Why Inventory Is the Hidden Profit Lever in Vet Practices

Nate: So as we meet with clients, it's been front of mind with our recent meetings, and as we approach year end, a huge opportunity for many is looking at their inventory management, how that relates to their cost of sales expenses, their supplies expenses, and best practices on how and when to order, and how much to order, and how to log all of it and the tracking. And it's everybody's favorite topic, except it's not, and it's a challenge to really work with clients to help them wrap their heads around it and show them how inventory management can pay dividends, and it's a deep topic that we're going to scratch just on the surface today, but pretty much it's an, it's an opportunity for almost all of the clients that we work with, and if we can take that to the rest of the folks that we don't work with, I'd imagine just as much of them are affected by this opportunity as well.

Andy: Yeah, I think if I was ranking concerns that clients have right now, staffing maybe has been number one now for a number of years. But if that's 1, then this is 1A, and if we're talking about managing overhead, managing profitability, managing cash flow, there are so many pitfalls in your inventory management that affect all of those.

Nate: Yeah, and you know, you pick the industry, and even the niche within those industries, and sometimes ordering patterns are a little bit dictated by suppliers or by certain seasons. You know, for example, some of our large animal folks will have certain things that they need to really ramp up on in spring, and then as things trickle forward through the year, maybe not so much. We have folks in other climates that have to order their, their drugs that are in vials well ahead of winter, in case they freeze while during delivery. So a lot of things that really weigh into the overall outcome for how much inventory to have on hand, and then ultimately what's going to be reported on a balance sheet and tax return.

Nate: But really the best advice that we've given folks is really having a handle on what exactly it is you need and what exactly is in-house at any given point in time, because I know you can relate. We've looked at many, many inventory schedules, and we see SKUs on there that have negative balances, no balances, balances that the client has said, You know what? I haven't carried that for five years, and nobody's taking the time to update it. So there's some really even easy, low bar items that can be certainly, very approachable in the free time, that sometimes can come up, even if it's just a couple of minutes, day-to-day to try and really wrangle this, this beast that is inventory.

Andy: Yeah, and one question I like to ask is, who's in charge of your purchasing? Who's in charge of managing your inventory? And I understand a lot of you that may be sole practice owners, that falls on you, like so many other hats that you wear, but it is good to have one person in charge, and like you said, have a have knowledge of what's actually in the facility, because we've seen trends coming out of the pandemic, when all the buzz was supply chain, supply chain. We had, we had a lot of people tell us we wanted to carry higher inventory, because we never knew when we were going to get that stock replenished. Okay, now with, with the rising costs and cash flow management and, and, you know, patient volumes and procedures plateauing a bit. Many have tried to run more lean inventories, and then it's a question of, well, what happens when we run low on something, or there's a back order, etc. But it's really been a fascinating evolution the last few years.

Nate: It has, and it's come from many angles it seems like. You know, certainly the cost of things has increased and maybe, like you said, this is, if this is not problem 1, this is concern 1A and maybe for a few reasons, it's now, it's not so much getting the inventory is generally that's been caught up right? The logistical chain is kind of back on, back on course, and maybe even a little bit faster, but the cost of things and managing, taking advantage of deals, but balancing that with keeping what you need on hand so that there's not spoilage, and then also taking it a step further, once it's in the building, once it's logged, once it's costed accurately, then as that's being consumed, having all of those inputs be accurate. So certainly an opportunity for staff controls, and you mentioned having maybe one or only two key folks with access to some of that so that hopefully you can try and control some of those variables.

Andy: Yeah, and then I think there's opportunity too to make sure that the reporting, if you're using a practice management software to log all this and you have to make sure that you're seamlessly able to record that information into your accounting software, because ultimately, right, when we're managing our overhead and reporting our profitability and our tax liability, etc, we have to make sure we're getting good data out of the practice management software and able to update the accounting software.

Nate: That's right. And a key part of that is going to be actual physical counts. And it used to be, right, we remember the days of, pretty much in any industry, there was some sort of operational shutdown to get our handle on what is, okay, what exactly is on hand. And that was pretty close to the year end. Maybe that was right after Christmas. Maybe that was New Year's Eve. Nobody liked that. People

tried to, you know, practice owners tried to have staff come in, you know, try and provide food, those sorts of things. There's nothing you can do to make that exercise fun. So one of the best recommendations that we've had for our clients is to tackle it in stages and do a scheduled rolling counts that you are getting through all of your items at a level that is comfortable while still meeting any regulatory compliance you have, especially in regards to controlled substances. You know that that process is kind of dictated for you, but tackling this in manageable chunks so that you're still assuring with reasonable certainty that your numbers that are in your practice software and shared with your CPA for tax and reporting and benchmarking and whatever else you might be utilizing, that those are at least fairly accurate and not having like I mentioned before, negative balances, any kind of seriously bad data.

Andy: And let me tackle another misnomer. We still encounter practices that have been given erroneous advice in the past that think that right before the end of the year, I can make a large purchase of items that are going to be recorded in my inventory, and I'm going to get a big tax deduction for making a large purchase. And the reality is, you don't, because, without getting too into the accounting details, as we know, inventory is a number on your balance sheet, and the only time that that inventory becomes a tax deduction is that when that inventory gets used in the practice, not when it's purchased into the practice.

Nate: That's right. And one final thought on that concept is in a balance sheet is maybe not something that all practice owners visit a ton as they try and evaluate the performance of their practice. But we've certainly had clients come to us in recent years that have gotten the advice that, hey, I'm a cash basis taxpayer. I use this for tax purposes. I don't have inventory. That's not true, and the IRS has been very careful to say that because inventory, they've recognized that inventory is a huge part of certain industries, and even if you are cash basis, they actually require you to maintain that as a balance, and then also maintain any outstanding bills related to that balance, much like a company would that has serious accounts payable and is on what's called the accrual basis of accounting. So that is certainly a misnomer and definitely undereducated in the marketplace.

Andy: So my takeaway and my guidance is it's getting late in the year. You are, if you are a December 31 tax fiscal year end, you're going to have to report an inventory number. And if you don't, don't know what that is, or you don't know how you're going to do it, now's the time to put a plan in place to get the most accurate inventory account possible.