

ISVMA 2022
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Veterinary medicine possesses its own unique set of challenges and rewards. Circumstances surrounding practice sometimes impose hurdles, both real ones and perceived ones, on practice owners. These challenges are not insurmountable. Understanding and embracing the financial and leadership facets of veterinary practice are keys to maintaining and enjoying practice.

Step 1- Financial Literacy- Understanding the ins-and-outs of veterinary finances is not always at the forefront of a veterinarian's mind. However, learning these details and utilizing them within your practice is what will allow sustainability of the practice, feeling valued for your knowledge and creating financial independence for your future.

Section 1- Pricing

Several pricing models exist. Which one you utilize in your own practice reflects in your practice type and services provided. Basing prices on a per hour fee is a simple and consistent method for establishing prices for services.

i. Surgery- Surgical rates are \$5.00-10.00 per minute (As per AAHA). If a splenectomy is anticipated to take a moderately experienced surgeon 60minutes, then the cost of that procedure alone should be approximately \$480.00. (\$8.00/min). This amount is for the surgical procedure alone and does not include medications, anesthesia, hospitalization or post-operative needs. This method can be applied to any surgery, laceration repair or skilled service.

ii. Farm Services, teaching and consultation- Farm and ranch service pricing can also be calculated based upon an hourly rate. This rate varies from \$150-250.00/hour based upon locality and services being provided. The hourly rate does not include medications or supplies utilized, or the farm call charge. An example of this would be pregnancy palpation. If the ranch personnel can run 30 cattle through the chute in an hour, and you typically charge \$5.00-6.00/head, then you would be charging \$150-180.00 for that hour or for that set of cattle. Ideally, you would be charging closer to \$180-200.00/hr for this service. The hourly rate encourages better efficiency at facilities that tend to be disorganized or the vet is expected to gather the cattle and utilize his/her staff to push cattle through the alleyway. However, it is important to assess the situation at hand. If the hourly method encourages ranch personnel to push the animals too quickly, then it should not be utilized.

iii. Medications and supplies- Retail products are somewhat more complicated when it comes to pricing. Competing with larger companies and pharmacies is not something that should be sought after and is not feasible. Our value as veterinarians lies in our knowledge and ability to diagnose and treat a condition, not in our ability to sell a product. That being said, it is important to charge appropriately for medications and supplies. A general rule-of-thumb is to multiply your cost by 2 times (200%) to come up with a price for a medication. However, other non-prescription medications, herd purchased retail food-animal vaccines, etc. are generally priced lower at 150% since clients can easily go to feed stores or online merchants for these products. There are some products that client can order online cheaper than we can sell it for. This is fine. If we try to match those prices as individual veterinarians, we end up only breaking even or losing money. Our business lies in providing a service and skill that is not available through an online source. Creation of your own clinic online store is important. Clients can then order directly through this site. This also allows ordering of unusual products online so you do not need to have them sitting on the shelf, thereby increasing COGS.

Section 2- The Profit and Loss Statement-

The P&L is the sentinel of practice health. This statement provides us with the information necessary to assess income and expenditures in a practice that reflect the health of the practice. It gives us insight into areas where small improvements can make big differences in the bottom line. The 5 main areas to delve into are Gross Revenue, Payroll, Cost of Goods Sold/Cost of Professional Services (COGS), Rent and Net Income. These are the key players in deciphering practice sustainability. Nationwide benchmarks have been established for many of these, and small changes can lead to big results. In order to appropriately use these as indicators of practice health, certain parameters should be met. Most importantly, your Profit and Loss Statement needs to be accurate. The best way to ensure this is to utilize the AAHA Chart of Accounts, hire a veterinary specific accountant, and to ensure that business expenses stay business and personal expenses don't get mixed in. Although practices can differ (namely large animal and ambulatory practices), goals for a standard practice look like this:

- i. Gross Revenue- \$550,000.00-600,000.00/veterinarian per year (2018)
- ii. Net Income- \$10-20%
- iii. Payroll- 40-42%
- iv. COGS 20-22%
- v. Rent or mortgage- 4-6% if leasing, and 8-10% if owning

Section 3- Key Performance Indicators-

Key Performance Indicators (KPI's) are statistics that can be generated from client transaction data that have a predictive value of success, from a practice management perspective. Businesses may choose different KPI's based on their business philosophy, but changes in these can provide a basic measurement of how well we are doing our job. In veterinary medicine, using standard KPI's can help to measure against other practices. Common KPI's used include: 1) Annual revenue per Full-time Equivalent DVM, 2) Average Doctor Transaction (ADT), 3) Average Client Transaction (ACT), and Active clients per DVM per year. The most common of these is the ADT and ACT. The ADT is a nice measure of a doctor's success in diagnosing and treating a patient to its fullest, without including times when a client came to the clinic for retail items or prescription refills. These are only benchmarks and will not be the same for every practice. However, they are something to look at regularly and strive to improve over time. For example, if one doctor in the clinic has consistently lower ADT's, this may be an indicator that that doctor is not offering diagnostics, and therefore not practicing best medicine for that patient. These numbers are also important in calculating doctor compensation. Averages for these have been established by AAHA (AAHA Financial and Productivity Pulse Points 2018):

- i. Annual revenue per FT equivalent DVM \$530,805.00-574,639.00
- ii. Average Doctor Transaction (ADT): \$154.00 (Goal \$250-300)
- iii. Average Client Transaction (ACT): \$134.00 (Goal \$225-275)
- iv. Active clients per year per FTE DVM: 1,837

Another, less common, but as important KPI for veterinary practices are medical *Quality Care Indicators (QCI's)*. These are calculated by dividing the amount of money generated in a specific service area by the number of opportunities (invoices) to provide that service. Using QCI's allows for the practice owner to see the quality of medicine provided by veterinarians within the practice in a manner that is not dependent upon charges. In other words, it provides an indicator of quality of medicine practiced, regardless of how much you are charging. *Although not all clients can afford best medicine for their pet, it is our job to offer it, every time.* This means educating the client. Quality Care Indicators show quality of care and compliance. When written, they are written in decimal form rather than monetary. For example,

\$20.50 would be reported as 20.5. Comparing these ratios among the doctors helps to eliminate service gaps between associates. QCI's are calculated in 4 areas: nutrition, laboratory, imaging and dentistry. Recently, wellness has been suggested rather than nutrition since many clinics are no longer providing multiple diets for pets. Two types of QCI's are generally used:

- i.* Doctor opportunities- These include medical appointments, rechecks, surgical and dental.
- ii.* Hospital opportunities- These include tech/nurse appointments, grooming and boarding.