Inventory pricing: Make it count!

Welcome to the Team Meeting in a Box designed to help veterinary team members learn how to price inventory items your hospital sells to pet owners. It’s not as easy as pulling a number out of the air or charging what you’ve always charged!

Before you schedule this meeting to discuss your pricing strategy, make sure you’ve implemented your inventory management system properly—this means you’ve assigned roles to various team members, set up the practice software properly and monitor the system on an ongoing basis.

Ready to get started? Let’s start with a money discussion to frame the issue of pricing.

3-minute activity: Why we charge what we charge

Pass out the “Inventory pricing strategy worksheet” to use as a guide for this section.

OK, meeting leader, let’s talk first about what the practice is trying to achieve by selling inventory and how pricing affects this. The answers to these fundamental questions are essential to deciding what the right price is for a particular product, but sometimes they get lost in the shuffle. For example, selling products directly out of your practice is convenient for pet owners, generates revenue for your business and may improve client compliance. Explain that inventory expenses (drugs and medical supplies, food, other pet products) are one of the biggest expenses in a practice.

5-minute detour: Let’s talk about theft ...

Some of the questions at the end of this quiz deal with inventory control and “shrinkage,” or theft by clients or employees. Discussing theft can be an uncomfortable topic, but you may need to cover it—especially if you’ve never talked openly about it and made clear your expectations as a manager. To a team member who’s strapped for cash, it can seem like a minor thing to take a bag of food here or a flea preventive there, but these missing items add up to big losses for the practice—especially if everyone’s doing it.

Ask your employees to pay for the products they need. If a team member is struggling financially to provide the products they need for their own pets, invite them to discuss this privately with you on a one-on-one basis.

For team members responsible for the management of inventory, here are two important guidelines to cut down on theft:

1) Don’t leave all inventory in easily accessible places. Instead, display empty boxes in public areas.
2) Keep products organized and perform regular physical counts.

What happens if you discover during a monthly review that the quantity of a product doesn’t match what’s recorded in the computer? Time to figure out whether:

- the product was received and entered incorrectly into the computer
- a charge was not entered into the invoice for a product that was given to a client
- a product was stolen from the hospital
- the product was used in-house and not recorded in the computer.

That’s a lot to cover, especially if you’re changing your record-keeping, display and monthly review processes all at once. Don’t panic, meeting leader: This is an ongoing process that will highlight training and management opportunities for your practice.
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A micro meeting with workshop tools

7-minute game and discussion: The price is right
Continue to use the “Inventory pricing strategy worksheet” as a guide for this section.
Show your team members five different items the practice regularly sells to clients. Tell them how much you charge the client for the item. Ask them to write down on their worksheets how much they think the item costs the practice. Pass out candy to the person who comes closest for each item.

Use their answers to discuss why the price to the client may seem “high.” Talk about all the things the client price has to cover:
> cost of the product
> compensation and benefits for all the employees who 1) order and stock product, 2) enter information into the computer system, 3) pay the bills, 4) talk to clients about the need for the product, and so on.

The goal is to help team members understand that the profit on products isn’t as high as they think and that this revenue is crucial to covering practice expenses. (This is a fun game to play with the entire team, not just those involved in pricing inventory.)

5-minute activity: Pricing strategies
Continue to use the “Inventory pricing strategy worksheet” as a guide for this section.
Talk about the different ways you can price items. Discuss the basic strategies you use:

Fixed pricing: when you charge the pet owner a set amount for the product, regardless of what the practice has to pay.
> Discuss examples. If a product costs the practice $10, what’s an example of a fixed price? It could be $12, $15, $22—any fixed amount.
> If the cost is $10 and the client price is $22, what’s the gross profit?
> What’s the gross profit if the product cost goes from $10 to $12? Discuss the impact of the reduced profit on the practice.

Variable pricing: when you mark up the product a certain percentage or dollar amount using the purchase price as the base for this calculation.
> Discuss examples. If a product costs the practice $10, what’s an example of a variable price? What would be the price if the markup is 100 percent on the product?
> What’s the gross profit on each of the above examples?
> What’s the gross profit if the product cost goes from $10 to $11?
> Discuss the different impact on profits using a fixed and a variable pricing methodology.

Market pricing: when you sell the product to clients at a price similar to what other practices/online pharmacies charge.
> Discuss an example. If a product costs the practice $10, your local pet store sells it for $20, and 1800PetMeds.com sells it for $17 plus $4.99 in shipping, what will your practice sell it for?

2-minute quiz and wrap-up
Pass out the “Inventory management and pricing quiz.” Ask team members to spend the next minute recording their answers. Offer a small prize, such as candy or a $5 Starbucks card, to team members who get a perfect score. Ask team members what questions they have. Spend a minute discussing any questions. Then thank the team for their participation and ideas!