



Financial Standardization

IN VETERINARY PRACTICES



Why It Matters
and How to Do It

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This booklet is a joint effort of AAHA and the American Veterinary Medical Association (AVMA) and is intended as a primer to get you started on the path to becoming a financially healthy practice. AAHA and the AVMA wish to thank the following for contributing their expertise to this booklet:

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INTRODUCTION

Why Financial Standardization Matters

Veterinary medicine faces a changing landscape. Embracing that change can bring opportunities for veterinary practices brave enough to know where they stand financially and how to use that information to transform their work.

Benchmarks, profitability, and economic stability matter—both for individual practices and for the profession as a whole. Of course, it is up to each veterinary practice to decide for itself what system for recording financial data works best for it. However, to the extent that more practices collect and use the same standardized financial data, the sample size for economic research grows and the insights drawn from the data are more likely to be reliable and meaningful. It's long past time for the veterinary profession to compare apples to apples financially. What we think we know about the economics of veterinary practice from current data sets may not be indicative of the 30,000 companion-animal practices in the United States.

Being busy and having full appointment schedules aren't reliable indicators of financial success. Actively inputting, assessing, and improving financials using the *AAHA/VMG Chart of Accounts* (aaha.org/coa)—an effort that was initiated and coordinated by the AVMA Economics Advisory Research Council using previously created materials from AAHA and Veterinary Management Groups (VMG)—gives practices the chance to know what's what, find ways to leapfrog their all-time bests, and maybe even jump ahead of the competition. At the very least, it gives practice leaders the ability to build practice value rather than simply cover costs. Yes, that means budgeting, but it also means much more—especially for any practice that will be sold in the next 5 or 10 years.

Running a veterinary business without detailed financial visibility means you're flying from appointment to appointment like a rocket with

GO, YOU! If you're already using the *AAHA/VMG Chart of Accounts* to standardize and monitor your financials, congratulations! Keep up the great work.

Please share this information with your friends and colleagues who currently use other systems. Please also share with them your successes and tips for navigating any snags. The more practices that do what you're doing, the better it is for the profession and for all the patients we serve.

Others need your leadership and encouragement to take this important step.

THANK YOU FOR RISING TO THE NEXT GOLD STANDARD!

no trajectory coordinates. You may be doing all the clinical things, being a doggone hero at every turn, but with only a vague idea about what's really happening on the dollars side. That lack of financial visibility can come as a real shock—a tragedy, even—when practice owners want to retire and only then realize where the practice truly stands. It could be the difference between a nonexistent valuation, a \$2 million valuation, or an \$8 million valuation, not to mention profits not realized in the years leading up to retirement.

Being good at the business side of veterinary medicine is good for business and for your patients. The only way to afford state-of-the-art facilities and equipment, the only way to attract and keep stellar team members, and the only way to deliver outstanding patient care is to net enough money not just to survive but to thrive, so that the practice lives on into the future. Only thriving practices enjoy the financial and strategic

Comparison with Human Medicine

In the 1970s, the American Medical Association (AMA) copyrighted its Current Procedural Terminology (CPT) to standardize a vocabulary for coding medical services and procedures to improve reporting, accuracy, and efficiency.

This process of establishing and adopting an enterprise-terminology strategy allows for industry-wide data collection, metrics, and benchmarking. It's essentially what veterinary medicine is doing now with the *AAHA/VMG Chart of Accounts*.

breathing room to see opportunities when changes come knocking.



IT'S YOUR DECISION

Decide right now to pivot your practice's financials to use the most updated and standardized *AAHA/VMG Chart of Accounts* that's specifically designed for companion-animal practices.

Commit to checking financials at least monthly, and to using key performance indicators (KPIs) to define where things stand now as a place to start.

Look at your data for areas in need of attention, and work on improving your practice a little bit at a time.

Objectives for Using the *AAHA/VMG Chart of Accounts*

Simply put, a chart of accounts provides a framework for categorizing income and expenses in a systematic way that makes financial data consistent and usable for reporting and assessment. A chart of accounts that is standardized and used throughout a given industry provides greater benefit by making benchmarking with similar businesses possible. A standardized chart of accounts gets everyone on the same playing field, talking the same language, and coming out with data that can be used in actionable ways. It provides a road map for finding opportunities for improvement and growth.

The *AAHA/VMG Chart of Accounts* is the standardized chart of accounts for



companion-animal practices. AAHA, the AVMA, and many other key opinion leaders encourage every veterinary practice to begin using this chart of accounts as soon as possible. It's that important.

Fundamentally, the *AAHA/VMG Chart of Accounts* gives you a way to make sense of more of the numbers that genuinely affect practice success. It also provides financial guardrails, so to speak, that give early warnings about any changes in income and expenses before they cause bigger issues. Over the years, far too many practice owners have focused too much on revenue without sufficient consideration of expenses,

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including cost of goods and services and the various complexities of labor costs and owners' compensation beyond salary.

Instead of only looking at money coming in and money going out, effective use of a standardized chart of accounts lets you match a specific revenue line item with its associated expenses on a one-to-one basis. It's a bit like matching up socks after doing laundry. For example, if the pet food markup is a certain percentage, pet food revenue should reflect that same markup. If it doesn't, then something is not right.

One such "something's not right" example comes from a real practice. Once practice leaders realized that pet food revenue was less than pet food costs, they investigated and figured out that staff were taking food home to feed their own pets. Without

Voice of Experience: Why Budgets Make Veterinary Professionals Nervous

Entrepreneurial Spirit. The veterinary profession is proud of its strong entrepreneurial spirit. Figuring things out and doing things ourselves seems natural. Veterinarians chose animal medicine as a career, not accounting. While partnering with a strong financial adviser is wise, having a clear understanding of basic finances is critical. For example, the excitement of a new practice and the resulting steady growth trend make it easy to presume the practice is doing well. Many have found that “busy” is not the same as profitable.

Only by having some standard measure can practices compare their results with those of other similarly sized practices. Using the same definitions for each revenue and expense category is vital to getting good information. When attempting to understand surgical efficiency, it's hard to know what's what when one report lumps anesthesia, surgical meds, and the actual surgery into one category, and another report breaks these items into more specific or different categories. Having a standardized chart of accounts is critical for accurate measurement whether in veterinary practices or any other small business.

Perfectionism. Budgets are not the norm in the veterinary world. As perfectionists, the thought of missing the mark can cause practice owners and managers not to attempt a budget or not to track financial data with a deeper level of detail. Creating plans is the foundation for perfecting the ability to hit goals, and budgets are merely the plan for the financial areas of the practice.

Shy About Profits. Clients often strike out at veterinary practices about money issues. The sad reality is that the veterinary profession tends to shy away from profitability goals. While it is unlikely that

profit is an end goal, all practices must be profitable to sustain themselves. Without adequate money to hire a quality team, get them trained, pay for supplies, and keep equipment up to date, practices will wither and eventually close their doors.

The essence of veterinary medicine remains centered on public health. This responsibility can get lost in the day-to-day stress of managing a practice. Pet owners rely on veterinarians to educate them about good pet care for longer, healthier lives for their pets but also to minimize potential zoonotic threats. Rabies vaccinations are more than a line item on an invoice. It is critical that everyone on the veterinary team understands that the health recommendations for pets are more than a moneymaking scheme.

It Takes Everyone's Help. It can feel as if the responsibility of running a profitable practice is only on the practice owner and management team. However, the person who answers the phone and decides whether to encourage the appointment, the person who reinforces the doctors' recommendations for patient care, and the person who makes sure everything done for the pet is charged out and the money collected have a much larger role in the practice's financial health than management. Practice owners and managers are now dependent on those in the trenches to make or break the financial plans for the practice. Training on charges is sorely missing in many practices. A lot of time is spent talking about vaccine protocols and fleas, which are both important, but getting paid for that work is critical, and training for that task needs to happen with the initial new hire and with regular review and coaching.

—Debbie K. Hill, CVPM, SPHR, SHRM-SCP, CCFP

running reports for these financial numbers in detail, they never would have known what was happening. Monitoring the numbers, matched one to one, gave the practice a possible point of inquiry, a place to start looking for answers.

Using the detailed categories in a chart of accounts, rather than lumping everything into drugs and supplies, gives you the microscopic view of your finances necessary to understand what's happening and how it compares with your own prior numbers and profession-wide benchmarks. The *AAHA/VMG Chart of Accounts* provides an opportunity for companion-animal veterinary businesses to assess financial performance in many ways:

- By tracking month-by-month outcomes for KPIs
- By comparing with the same time periods year over year or month over month
- By comparing results with all-time bests for the practice
- By knowing how an individual practice stacks up against industry averages and ideals

- By knowing how a practice compares with similar practices
- By understanding how data from high-performing practices differ, thus providing insights for improvement

If your practice sets any of the following goals, then switching to the *AAHA/VMG Chart of Accounts* may be very useful:

- Control costs more effectively and strategically
- Grow clientele
- Be a better steward of the income you already have
- Optimize what you're doing through targeted strategies and continuous improvement
- Attract and keep top-notch team members in all roles
- Reinvest in your local community through the economic development created by the business
- Support charitable causes
- Provide veterinary access and better medicine to your community



Clients often strike out at veterinary practices about money issues. The sad reality is that the veterinary profession tends to shy away from profitability goals.

Because here's the thing: The difference between netting 10% profit and 20% profit usually means better-paid and happier employees; better technology, which allows for better medicine; and better continuity of care so that service to clients and patients goes on uninterrupted. Some practices struggle to find people to hire and keep enough staff to handle a normal appointment schedule and serve clients. People rely on veterinary practices to be successful so that veterinary care is always available to them when they need it for their pets.



CHART OF ACCOUNTS DEFINITIONS

While many of the high-level categories in the *AAHA/VMG Chart of Accounts* are similar to

those in other charts of accounts veterinary practices may currently be using, the field definitions that go along with the *AAHA/VMG Chart of Accounts* provide the details so that everyone is putting the same revenue and expense items into the same categories. The goal? No more guessing about what goes where.

You may not love where various items get tallied in the standardized chart of accounts, but understand that the definitions—these universals—came from years and years of work and consensus building among veterinary practices and industry thought leaders on key financial issues. Trust the work of your peers and the wise counsel of financial and accounting experts. For example, vaccine revenue goes into a professional-services revenue subcategory (5001) rather than pharmacy revenue (5100) or what you may have always thought of as “drugs and supplies.”



Tip: Keep the PDF that details the chart of accounts definitions on your desktop, and use the search feature within the PDF to quickly find which numeric code to use.

Several suppliers and distributors already code their invoices to match the AAHA/VMG Chart of Accounts. Rather than having to figure out and key in each invoice to the right codes, you receive a monthly summary by chart of accounts code.



BETTER BUDGETING

Using the standardized chart of accounts also makes budgeting easier. Rather than start from scratch, let your current financial data, as

organized by the chart of accounts, tell you what your current spending looks like. Once you know that, it's much easier to figure out your goals for a better and more profitable budget. Gone are the days of assuming everything is OK if you still have money left in the checking account at the end of the month.

Plus, better budgeting sets the stage for understanding KPIs and improving your benchmarks going forward. If you have a budget and are measuring with the most detail you can, then you can more easily see changes in the business over time. With that knowledge, you stand a better chance of achieving practice success, however you define it.

Using the chart of accounts and a living budget allows practices to be detailed and intentional with accomplishing goals. For example, right after the

Trust the work of your peers and the wise counsel of financial and accounting experts.

Better budgeting sets the stage for understanding KPIs and improving your benchmarks going forward.

winter holidays, practices typically experience a slow period. That's probably not a good time to set a goal of increasing wellness revenue by 20%.



BENCHMARKS MATTER

A benchmark is simply a way to measure where things currently stand on a particular revenue or expense category or as a percentage of revenue. Benchmarks provide keen context for how a practice's outcomes stack up. Cost of goods and services as well as labor expenses are critical to know, for example. It's easy to be working hard and have too much product on the shelves and excessive staff costs, but it can be difficult to detect that this is happening without making comparisons with benchmarks for these expenses.

Paying attention to details within subcategories lets you determine gross profit margins. Drops in these categories can alert practice leadership to pressures from price visibility from online sellers of things like parasite-control products or diets as well as other issues within the practice, such as rising cost of goods sold.



PROTOCOLS FOR QUALITY CARE AND PROFITABILITY

All this financial information provides necessary details for team-wide conversations as well as for coaching individual team members. In many cases, red flags in KPIs can be directly related to quality of care and the ability of all team members to fulfill their roles for practice success. For

Voice of Experience: Switching to the Standardized Chart of Accounts

Dearborn Animal Hospital is your normal small-animal practice with its own way of doing things, after 70 years serving the community. With such a long history, change is always hard but always happening. The current owner has been leading our hospital for 10 years. Five years ago, we built and moved into our new hospital and earned AAHA accreditation. These upgrades sparked unimaginable growth, so when the new chart of accounts came out, I knew that we needed to switch to remain on the cutting edge.

We looked at it from many angles and laid out a plan to transition over a period of time. I did initially consider the band-aid method—“Just do it and rip it off.” Ultimately, though, a slower approach allowed me to introduce it piece by piece. This gave us time for input and questions so that we could head off any resistance to the change.

We wanted to be precise about our reasons for making the switch. For us, the following goals stood out:

- Better track costs and, of course, income. (The new chart of accounts was much more comprehensive than what I designed nine years ago.)
- See where we could improve business in more detail.
- Benchmark our hospital with others with apples-to-apples comparisons.
- Take the challenge to look at current KPIs and find places to pay more attention.

Our Process

1. Set a timeline of one year to make the transition.
2. Do a side-by-side comparison between our current chart of accounts and the new one.

We wanted to know where we would see the most benefit as well as areas we could maintain the amount of detail from our current chart of accounts.

3. Create a budget, starting with income and expense goals for the new year.
4. Start plugging budget numbers into the new chart of accounts based on the field definitions provided. This was all done before the actual transition.
5. Gather the team’s input on the budget, based on the new chart of accounts.
6. Revisit the draft budget toward the end of the fiscal year. We looked at where things were falling into place, made a couple of last-minute revisions to the budget, and called it good.
7. Finalize year-end numbers with our CPA using our current chart of accounts, then set up the new budget with the new chart of accounts. (Yes, we will not be able to pull historical data in the same format as the new chart of accounts, but we asked ourselves, “How often do we really go back and crunch old numbers?”)

As we began the new fiscal year with the new chart of accounts, we had a lot to learn about the new codes and definitions, but the new chart of accounts is laid out in a way that makes it easy to learn the new account codes. The trick was getting the old numbers out of our heads.

I’m sharing our experience just over six months after completing the transition. I look forward to seeing our KPI numbers in the coming months as we start the budget process again with the updated chart of accounts.

—Scott Zimmerman, CVPM



The numbers tell a story, but it's the team that lives and breathes the story.

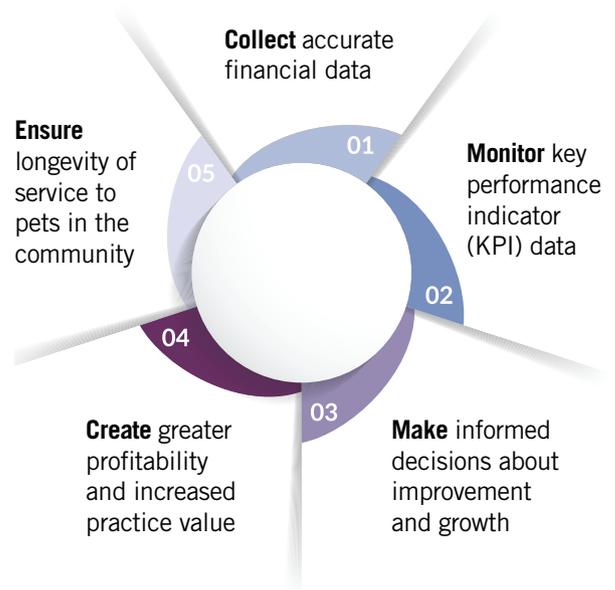
example, if one associate veterinarian's number of invoices or average transactions falls below those of others, practice leaders will need to figure out why. Reasons for the difference may include more blocked-out time on the schedule, less consistent recommendations of the practice's standard-of-care protocols, or missed charges.

Quality care can be done efficiently and profitably if everyone plays their part. For example, by leveraging doctor time and technician time, more patients can be seen per hour, while at the same time, clients and patients experience more hands-on time overall.

The heart of every conversation about KPIs should be quality pet care and living up to the standards each practice sets. Yes, the numbers tell a story, but it's the team that lives and breathes the story. Making little tweaks in process, setting small growth goals, and always focusing on quality care and client service can make a big difference for the veterinary business itself and for the greater good on charitable fronts as well.

Practices interested in social responsibility need to be profitable enough to contribute meaningfully to causes of interest. More consumers see businesses as having the attributes of an individual, and they reward those exhibiting social responsibility and company cultures that provide enhanced experiences for team members and clients. Across many industries, businesses that do these things outperform others financially and retain better teams. Better teams mean better patient care, and the cycle begins again.

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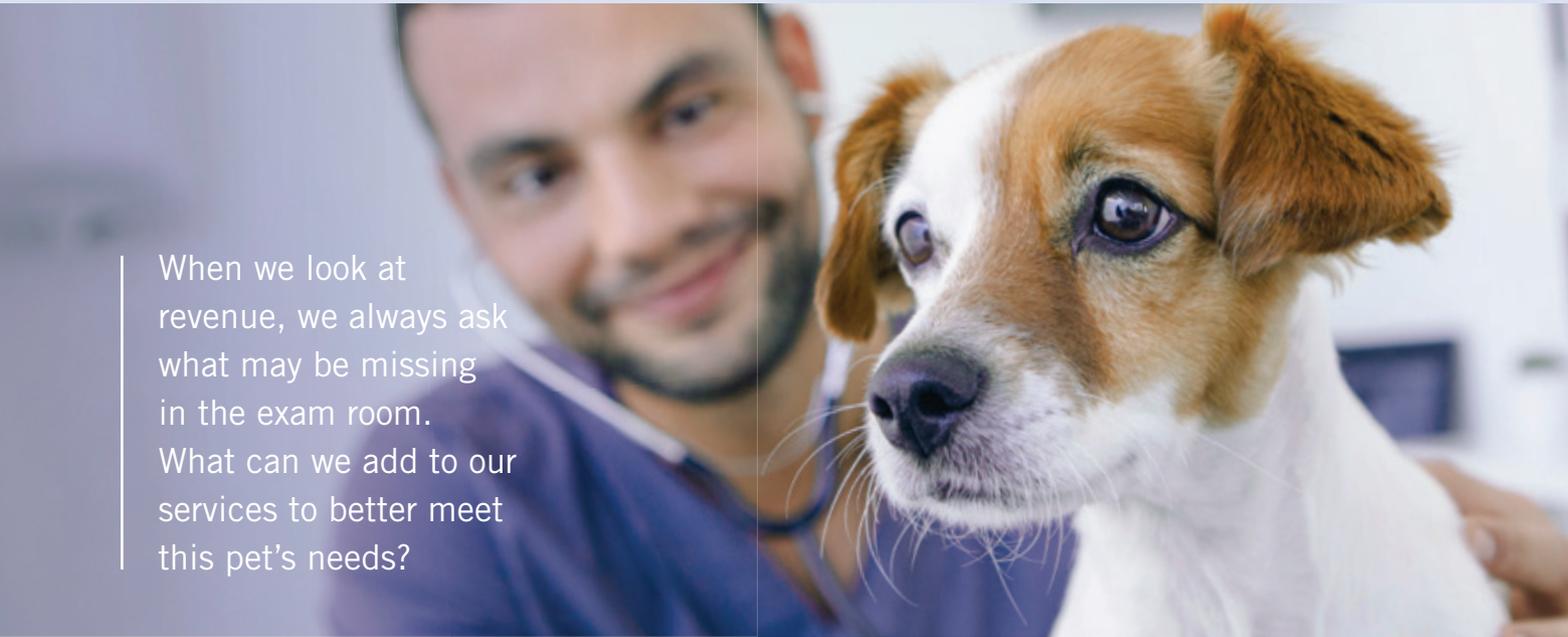


How to Make the Switch

The *AAHA/VMG Chart of Accounts* features more than 7 pages of codes for assets, revenue, and expenses so that you have every speck of information needed to create a balance sheet and a profit-and-loss statement. It comes with another 33 pages of definitions for each of those codes so that you know where to put things. There is even a 9900 code at the very end called “Ask my accountant,” for when you get really stuck.

aaha.org/coa

Read the whole thing. Really, please read through it so that you have the broadest possible view of what it includes. Notice that the revenue account series for professional services (code 5000) includes 13 professional-services revenue subcategories. Notice that pharmacy revenue (code 5100) also includes 5 subcategories. Notice that anesthesia has its own code that's entirely separate from surgery revenue. Notice as well that direct costs, also called cost of goods and services



When we look at revenue, we always ask what may be missing in the exam room. What can we add to our services to better meet this pet's needs?

Voice of Experience: Better Medicine and Better Profits

When you focus on the care of the pets and you do what's right for the pets, then the money will follow. Although the process of using a standardized chart of accounts and regularly pulling financial data focuses on the money, when we focus on the health of the pet and on getting clients to agree to our recommendations and estimates, when all that happens, the profit-and-loss statement shows it. In that way, better medicine is better profits.

When we look at revenue, we always ask what may be missing in the exam room. What can we add to our services to better meet this pet's needs? That may be always recommending laser treatments for post-op healing. It may be recommending adult-wellness lab work for every dog older than the age of three.

We also ask how we can bundle recommended services in ways that make it easier for clients to say yes.

By careful reading of a monthly profit-and-loss statement along with key points from our practice software, we track the following metrics:

- Revenue
- Cost of staff labor
- Cost of DVM labor
- Purchases and inventory
- Advertising (most practices underspend on advertising)
- Profit
- Number of patients through the door
- Average client transaction
- Client bonding rate (How many people come back within 6, 12, and 18 months?)
- Forward booking

If we find a problem, then we dig into the detail to see what's going on and where we might be missing opportunities to better serve our patients and clients.

—Amy Williams, MBA, CVPM

or cost of professional services, has 37 different codes and subcodes or categories. In some cases, though, the chart of accounts may actually use fewer categories than systems that have been cobbled together like Frankenstein's monster over the years, with new codes being added all the time.

The details matter. You might not care how electricity, natural gas, sewer, and water utilities make up the total utility expenses. That detail may seem irrelevant this very second. However, if you track those utility cost details, you have a better chance of finding a water leak in the facility when you notice monthly bills creeping up steadily over time for no apparent reason or jumping up wildly when compared with the previous month or the same month last year. It could be the difference between urgent but planned repairs and having to shut down and reschedule everything for a day or more if a major pipe finally bursts without warning at 6 a.m. That shutdown adds up to way more work and stress as well as much more lost revenue than taking the few minutes to code each utility separately.



OUTSOURCE THE CONVERSION

You can hire someone to make the switch for you, and it typically can be completed in just a few days for a few hundred dollars. This isn't the time to overestimate your skill with your financial management software. It's no time to be a hero. Ask your accounting or bookkeeping firm, or find one if you don't already have one, to convert whatever you're using now to the *AAHA/VMG Chart of Accounts*. They know how to make the switch and how to do it without losing the ability to compare new data with your legacy data.



THE HEAVY LIFTING

Most of the initial work of switching to the chart of accounts, as well as ongoing monitoring, falls to practice owners and practice managers. If others share inventory ordering and management responsibilities, then they will need to understand how to code current inventory items and any new ones added later.

Once the correct codes get placed in the bookkeeping software and practice management software, everything else should happen as it normally does.

Other team members will likely not be involved in the switch or daily use of the chart of accounts. Their participation only ramps up once regular reporting of KPIs begins. They may be asked to alter workflows or double-check the accuracy when adding charges to invoices. They may need to be coached if the data trail reveals costly errors or patterns of behavior.

This is where practice culture becomes critical. Change can be harder for some than for others. If the leadership team (managers and team leaders) understands that profit and success are not four-letter words and, in fact, lead to reinvestment in the practice that benefits staff, patients, clients, and the community, then everyone works together to achieve common goals related both to quality of care and to business success.

The *AAHA/VMG Chart of Accounts* provides the data needed to calculate KPIs. Different practices and financial experts recommend tracking different KPIs, but here are the most common ones people watch at least monthly, if not more often, to

compare with practice benchmarks, profession-wide benchmarks, and progress toward goals:

- Revenue
- Profit (earnings before interest, taxes, depreciation, and amortization)
- Cost of goods and services
- Number of invoices
- Average invoice for the entire practice and sorted by doctor
- Labor expenses with doctor and nondoctor labor costs broken out
- Drug inventory expenses

While you may want to monitor things like lab revenue, that typically takes care of itself if patients are being serviced well. A high lab-expenses line item, for example, means the practice is running more lab tests.

Many times, data from practice information management systems provide keen insights as well, including the following:

- Number of new clients
- Number of loyal or returning clients
- Client compliance (active clients sorted by overdue reminders)



ROLES AND RESPONSIBILITIES

It's time to work on the practice, emphasis on the word *on*. You already work hard *in* the practice. Think of the practice as a patient. It deserves the time and attention of the entire team.



ROLE	RESPONSIBILITIES
Practice owner	<ul style="list-style-type: none"> • Commits to making the chart of accounts switch • Regularly monitors KPIs • Evaluates areas of concern (diagnosis) and recommends next steps (treatment) • Provides leadership and coaching for continuous improvement
Practice manager	<ul style="list-style-type: none"> • Plans and oversees the switch, including outsourcing technical parts as needed and making sure financial- and practice-information systems both use the standard chart of accounts • Schedules and provides team training, including how certain products and services get coded, particularly if it's different from what has been done in the past • Completes daily audits and weekly spot-checks • Runs KPI reports at least monthly and shares with owners and leadership team • Helps investigate further any areas of concern • Sets achievable goals and monitors progress • Provides coaching for continuous improvement and workflow upgrades
Associate veterinarian	<ul style="list-style-type: none"> • Follows practice protocols for case management, pet care recommendations, and supporting compliance • Takes responsibility for monitoring their own individual KPIs (number of invoices, average transaction amount, total production, etc.) • Helps implement workflow upgrades
Veterinary technician and veterinary assistant	<ul style="list-style-type: none"> • Take responsibility for getting all charges added to each appointment invoice • If involved with inventory, make sure current and new inventory items get coded properly • Potentially take on additional patient care tasks and client contact work to boost efficiency and cost savings • Help implement workflow upgrades
Receptionist	<ul style="list-style-type: none"> • Double-checks all invoices for charges and missed charges • Schedules appointments and follow-up appointments for best efficiency and patient outcomes • Provides supportive messaging to clients about comprehensive quality pet care • Helps implement workflow upgrades



AN EVERYDAY EXAMPLE

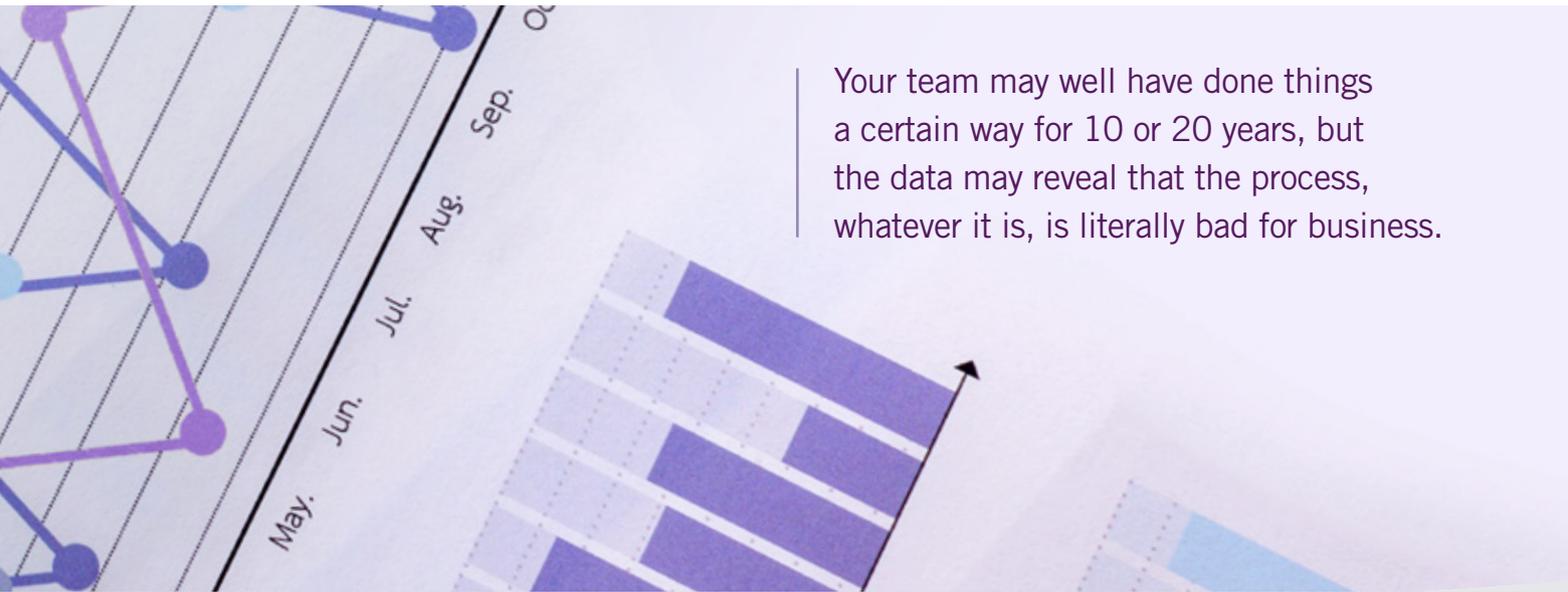
Let's say that a practice recently noticed through routine KPI monitoring that average transaction fees were falling in recent months. After drilling into chart of accounts details, the owner and manager find a pattern of missed charges—medications dispensed without an exam fee attached, ear infection cases without cytology, provider services with missing provider codes getting lumped into other revenue buckets.

The leadership team sets a goal of improving the team's efforts to capture all charges for key quality-care protocols and coaches everyone on where and how to double-check each other. An ear infection case might play out like this:

- Receptionists note to themselves that this newly adopted patient is being seen for ear trouble. They know from the practice's protocol the likely outcome will include

an exam, cytology, take-home meds, and a recheck appointment in two weeks. That's what they will look for when the client checks out and pays.

- Technicians ask about the pet's ear issue history, set expectations for the client that cytology is needed, and provide the veterinarian support required for the exam and professional services.
- The associate veterinarian talks through the pet's case with the client, examines the pet's ears, makes the recommendation for cytology, and explains that today's take-home meds will depend on what's found in the cytology.
- Technicians bring the client the prescribed meds, explain their use, and instruct the client to call if anything changes or worsens and to make a recheck appointment in two weeks.
- As the client leaves the exam room, technicians enter charges for the appointment.
- Receptionists pull up the invoice at checkout and look for the costs for the exam, cytology, and medication before giving the client a total. If any charges appear to be missing,



Your team may well have done things a certain way for 10 or 20 years, but the data may reveal that the process, whatever it is, is literally bad for business.

they consult with technicians on the case before completing the checkout transaction. They also help the client schedule the recheck appointment in two weeks.

- The next month, the practice manager and practice owner recheck KPIs to measure progress toward the goal of cutting down or eliminating missed charges and report back to the team, with praise or additional coaching, as needed.



BARRIERS TO CHANGE

Since practice leaders bear the brunt of the chart of accounts switch itself, any resistance from individual team members or cohorts of team members likely won't crop up until a practice begins using the KPI data to institute changes. It may mean workflow changes or stricter adherence to case protocols or being less loosey-goosey about things in general.

Some people will bristle more than others, so it's important to use the data as instructive, not as punishment or criticism. Your team may well have done things a certain way for 10 or 20 years, but the data may reveal that the process, whatever it is, is literally bad for business. And that's bad for the team's job security and the ability to provide the best care to pets.

To head off possible outcries, don't try to fix any issues found in the KPI data in a single swoop. Strive for smaller, more achievable goals to build team confidence and momentum. As much as possible, make the improvements feel seamless for team members and for clients. For example, if you find dismal pharmacy margins, don't raise the markup on everything at the same time to make a big jump in that KPI in a single month. For competitive and strategic reasons, you may choose to maintain a lower margin on certain categories of prescriptions. To lessen any sticker shock, you may phase in increases over time.

Step-by-Step Guide to Converting to the AAHA/VMG Chart of Accounts

STEP 1: Decide to use the AAHA/VMG Chart of Accounts and field definitions, and choose a start date for conversion. January 1, the start of your fiscal year, or the beginning of a new month is a good starting point for the switchover.

What Is a Chart of Accounts?

A chart of accounts allows a practice to identify how its financial statements are set up. It details the activity within each of a designated set of accounts over a period of time. The chart of accounts will organize financial transactions of a practice into easily identifiable categories of information.

STEP 2: Develop protocols for entering accurate data. This is definitely a trash in/trash out situation, so emphasize and systematize accuracy.



Typically, this step requires input from practice leaders and managers, the bookkeeper or accountant, the inventory manager, and assigned and trained team members.

STEP 3: Hire someone skilled in using your financial management software to set up the new chart of accounts and convert your old data to the new categories. In most cases, this will only take a few days and a few hundred dollars.

STEP 4: Update codes and categories in your practice management software to match the chart of accounts so that it's a mirror image of your financial management software. Spot-check by running reports in both systems to ensure they match.

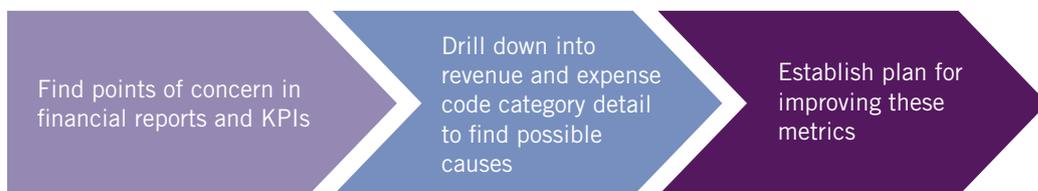
STEP 5: Train your team.



STEP 6: Check the accuracy of data collection through daily audits of every invoice. Look for accurate use of provider codes, product and service codes, etc.

STEP 7: Choose the KPIs to track, at least monthly if not more often, and begin comparing your reports with each other and with benchmarks published by major organizations, for performance and outcomes context.

STEP 8: Make informed decisions based on KPI metrics—not as criticisms but as measures.



Examples:



**Scheduling issues? Lack of confidence in making recommendations?
Revenue not being credited to correct provider code?**



**Patterns of missed charges? Inappropriate use of discount codes?
Drop in compliance in key areas? Staffing changes, long vacations, or family leave?**

STEP 9: Strive for continuous improvement and optimization over time.

STEP 10: Determine and monitor practice profitability and value.

If there is very low or no net income, then the business itself has no value or longevity. In other words, it's at risk of not being able to serve patients and the community in the future.



Voice of Experience: Challenges of Not Switching to the Standardized Chart of Accounts

When trying to sell a practice, potential buyers usually request financial reports, as the first and most influential information. They expect to see how fiscally healthy the practice is with a quick glance at a profit-and-loss statement. By adopting an industry standard like the *AAHA/VMG Chart of Accounts*, it's significantly easier to pull data for possible buyers.

However, understandably, most privately owned businesses set up their accounting methods in a way that is convenient and beneficial to their needs at the time, without consideration of financial transparency to potentially interested parties in the future.

Consider these common small-business habits:

- The practice owner uses the same lawn service at home and at the practice but only cuts one monthly check under the "Facility Maintenance" account.
- Labor expenses show as one lump sum, without any detail for veterinarian compensation, management salaries, or kennel staff costs.

Muddying the reports with personal expenses or creating bulk accounts without proper subaccounts can skew the numbers and provide an inaccurate representation of the clinic's

financial status. Potential buyers don't want to spend time scratching their heads trying to figure out obscure personal tax loops or fuzzy math.

When building a relationship with a possible buyer, clarity and clean, concise numbers are a must! Yes, it's possible to extract the numbers and tally them up correctly, but wouldn't it be nicer to have them readily available?

Practices not currently using the standardized chart of accounts may find it difficult to provide precise, detailed information to potential buyers. How a clinic initially looks on paper can make or break a sale. Adhering to veterinary industry accounting standards can boost a clinic's reputation in the eyes of a prospective buyer by providing the clinic's financial standing in a clear and concise manner that can be readily accessed.

If your clinic is considering a change of ownership in the next five years, start switching over to the standardized chart of accounts for tracking financials sooner rather than later. Creating specific categories, broken down into subcategories for major portions of a budget, like staff compensation, cost of goods, or lab expenses, is an easy place to start and can make a huge impact in the long run.

—Meghan S. Bingham, CVPM

The Next Gold Standard

While it's easy to get caught up in the day-to-day sprint that is veterinary medicine, it's more important than ever that those in practice leadership roles stop running, take a breath, and make the time to work on improving the practice itself. Think of your veterinary practice as the most important patient in your whole career. Yes, that patient is a business, and if you want it to grow and thrive and even outlive you, then it needs to be profitable.

Profit fuels innovation. Profit opens doors to growth and opportunity—for everyone. Profit isn't evil. Profit is fundamental to the future of veterinary medicine and the ability to provide top-quality pet care. Profit is the byproduct of efficient, effective, and thought-leading veterinary practice. Without profit and without building practice value, it's impossible to continue helping pets for generations to come.

By switching to the *AAHA/VMG Chart of Accounts* and by carefully tracking your financial data, you're a step closer to closing the gap between knowing what's really happening, feeling as if things could be better, and doing what it takes to make things as good as possible for practice owners, practice teams, and the patients they serve.

If you want to participate in the next era in veterinary medicine, you need to use the *AAHA/VMG Chart of Accounts*. This is critical for enabling the benchmarks companion-animal practices need to optimize their work and be ready to take advantage of new opportunities.

It won't let you leap tall buildings in a single bound, but by using the chart of accounts and measuring and evaluating your financial outcomes, you'll have the superpowers needed to implement healthy financial change one step at a time for years to come.



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and opportunity—for everyone.
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Established in 1933 by leaders in the veterinary profession, AAHA is best known for its accreditation of companion animal veterinary practices. To become accredited, companion animal hospitals undergo regular comprehensive evaluations by AAHA veterinary experts who evaluate the practice on approximately 900 standards of veterinary care. AAHA also develops publications and educational programs and resources designed to help companion animal hospitals thrive. Today, more than 3,700 practice teams (15% of all veterinary practices in the United States and Canada) are AAHA accredited. For more information about AAHA, visit aaha.org.



The American Veterinary Medical Association, founded in 1863, is one of the oldest and largest veterinary medical organizations in the world, with more than 93,000 member veterinarians worldwide engaged in a wide variety of professional activities and dedicated to the art and science of veterinary medicine.

Thank you to the following for contributing to this booklet:

