Housing cost - 12% of the item
  - Profit - 20-50% depending on if it's frequently price shopped or not
  - DVM cost - 10-20% depending on what you pay
- What about shrinkage (missed charges, expiration, waste, theft, discounts)?
- Competitor pricing - our clients have so many more options now.
- **Price = Item cost + Hidden costs + Profit + DVM cost**
- If the item also includes labor don't forget to add that in.

### 7. SOP

- How does the entire process look and who is going to perform each task?
- Some things to consider:
  - Those involved should have a good grasp of the inventory portion of your PMS
  - How will inventory be handled from the point of needing it to the point of sale?
  - How will you track what's on regular order, special orders, and back orders?
  - Who will handle controlled substances?
  - What vendors will you use?
  - How will your set fees?
  - Who double checks orders and pays the bills?
  - When will counts and expiration dates be checked?
  - What happens when the inventory person is hit by a bus?
  - How will you know this whole thing is being done to your standards?
  - How will you prevent shrinkage?

## *Get Your Sh\*t Together With Inventory Management*

JENN GALVIN

### **Objectives**

Let's learn about better ways to manage your inventory system. In this workshop you'll learn how to implement a basic inventory system that helps avoid the typical pitfalls of inventory management. By the end of the workshop you will develop a plan to meet the needs of your practice inventory.

### **Common Terms**

- Practice Management Software.
- COGS - Cost of Goods Sold - includes inventory, inside lab, outside lab, cremation, diets, cremation, and waste.
- Reorder Point - the level of inventory which triggers you to purchase more.
- Reorder Quantity - how much you order once a reorder point has been triggered.
- Markup - the difference between the selling price of an item and the cost.
- Shrinkage - a decrease in inventory not related to a sale - missed charges, expired products, waste, theft, discounts).

### **Resources**

Email me to get a copy of the inventory budget and diet budget - [jenn@aac.vet](mailto:jenn@aac.vet)

### **Breakout Group Activities**

1. What storage and organization considerations do you need to make? Do you need to fix the way you store inventory? How will you make it easy for your inventory manager and staff to navigate inventory? List three goals you have for organizing your inventory with time frames attached.

---



---



---

2. What do you need to do in your PMS to get inventory straight? How long do you think it will take to accomplish these tasks? Create a timeline for this in your group.

---

3. When considering SOPs - who can do inventory in your practice that ISN'T you?

---

4. Let's hold one another accountable. What's the first thing you want to get done and when will you accomplish it? What day/time will you check in?

---