Addressing Inventory

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ABC Veterinary Hospital is a small animal hospital located in the southwestern part of the U.S. with three full-time–equivalent doctors and revenue of about $2.5 million in 2021. Like many practices, the practice has been swamped during the pandemic and struggling to find and retain the number and quality of employees it needs to operate smoothly.

The Diagnosis

Leaders at the practice never thought they had an inventory problem. They never ran out of medications, they had the drugs and supplies they needed to take care of patients and they assumed they had a high level of profitability because they were never short of cash for paying bills or owner distributions.

Over the past few months, however, the management team noted some changes:

- They were running out of medications and supplies, even for items they thought had been appropriately ordered and stocked
- The amount of controlled drugs physically on hand was regularly far different from what the amount recorded on the log
- When reviewing the Practice Information Management System (PIMS) reports, the practice manager noticed that the practice had $142,000 of inventory on hand (i.e., sitting on the shelves) and that $31,000 of this was levothyroxine 0.8mg and $32,000 was furosemide 50mg. This report also showed the practice had plenty of the products the practice kept running out of.

Unsure of just what was happening, the manager first researched inventory control on the internet. She discovered many veterinary-specific articles and webinars on the topic and, after spending some time with these, realized the practice had never implemented a system and related controls in place to keep inventory costs reasonable, prevent theft and shrinkage, and track controlled drugs in accordance with the many regulations in place for these substances. She also realized that while they may not have had a problem in the past, she didn't really know if that was true and, if they didn't, it was just good luck. There was no question in her mind that they had a problem now.

The Treatment

The obvious solution was to implement a better inventory control system. Components of this system needed to include:

1. Correcting the current inventory information in the PIMS
2. Documenting the various steps that needed to occur in each of the inventory system phases (ordering, receiving, etc.)
3. Identifying the roles and responsibilities of team members for the particular steps outlined in step 2
4. Identifying and implementing technology changes that will improve inventory tracking and control
5. Selecting the specific team members to be part of this system
6. Providing the training and resources needed by various team members to be able to do the job properly
7. Putting in place a way to monitor inventory control going forward to be able to quickly identify potential problems before they get out of hand

The Implementation

The management team started by fully counting all inventory and updating their PIMS inventory module with correct product names, quantities, prices and units of measurement. They then created a written list of each step that needed to be accomplished during each of the inventory phases. For example, up until now, when a box of product was delivered, the instructions were simply "someone needs to unpack this box, make sure that everything we were supposed to get is in there and put the stuff on the shelves."

The new protocols are much more detailed. Examples of a few steps include:

1. Compare the items received to the (previously created) purchase order. Note the dates items were received on the order list.
2. Compare the names and quantities of the items in the box to those listed on the packing list or invoice included with the shipment. Initial each item received; note any discrepancies.
3. These detailed protocols were developed for identifying items that need to be ordered, placing the order, receiving, dispensing of product, dealing with backorders, order errors or other problems, recording product in both the PIMS and the accounting system, monitoring the inventory system and paying the invoices.

The practice manager also reviewed the practice's PIMS inventory module for capabilities the practice hadn't been using. One feature of particular help for this practice was the setting of automatic reorder points for frequently ordered items. Prior to ordering, the practice now reviews the reorder point report and integrates any necessary items into the order.

The practice also integrated a new electronic controlled drug logbook with its PIMS. This technology reduces the time needed to enter and reconcile controlled drug usage and improved the practice's compliance with DEA and other controlled drug regulations.

Specific individuals were selected to do this work, rather than leaving it to anyone with the spare time. Appropriate training was provided and the management team is making sure these team members have the time to accomplish their tasks when they need to be done.

Controls were put into place to monitor the system going forward, including regular inventory counts, review of employee purchases, medical record audits, review of PIMS inventory reports, and comparison of inventory costs to published benchmarks and historical numbers.

The Results

The results were very positive. Almost immediately, controlled drug discrepancies disappeared by using the electronic logbook and the practice stopped running out of product. Employees liked knowing what their specific job responsibilities were and receiving the training and time to do their jobs well. It became clear that there was likely an employee stealing flea/tick and heartworm preventives, although the practice was not able to find definitive proof as to who the culprit was. Fortunately (at least for this practice), the suspected employee quit while the new controls were being put into place and this part of the problem resolved itself. The practice now has a system in place that would better allow management to identify a culprit.

When we think of innovation, we tend to think first of amazing new technology. Innovation, however, can be any change a practice makes that improves its operations. In this case, innovation included both — a change in the practice's manual systems as well as the use of improved technology.

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