

Weathering the Economy
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Early this summer, Advanstar Research Services did a survey of veterinarians in which they asked them “How concerned are you about the state of the US economy?” About 25% reported they were extremely concerned, 46% were very concerned and 28% somewhat concerned. In July of this year, Wells Fargo/Gallup polled small business owners and found that 25% thought we were already in a severe recession with another 45% saying they thought we were in a mild recession. Almost 60% predicted the economy wouldn’t recover until the latter part of 2009 or even later. The news continues to get worse this week with the Dow dropping below 8000 for the first time in recent memory and the big 3 auto companies begging for handouts. Who knows what things will look like by the time you read this?

Veterinary medicine has always been considered somewhat recession proof, but is that true today? The National Commission on Veterinary Economic Issues (NCVEI) has released the Economy Tracker, its newest financial resource for veterinary practices. The Economy Tracker is designed to measure the impact of the economy on veterinary medicine by comparing gross practice revenue, transactions and average transaction charge (ATC) between 2008 and 2007. Approximately 250 practices have already entered their data and revenue growth in companion animal practices has averaged about 5% in each quarter of 2008 compared to the same period in 2007. This is less than half of the growth seen in practices in the last several years.

In order to access more detailed comparisons, your practice need only enter their monthly revenue and transaction information for 2007 and 2008. In addition to revenue changes, the Economy Tracker will also help your practice understand why the revenue is changing by analyzing transaction and ATC growth. Ultimately information will be available by practice type (companion animal, equine, etc) and for various demographics (region, state, etc.) A detailed “Recommended Treatment” section discusses strategies for successfully weathering the economic downturn.

So what are some of those strategies? When times are good, practices can have some inefficiencies and still have healthy earnings. Maybe the doctors don’t produce as much as they could or the staff spends some of their time doing things that aren’t really necessary. But no one worries about it too much because the bottom line is still good. However, when times are bad, this layer of fat can have serious consequences. The practice must work harder at promoting revenue growth and controlling expenses and productivity is essential. There has never been a time when it is more important to run your business efficiently and productively.

First of all, you must understand your practice’s true operating profitability—i.e. what’s left over after you subtract all normal and necessary operating expenses from the revenues. Gross revenues by themselves are a poor predictor of profitability. Unfortunately, none of the standard financial or management reports a practice usually gets, even when properly prepared, gives you an accurate calculation of true operating profitability. See the “What’s my bottom line” tool on the NCVEI website for help in calculating this number.

A lack of profitability either comes from revenues that are too low, expenses that are too high, or a combination of the two. The Economy Tracker also shows whether your revenue is changing because of a change in the number of transactions in your practice or the ATC or both.

If the number of transactions has declined, you will want to focus on getting more people into the practice more frequently. First of all, focus on the clients you already have:

- Review your medical records to determine where you're not doing such a good job in making appropriate recommendations to clients. For example, do you see that in 50% of the annual wellness exams, no fecal is performed?
- If you don't already own it, get a copy of "The Path to High Quality Care" from the American Animal Hospital Association (www.aahanet.org.) This book summarizes the results of the 2002 Compliance Study performed by AAHA with an educational grant by Hill's Pet Nutrition and gives practical tips for improving pet care in your practice. Better pet care leads to improved revenue and improved profitability.
- Train your doctors and staff to better communicate to clients the value of what you do. Not everyone is born with great communication skills but they can be acquired. See the NCVEI Communication Tools and the section called "Can you Communicate Effectively" for help in this area.

In order to bring more new clients into the practice, review your marketing plan.

- Make sure every client who comes to see you has a great experience—this makes them more likely to refer you to their friends and colleagues. You can't market what you don't have.
- Review your outreach efforts—yellow pages advertising, practice website, participation in community events. Are you getting the most out of your efforts?

If the problem in your practice is a decline or lack of growth in your average transaction charge, consider these suggestions:

- As discussed above, focus on client compliance and communication. These strategies will help improve ATC as well as transactions.
- Review your fees--it's not uncommon to see a practice that hasn't increased fees in two years or has only increased a few of them by a small percentage.
- Lack of attention to discounts and missed charges can also impact the ATC. Even a small amount of products or services given away by well-meaning doctors or missed by team members can significantly decrease revenue and profitability.

It is more important than ever to control your expenses in difficult economic times when revenue may be softer than usual. Focus on the most significant expenses first:

- Inventory control, is of course, vital to every practice and this is an area in which small changes can significantly impact profitability. Keep your inventory lean and mean.
- Review staff efficiency. A doctor's work life may be much easier and more personally rewarding with 3 techs trailing behind him or her during the day, but does this doctor actually produce more revenue with this additional support staff? Several NCVEI tools can help you improve in this area—see "Are you trying to do it all yourself?" and other related tools in the Human Resources section.
- Review doctor efficiency. The work life expectations of owners, associates and staff have changed dramatically in the past ten years. Productivity isn't always as high as it should be due to a decline in work hours or because the practice prides itself on being a "high touch" practice—spending more than the usual amount of time with clients. Practices can successfully operate this way but if there is not a strong correlation between the amounts paid to staff versus their work contributions or a correlation in the fees charged to clients versus the time spent with them, then profitability will suffer. Several NCVEI tools can help you see how your practice is doing in this area—see "Who is the top dog in my practice?" and other related tools in the finance section.

In addition to the big expense areas outlined above, good expense management is about paying attention to the details. Everyone laughs at the classic image of a practice owner who scurries around turning out the lights or fretting over how many paper towels are used, but reasonable frugality is key to expense management. How many Starbucks coffees need to be bought for the staff each week? Is it reasonable to offer health insurance at no cost to the employee? Is an outside cleaning service necessary or could that work be done by the kennel staff? The answers for each practice will be different, but most practices have areas in which money is being spent unnecessarily.

We're going to have to work harder now than ever to keep our practices on track, but veterinary medicine will weather this storm. Our profession offers something that people value and that's what we have to focus on and communicate to clients.

The National Commission on Veterinary Economic Issues was founded in January 2000 with a mission of raising the economic base of veterinary medicine. A wide-ranging group of benchmarking, pricing and communications tools are available, free of charge, at www.NCVEI.org. The Commission is a not-for-profit organization governed by a Board of Directors representing the three founding organizations: American Veterinary Medical Association, American Animal Hospital Association and the Association of American Veterinary Medical Colleges. Funding is provided by members of the NCVEI's Sponsor Council that includes Merial, Hill's Pet Nutrition, Veterinary Pet Insurance, Fort Dodge Animal Health, Bayer Animal Health, CareCredit, Simmons Educational Fund and the Western Veterinary Conference.