Veterinary Purchasing Group
Independent Hospitals Partnering Together

Gross Margin Return on Investment
What does it mean to my Veterinary Practice?

When we examine the health of our veterinary practices, we often review our top line sales figures as a stand alone barometer. We make a dangerous assumption if we only assess our sales dollar growth vs. prior year. Yes, sales growth is a critical factor in determining our financial health but we ought to be examining other factors as well. One factor that often goes unnoticed is gross margin return on investment.

Gross Margin Return on Investment (GMROI) measures your inventory items' performance based as a function of sales and cost. It essentially tells you how much profit your inventory investment generated. I.e. For every dollar spent on inventory (or any item for that matter) how much is earned in gross profit.

Let's look at an example using NSAID'S which is typically a high volume and hopefully quick turning item in most veterinary practices. The typical cost for any of the top branded NSAID's for a 75mg/60ct bottle is approximately $50.00. Most practices do not double the cost due to client compliance and end up charging the client $85.00. That means you made $35.00 in gross profit. To calculate GMROI, you divide your gross margin dollar ($35.00) by the inventory item cost ($50.00), giving you a GMROI ratio of 0.7. This means that for every dollar invested in this item you only earned $0.70 cents back to pay other expenses (doctor production, etc) and make a profit. This ratio of 0.7 is not strong at all as you may have imagined. Please see the below table which highlights how pharmacies, pet supply, and food supplement stores compare.

2012-2013 Retail Owners Institute Data	
Category	**GMROI Ratio**
Food Supplment Stores	**5.4**
Pharmacy	**4.2**
Pet Supply Stores	**4.3**
NSAID's (This data provided by VPG)	**0.7**

The higher the ratio/number, almost always, the better financial health of that particular inventory item.

Ok, so the GMROI is a very low ratio for NSAID's and probably many other items in our pharmacy. What does it actually mean to the health of the veterinary practice? Most of us already have an idea about what items are profitable and what items are not in the veterinary hospital but what do we do to solve that problem? ***You can use GMROI to illustrate for you the extent to which certain products could be dragging down your cash flow significantly.***

Let's revisit the NSAID example. As we demonstrated above, you earned $0.70 back on every dollar you spent on the branded NSAID. If you were to source that same product (maybe a generic NSAID) at a lower cost and charge the same dollar markup, what would that do for your practice?

Here is the example:

A generic NSAID medication such as Vetprofen (Vetoqunol product) would cost your clinic approximately $25.00 for a 75mg 60ct bottle. If you sold it for $60.00 you would earn the same profit margin dollars as you did with the branded NSAID - $35.00. So in both cases you made $35.00 on the item. However, your GMROI ratio on this generic product is 1.40. This means that you earned the same dollar profit, charged the client less, and doubled your return on investment versus the branded NSAID. If you bought and sold 500 units annually of 60 count bottles, you would have spent $25,000 in purchases to make $17,500 in profit on the branded NSAID vs. spending $12,500 in purchases to make the same $17,500 in profit. **Just on this one item, it would free up $12,500 dollars to spend on other programs and products in the practice while still maintaining the same profit dollars in the NSAID category.**

We all look at our profit and loss statements each year and scratch our heads as to why our net profit after all expenses can be a troubling number. Using GMROI in each product category could substantially change your profitability and more importantly help you free up cash flow on a daily basis.

We know that managing the "bottom line" of your business can certainly be challenging and time consuming. As a VPG member, you have access to products and services at a reduced expense to your hospital. Taking advantage of these opportunities is certainly one way to help improve your profitability and GMROI. If you would like us to help you analyze GMROI on any of your core expense categories that you have not yet explored, please do not hesitate to contact us.

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