

MANAGING CASH IN YOUR PRACTICE

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Cash flow is the life blood of a practice. Having ample cash ensures a practice's financial stability and soundness. Even if a practice is profitable, how it manages its cash will determine its success. Unfortunately, we've seen many profitable practices close their doors because they ran out of money. Cash management is more than taking a look at how much money is in your bank account. It's you managing your money instead of letting your money manage YOU!

The three major areas involved in cash management are *accounts receivable*, *accounts payable*, and *inventory*. Let's break each of these down a little further.

Accounts Receivables (A/R)

The name of the cash game is to collect payments from clients ASAP! If you have vendor bills due in 30 days, but your clients are paying you in 45 days, that's no bueno! Most companion animal practices have little to no A/R as they require payment at time of service. This is ideal! Equine practices, on the other hand, often struggle with collecting A/R. With horses having multiple owners and trainers in a lot of cases, collecting at the time of service is extremely difficult. But there are several things a practice that struggles with A/R can do to help get payments quicker.

- Provide easy and convenient payment methods. Include an online bill pay option on your website. Accept all major credit cards and responsibly keep credit card numbers on file to charge at the time of service or set up monthly auto payments.
- Require large deposits for all elective procedures. In cases like major surgeries or other high dollar procedures, require a 50% deposit or collect the entire payment upfront before the procedure is started. If the final bill is different from the estimate, you can collect or refund the difference.
- Charge interest on invoices over 30 days. Check the regulations for your state for the maximum amount you can legally charge, then charge it. You are a veterinary practice, not a bank, and clients shouldn't use you as such. The costs (doctor and staff compensation, drug bills, etc.) associated with the services that were provided to the patient have already been paid out of your pocket. You need to collect payment to cover those costs.
- Make collection calls and utilize outside collection agencies. Be diligent in staying in contact with clients who are slow to pay. If you have no luck with calls, send letters asking for payment in writing. After 60 days, the chances of you collecting the payment in-house diminish significantly. Reach out to an outside collection agency. Yes, they will take a portion of the payment for their fees, but getting something is better than nothing. And your staff won't be burdened with making these calls.

Accounts Payables (A/P)

A/P (payables) is all the ways your practice spends money, from buying drugs to paying employees and utilities. Payables are easier to manage than A/R because you have more control over them. Here are some tips for managing your payables.

- Maximize vendor payment terms. It's better to pay later rather than sooner. Notice, we didn't say "late", we said "late-r!" You don't want late fees. But if your pharmacy bill has terms of 30 days, pay in 28 days. Collect payment for the drugs you use before you have to pay for them. That way, you use your clients' money to pay for the drugs instead of your own money.
- Set up schedules or auto-pay regular monthly bills. Schedule auto drafts for transactions like loan payments, or regular monthly insurance payments (the ones that you never want to be late on and are always the same amount) at a time of the month with high cash flow, and preferably not at the same time as payroll. This will help you keep the cash balance stable. It will also help you budget and keep a pulse on those large amounts coming out, so no surprises happen. Surprises are never fun with payables!
- Use credit cards RESPONSIBLY. There are many business credit cards out there with wonderful benefits and rewards program. Put your big drug bills on them. This will push the payment out another month (giving you time to sell the product) all the while earning travel rewards to take your family on a Disney vacation. But just like your personal credit cards, be very careful and responsible when using them! If you don't have the money to pay off the balance each month, do not charge it. Also, pay close attention to the credit card's billing cycle so you don't end up with two months' worth of drug bills due at the same time.
- Utilize online bill pay programs. There are several secure automated online bill pay solutions that work great for veterinary practices. They help organize and streamline the payable process, saving both time and money compared to the old fashion way of printing or writing checks and licking envelopes and stamps! The majority of these programs integrate with QuickBooks with a simple click of the mouse. One aspect we truly love is they provide an "online filing cabinet" for all your vendor invoices.
- Pay vendors from monthly statements instead of each invoice. Suppliers send numerous invoices throughout the month. If you wait and pay once a month from the statement, you will be able to plan and manage your payables and cash balance much better. It will also save you in payment processing costs such as checks, postage, or online bill pay charges.
- Control and limit who can authorize payments. Just like a cookie jar full of cookies, if everyone takes cookies whenever they like, before you realize it, the cookie jar has no cookies left. Clearly define and enforce processes for all expenditures of the practice. Make sure all owners are on board and effectively communicating.

Inventory

As we all know, inventory can be a beast of its own. If you think about inventory as \$100 bills sitting on the shelf, it's easy to understand its effect on cash if not managed properly.

- Reduce inventory on hand. The less inventory you keep on hand and the shorter time it sits on the self, the more your cash balance increases. The trick is maintaining the needs of your practice and clients at the same time.
- Implement sufficient ordering frequencies and processes. Run reports from your practice management software to see the inventory cycles and what, how much, and when products are sold. Create ordering policies based on those trends. This will help you find that sweet spot for inventory dollars sitting on the shelf.
- Beware of discount bulk purchases. Don't buy in bulk unless you know you can sell it. Don't get lured into a "good" deal, unless it really is a good deal for your practice. Can you easily sell all that product before the bill comes due?
- Designate one inventory coordinator. Just like the cookie jar example, one person ultimately needs to be responsible and held accountable for inventory. If too many people are ordering and taking it off the shelf all at the same time, it becomes much more difficult to manage.

There is a "right" balance for your bank account. You don't want to have too little and get in a bind if an unexpected bill is incurred. You also do not want to keep too much cash in the bank, as you could be missing opportunities to reinvest in your practice. Just as each practice is unique in their veterinary medicine, each practice has unique cash needs and a unique cash cycle. There is no set formula or exact method, but as you pay attention and really start to understand your practice's cash needs, you can easily manage the practice's financial needs. Timing is essential in making the most of your cash. If you let it, cash will manage itself – though not the way you want it to! Take control of your cash, and manage cash in a way to make every dollar work for you. Being proactive with cash management will reduce the stress of needing to find money to pay an unexpected bill. That should be reason enough to implement some cash control procedures!