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The whole picture

A cash stockpile can leave you with a false sense of security if you fail to scrutinize all the systems that keep your practice humming.



address the most critical systems first, the triage process in business is more difficult.

The Big Three

The three most critical business systems are financial, payroll and inventory. Only when all three are operating within normal ranges should you address other needs, like finding someone to manage your social media channels or repaving the parking lot.

Financial components include everything from tax returns to profit-and-loss statements to accounts payable and receivable. Tax returns are not designed to help a hospital owner manage his business; they simply report activity to federal and state governments. Review tax returns with your certified public accountant as part of tax planning, but don't expect to learn how to manage your practice from them. The details aren't sufficient.

Your financial statements might provide the additional details you need, or maybe not. If your tax accountant also keeps your books, this person might provide the same scant level of detail on the financial statements as appear on your tax returns. Ideally, your financial statements will show categories of income that match the categories in your practice information management software. In other words, income will be broken into categories like surgery, dentistry, pharmacy and laboratory. Even better, the cost of goods sold (COGS) section on your income statement will have those same categories so that you can track expenses related to surgery, dentistry, pharmacy and laboratory.

When a client presents a patient, how do you assess the animal's health? Before touching the cat or dog, you might get a feel for its well-being based on coat quality, general body condition and demeanor. Do you stop there? Of course not. If we instead substitute a veterinary practice for the patient, the owners and managers might assess the hospital's health based on the quantity of cash in the bank and skip a complete examination. That's the wrong approach.

Cash in the bank might have been a reasonable measure of success in the early 20th century, but veterinary medicine is significantly more complicated now than it was in James Herriot's time. Yes, having money is better than needing money, but cash alone doesn't ensure a practice's success. After all, how many veterinarians and support staff entered the field just to make money? And how long will that money last, anyway? Can you replace your surgery lights or take a

vacation now, or will your business need that money in six weeks?

A Top-to-Bottom Exam

If cash isn't all-important, then what is? Go back to the beginning of this article. How do you assess an animal's health? You might look in its eyes, ears and mouth, palpate the abdomen, listen to the heart, lungs and belly, order blood and urine tests, and request radiographs. In other words, you look at the systems, from skeletal and

respiratory to cardiovascular and digestive. When managing your hospital, you should evaluate all its systems: financial, inventory, payroll, training, client service, marketing, IT, facilities and groundskeeping. Having cash in a bank account won't fix a reduction in client visits, a rise in doctor attrition or problems with employee morale.

What's best is to review all the systems regularly. While veterinarians and veterinary nurses are trained to spot problems and

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Business

MONEY MATTERS

When you can easily compare income and expense categories, you can answer questions like, "Why the heck were lab bills so high this month?" If lab revenue rose by a similar percentage, a higher lab bill would make sense. If lab revenue didn't keep pace, you would know to research the discrepancy. Or would you?

Have you looked at the income items under each service code in your PIMS? When new codes are added during the daily rush, they might be misclassified. Make a point to scan the codes under each section every six months. If the codes are mismatched, you won't get comparative information from the reports. Small mistakes won't make a big difference, but do you want to assume that every mistake is small? Spending 15 minutes or less to browse the full report is well worth your time.

As Easy as 1, 2, 3

Inventory is another critical area to manage. Have you looked at an inventory report recently? Do any lines show negative quantities in stock? Do you see items with no associated cost? Look for misclassified items again and try to be as consistent as possible with tracking. Morphine, for example, could be classified under pharmacy, controlled drugs or injectables. Your practice might record it in yet another category. As long as each item is tracked the same way every time, and the fees for that item are recorded in an account that corresponds to the item's cost, you can make apples-to-apples comparisons.

In your payroll system, review whether each employee's pay is consistent from one pay period to the next. If it is not, did an hourly employee work a different number of hours? Also, watch the pay for salaried employees. It shouldn't change unless someone received a raise. I've seen salaried employees

receive vacation time on top of their regular pay. Unless you are paying out unused time, this should never happen.

Payroll expenses should be split into categories that make sense for your practice. Too often, I see payroll recorded as a single line item that includes not only salaries and wages but also payroll taxes and benefits. At a minimum, separate doctors' gross wages from those of non-veterinarian staff members, and break out payroll taxes and each category of employee benefits, such as health insurance and retirement. Comparing your payroll expenses to industry averages costs you nothing. As an added benefit, a breakout will help your CPA to reconcile payroll costs when taxes are prepared, potentially saving you a little money.

Make It a Habit

Just as you wouldn't use a single instrument to diagnose a patient, no single system in a veterinary practice provides sufficient information for running a financially healthy business. You advocate regular exams for patients so that you can spot subtle health changes before they become serious problems. Take the same approach with your business. You might not think that taking a deeper dive into the numbers is important, just like a cat owner thinks that bringing in Fluffy for an annual exam isn't necessary because "she looks fine to me."

Going back to the idea of management by bank account, if you aren't managing your money effectively, the cash might not last as long as you had hoped. In your practice, regularly examining data from different business systems will give you a much better picture of your financial health. If that picture begins to change, you can identify and remedy the causes before a time-consuming and expensive-to-treat "disease" develops. ■

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