As computer software proliferation represents the current practice norm, we have become overwhelmed with data and reports. Rather than a lack of data, some might argue that we have too much! Too much detail potentially causes inertia and confusion. And more to the point, how can anyone find the time to sift through all this information, let alone act upon the information conveyed?

Thus, financial and managerial accounting experts increasingly emphasize a timely and contemporaneous “bird’s-eye” view. You can read about many approaches and ideas to achieve the 10,000-foot perspective, but all share these essential ingredients:

- Key Performance Indicators (KPIs) = mission critical indices that give “at a glance” data points.
- Data Trends = KPIs followed over time indicate and predict practice economic health.
- Reliable Systems = KPIs and KPI trends are only as good as the data input, by trained personnel with attentive eyes to accuracy and consistency, and through appropriate oversight by administration.
- Timeliness = Quick report turnaround is needed for executives to guide practice decisions.
- Goal Accountability = practice strategic planning leads to methodic choice of KPIs and goal setting.

Managing your practice by the numbers doesn’t have to be hard. You need a systematic approach that becomes “standard operating procedure,” analogous to the systematic approach to a physical exam.

We’ll start with the foundation for all KPIs and management reporting: data collection based in the AAHA Chart of Accounts. Next, we’ll look at a typical KPI origin, the financial reports, and interpret the normals and abnormals.

Because data are plentiful and time is scant, we’ll describe three “cool tools” for assisting your choice of KPIs, based in modern strategic planning theory. Finally, let’s showcase a financial dashboard presentation of KPI examples that recognizes and builds in the crucial element of data trends.

Systematic Collection of Data: Chart of Accounts
The widely understood language of scientific nomenclature and medical terminology allows swift and accurate communication among veterinary medical professionals. Consistent ways of describing patient history, physical observations, and surgical and medical procedures increase practice quality and efficiency.

Understanding accounting terminology helps communication about the financial health of your veterinary practice in the same way. Sensible use of technology further enhances financial data interpretation. The combination of off-the-shelf check-writing, accounting, and spreadsheet software with powerful personal computer processors requires an even greater level of financial reporting sophistication in successful veterinary practices.

The basis of reliable financial data is a sound system for its methodical collection, recording, sorting, and summarization. Such a system depends on accurate categorization of each practice financial transaction by knowledgeable and trained personnel. Veterinary practice bookkeeping systems also require a logical organization of data into reports that enhance management assessment of economic outcomes.

A defined listing for practice financial data organization is called a chart of accounts. Expressly designed for veterinary practices, the AAHA Chart of Accounts is an organized list of all the asset, liability, equity, income, and expense accounts used in a veterinary practice for categorizing and recording each financial transaction.

A chart of accounts is the cornerstone to universal standardization of the veterinary profession’s financial accounting, reporting, and interpretation systems. Universal standardization empowers veterinary practice administrators to make well-informed fiscal decisions about planning, investment, and expansion.
How Is a Chart of Accounts Organized?

A chart of accounts always lists the account titles in the following order of major transaction categories:

- Assets
- Liabilities
- Equity
- Revenues
- Expenses

In each of the assets and liabilities categories, accounts are organized from most liquid to least liquid. Liquidity describes how quickly an asset will be converted to cash or a liability will come due. Inventory assets are more liquid than medical equipment, and vendor accounts payable are more liquid than a note payable over many years.

Why Should a Practice Use a Standard Chart of Accounts?

The bare minimum Key Performance Indicators originate from how transactions accumulate over time. Everyone knows the acronym GIGO: garbage in, garbage out. We prefer to say “Good In, Gold Out!”

Many practice managers cannot make an accurate analytical assessment of the sum total of all the activity in the course of the year. They don’t know if the financial reports accurately represent practice activity results. They may not be able to make sound decisions. The practice might be on track for financial targets, or perhaps the reports give false information.

Have you ever felt that cash flow was tight? Were you quickly able to pinpoint the reasons why? Were you able to decide if the practice was making good use of capital resources to generate more money, or if underutilized assets of talent, equipment, and supplies had overextended the practice, or whether the problem was simply out of control credit policies?

Do you wonder if the practice can afford to add additional employee benefits? Can you predict the overall cost of investing in a loyal labor force?

Many significant financial decisions become nothing more than “best guesses,” unless accounting reports accurately measure the practice’s progress. The best way of measuring the practice’s progress is to compare its current period results against those of past periods, but only when they are reliable and replicable. The records should match the depletion of assets with income and profit generated over the same period.

Planned asset depletion should yield more than enough revenues and profits to replenish them, but do you know if this is really the case? Without accurate records created through a systematic process of coding transactions, a practice manager doesn’t always know the answers to these questions.

Assure you have accurate information about your practice, to know if it is on track to accomplish goals, objectives, ideals, and vision, and satisfy obligations. Accounting for practice transactions using uniform standards gives assurance that decisions are based in fact and lead to profit over time.

Management Report Organization Parallels the AAHA Chart of Accounts

Every business uses a chart of accounts (in some form) that ultimately results in classic business financial reports, commonly known as financial statements. The two most common financial reports used by veterinary practice managers are:

- The Statement of Assets, Liabilities, and Owner’s Equity (also commonly referred to as the Balance Sheet)
- The Statement of Revenues and Expenses (commonly called the Profit and Loss Report or, abbreviated, the P & L, and also called the Income Statement)

In parallel with these two reports, the chart of accounts always lists the account titles in the following order of major transaction categories:
The Balance Sheet

Every veterinary practice has assets, liabilities, and equity (equity is sometimes called “net worth”). Various types of property the practice owns are known as assets. Liabilities describe practice obligations owed to outside parties. The difference between assets and liabilities is the amount of owner’s equity (or owner’s capital). Thus at any particular point in time, the balance sheet is always “in balance” with the sum of the owner’s equity plus liabilities equal to assets.

Practice Assets = Practice Liabilities + Owner’s Equity

Or, rearranged algebraically,

Practice Assets – Practice Liabilities = Owner’s Equity

The Profit and Loss Report

The profit and loss report presents total current period income (revenues), less the expenditures made to generate that income. In a pure economic accounting world, without consideration of tax issues, only the exact expenses required to produce the income on a particular day or during a particular calendar quarter would be recorded.

The total amount of revenues minus the total matching amount of expenses determines profit or loss. If revenues are more than expenses, then profit results. If revenues are less than expenses, then the practice shows a loss.

What if the practice invested a large sum of money or took a loan to purchase a digital X-ray system? How would you match the expense of the equipment to the revenue that will be produced by it over many financial periods? An estimate of the useful life of the equipment is made, and a small portion of its value is expensed in each financial period. For example, if the equipment is estimated to have an economic life of 5 years, then one-sixtieth of the purchase price would be expensed each month to record a portion of the equipment value as a reduction to revenue, and thus is included in the profit calculation.

The annual profit and loss report presents total revenues less total expenses for the practice’s fiscal year, usually the same as the calendar year. As the practice enters a new fiscal year, say January 1, the sum total of the prior year’s revenues and expenses is recorded as an increase or decrease to the owner’s equity in the practice.

If the practice has profit, the owner’s equity increases by the same amount. If the practice has a loss, the owner’s equity decreases.

Last Year Cumulative Owner’s Equity + Profit = This Year’s Owner Equity

As this recorded increase or decrease to owner’s equity occurs, all of the revenue and expense account balances from the prior fiscal year reduce to zero. With each passing day of the new fiscal year, revenues and expenses accumulate again in their various accounts, resulting in a new picture of profit or loss.

- Profit is crucial to practice longevity.
- Profit replenishes the supplies used.
- Profit lets you plan for contingencies.
- Profit leads to adequate reserves when equipment suddenly breaks and must be replaced.
Profit allows more compensation for those deserving through effort.

Every practice should plan for profit, to have plenty of options. Management should think ahead and be proactive rather than reactive. How else can clients know the practice’s veterinarians will be there when they need them, that their horses will have care?

Revenues – Expenses = Profit (or Loss)

The practice depletes its assets through daily use and converts them to expenses to match the produced revenues. The practice incurs liabilities to acquire additional assets to replenish practice needs for fueling the economic cycle.

Here is how the accounting equation variations look together, over any particular accounting period:

\[
\text{Assets} - \text{Liabilities} = \text{Equity} + \text{Profit} \\
\text{Assets} - \text{Liabilities} = \text{Equity} + (\text{Revenues} - \text{Expenses})
\]

Management at a Glance

Many of the typical “KPIs,” such as percentage operating costs for payroll and supplies, can be found in the financial statements. Well-organized financial statements (Balance Sheet, Income Statement, and Statement of Cash Flows) are the logical starting point for your practice KPI initiative. You likely already prepare these reports from QuickBooks® or through the practice accountant. Why not optimize their usefulness to your strategic thinking and management decisions?

Three Cool Tools: Analyze Internal Practice Organization and Processes

A systematic approach to data collection using the Chart of Accounts supports your management responsibility for monitoring and adjusting practice performance. Although there are many ways to strategically plan practice goals and resulting KPIs, we like 2 systems that work well together: Porter’s Value Chain Model and the Balanced Scorecard Model. Combine these 2 models with the SWOT approach (Strength-Weaknesses-Opportunities-Threats), and you have a great 3-pronged logic to ongoing design and measurement of practice strategy.

Michael Porter’s value chain model helps the practice administrator focus on internal strengths and weaknesses of key organizational structures and process/workflow.

The key message of this analysis is client satisfaction. Everything done in the practice and to the practice must provide client value. If your people are doing things that don’t add value, the practice shouldn’t be doing them. Always focus on what your practice does well and keep doing it well. Such effort drives quality and value, thus ensuring client satisfaction and loyalty.

Your prime objective as an investor is to make money. By focusing on excellent service, you drive client perception of value and willingness to pay for that value.
Use the following charts to rate your own practice and see where you need improvement.

<table>
<thead>
<tr>
<th>Support Activities</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure (Structure and Governance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Resources (and Technology)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Activities</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inbound</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Outbound</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client Services</td>
<td></td>
<td></td>
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</tbody>
</table>

From your analysis of the practice’s value chain, determine which aspects of the organization are the weakest. Each of these weaker links in the chain represents a priority for goal setting. The next business school resource will give you an excellent tool for rounding out a detailed tactical plan for strengthening each link in the value chain.
Balanced Scorecard
In the early 1990s Harvard Business School’s Dr. Robert Kaplan and Dr. David Norton developed an innovative strategic planning tool called the Balanced Scorecard. The balanced scorecard is an applicable prescription for veterinary practice management. The balanced scorecard approach helps you define specific critical success factors and what to measure in order to track progress. By using a scorecard approach, you design a variety of benchmarking criteria that “balance” the purely financial perspective expounded by practice management literature, consultants, and organizations.

As both a management and measurement system, the balanced scorecard helps clarify the practice’s vision and strategy (both rather ethereal) and translate them into action. The scorecard tool gives feedback for both the internal practice processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into your practice’s daily management regimen.

The balanced scorecard can help your practice drive superior patient care, client service, and employee satisfaction. We’ve modified Kaplan’s model for use in veterinary practice as the Patient Care Scorecard. In the transformed model, the Patient Care Scorecard (PCS) recognizes the financial measures that assure an adequate economic base to drive excellent veterinary care. Like the balanced scorecard, the PCS helps guide and measure the practice’s progress in providing value through investment in patients, clients, employees, suppliers, processes, and technology.

The PCS helps a practice evaluate itself from 4 perspectives and to develop metrics, collect data, and analyze them relative to each of these perspectives:

- The Patient Care Perspective
- The Client Perspective
- The Learning and Growth Perspective
- The Financial Perspective
Establish Concrete Goals to Achieve Defined Success Factors and Decide on Critical Measures to Evaluate Progress Over Time

Use the following template to think more about how the balanced scorecard will look for your practice. You can see how the “critical success factors” evolved into specifically stated goals for each quadrant of the scorecard.

<table>
<thead>
<tr>
<th></th>
<th>To My Shareholders</th>
<th>To My Clients and to My Patients</th>
<th>With My Internal Management Processes</th>
<th>With My Ability to Grow and Innovate Innovation and Learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>How will I differ?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are critical success factors?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are critical measurements?</td>
<td></td>
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</tbody>
</table>

The Financial Dashboard

Time-strapped for management, many practice CEOs develop systems that help them distinguish the forest from the trees. Executive summary graphics that depict practice key performance indicator trends are popularly labeled “financial dashboards.” Perhaps a better term is the “CEO’s dashboard,” because many critical measurements defined by your balanced scorecard will not be financial based, although they do drive financial results.

In an ideal world, the practice’s computer systems would automatically pop key indicators up on your PDA every day. In reality, most of us compile the numbers ourselves, and/or assign key personnel to gather the data for us and present them in a summarized format.

The CEO dashboard will change out some indicators over time, depending on different needs. For example, if your practice’s accounts receivable are well managed at less than 35 days to average collection, you may decide to remove that gauge from the dashboard and add one for inventory turns, since cost controls of drugs and supply inventories has become a primary focus.

The practice balance sheet, with its well-organized presentation of assets and liabilities, is a good resource for designing your financial dashboard. Highlight the items on it that you believe you need to see every day. Perhaps you choose cash balance, average day in A/R, and outstanding vendor accounts payable.

Then you’ll turn to some other metrics to add, such as gross receipts and total payroll dollars expended.
We recommend checking in with the balanced scorecard. What are 2 or 3 key indicators from each quadrant? Remember, each of the 4 areas (clients, internal processes, human resources, and owner return) needs to be healthy for a thriving and growing organization.

Like other financial information, the most usefulness comes with time continuums build into the model. Rather than one measurement on a single day, look at the trend line over time. Heart and respiratory rates over time are more useful than a single reading. Veterinarians are good at this when it comes to gross income, but other parameters are equally important to monitor over time.

**Resources**

AAHA Chart of Accounts  
*Equine Veterinary Practice Chart of Accounts*, with courtesy and appreciation to Webster, Milburn Equine, Intravet, and Pfizer Animal Health