

Need more cash?

By Denise L. Tumblin, CPA

Too many veterinarians settle for a stagnant income. But you deserve fair pay for your expertise. Here are three ways to net more practice revenue and take home more money.

When AAHA, the AVMA, and the Association of American Veterinary Medical Colleges (AAVMC) commissioned a study to investigate the state of the veterinary industry, one key issue they uncovered was that veterinarians' income isn't growing. In fact, between 1995 and 1996—the years the study covers—income for practice owners and associates rose only 2 percent (Figure 1). “Stagnant real income is the most significant problem veterinarians face,” concludes the newly released megastudy, “The Current and Future Market for Veterinarians and Veterinary Medical Services in the United States,” conducted by KPMG LLP Economic Consulting Services.

The study also showed that income becomes more important to veterinarians over time. In response to KPMG's survey of veterinary students' and practitioners' attitudes, students and recent graduates ranked income seventh on a list of eight reasons for choosing the veterinary profession. But when the study asked practicing veterinarians to rank the attributes of their jobs, income came in 12th out of 19 in terms of importance for early-stage veterinarians and rose to second for veterinarians working in private practices. There's nothing like the reality of paying bills to elevate the importance of income.

The truth is that everyone wants a job to be financially rewarding—even if they chose the profession for other reasons. And stagnant incomes can spell frustration for experienced practitioners, and could impact the veterinary profession's ability to attract the best and brightest. After all, without adequate compensation, veterinarians can't repay student loans or save enough money to buy a house or buy into or start a practice. But there's good news: Stagnant income isn't inevitable.

Owners, associates, and staff members who work in veterinary hospitals that participate in our Well-Managed Practice™ Study earn much more than the incomes reported in the megastudy (Figure 2). How? Just as prac-

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tices “choose” clients, veterinarians choose their income levels. So it can be as easy—and as hard—as *deciding* to earn more.

Safeguard your income

Dr. Tammie Green, owner of Best Care Animal Hospital*, wanted to increase practice profit to enhance compensation for herself and staff members, support another veterinarian, and expand her facility. Like many practice owners, Dr. Green’s income hasn’t kept pace with inflation, and she asked our consulting firm to help identify ways to improve her income.

The first step: You’ve got to believe that your time, knowledge, and experience are valuable and charge appropriately for services. Not sure where to start? The old cost-based pricing strategies don’t fit most medical services today. Instead, use value-based pricing, and set your fees based on clients’ perception of the value of the service provided.

Keep in mind that many nonprice factors affect clients’ perceptions, including quality of service, location, accessibility, convenience, cleanliness, and long-term relationships. In fact, when asked to rate the importance of 12 factors when choosing a veterinarian, clients ranked price ninth, saying the veterinarian’s attitude, reputation, and range of services were more important.

Executive summary

Veterinarians’ incomes aren’t keeping pace with inflation, according to a survey commissioned by AAHA, the AVMA, and the Association of American Veterinary Medical Colleges. But you *can* increase your income using these three steps:

1. Value your time, knowledge, and experience. Many clients appreciate such nonprice factors as location, expertise, and a long-term relationship over the cost of your services.

2. Charge for every service. Veterinarians frequently give away services, which cheats the bottom line and denies the value of your knowledge.

3. Manage your expenses. To keep profit available to cover veterinary compensation and reinvestment in the practice, you must carefully monitor your practice expenses.

The key to raising fees without losing clients is to keep the price for services in line with the total value of the client’s visit. In other words, if team members at your hospital know the life history of every pet and client, show their affection and dedication, and make every visit pleasant, you may be undervaluing your services.

In fact, the AVMA megastudy found that pet owners who are

bonded to the practice won’t leave because of a cost increase. Researchers found that 74 percent of the clients surveyed agreed or strongly agreed that they would continue using their veterinarian if he or she increased prices by 10 percent. This shows that satisfaction and a good relationship often overshadow prices. “If pet owners are more concerned with quality of service, convenience, long-term relationships, and other nonprice factors, a price increase by an individual practice would cause relatively little loss of business,” the study reports.

The second step: Decide today to charge for every service you provide—and stop giving away your time and knowledge. In exam services alone, veterinarians *routinely* give away medical progress exams, extended exams, in-patient exams, and post-surgical evaluations. For clients to appreciate the value of an exam, you must charge for it. And failing to do so can make a big impact on your practice’s finances. For example, if you give away one \$24 medical progress exam and one \$24 in-patient exam every day for a year, you’ve lost about \$14,000 of revenue and profit. For more on charging for services, see “Pricing Strategies That Make Sense,” October 1999.

We analyzed Best Care Animal Hospital and, based on its \$37 exam fee, determined that Dr. Green’s average charge per doctor transaction should range from \$111 to \$126 (3 to 3.4 times the exam fee). After we discussed this, Dr. Green restructured her fees to more accurately reflect the level of patient care and client service provided. Using her exam fee as a guide, she increased fees for such value-based services as lab work and radiology. She also separated her exam and vaccination fees, in-

*This fictional scenario is based on actual cases.

Figure 1

Nominal and real income of veterinarians*

	1995 current	1996 real
Practice owners (median)	\$61,532	\$62,783
Associates (mean)	\$47,543	\$48,510

*Source: “The Current and Future Market for Veterinarians and Veterinary Medical Services in the United States” (Conducted by KMPG LLP Economic Consulting Services)

creased the standard markup on medication dispensed, and began charging for all medical progress and in-patient exams. Within six months her average charge per doctor transaction increased from \$97 to \$126, and practice revenue increased 25 percent.

The third step: Manage your expenses. There is a ceiling on how much you can charge for a service without losing clients. So you won't realize the maximum revenue gain simply by raising fees. Well-managed practices also monitor expenses so that the amount available for all veterinary compensation and reinvestment in the practice represents 36 percent to 43 percent of revenue, depending on practice type (Figure 3). If your operating expenses aren't in line with these guidelines, find out why (see "Why Are My Expenses High?" at right).

Dr. Green efficiently managed her fixed and facility expenses. Variable expenses were about \$20,000 higher than expected for the practice's medical revenue, but raising fees to the appropriate level brought these expenses in line. Dr. Green was charging too little rather than spending too much.

Another problem: Staff compensation represented 16 percent of total revenue, with a 1.8 staff-to-doctor ratio. This lack of support greatly impacted practice efficiency, doctor productivity, and client service. Well-managed companion animal practices enjoy an average staff-to-doctor ratio of 3.5, and practices with higher staff-to-doctor ratios typically enjoy higher average transactions.

To better leverage her support staff, Dr. Green decided to hire two additional employees. Although this move boosted staff costs to 21 percent of revenue, practice efficiency, doctor productivity, and client service improved. In addition, the amount available for vet-

erinary compensation and reinvestment now represents 42 percent of practice revenue, up from 38 percent before this change.

A different approach

Even if you already charge appropriately for every product you sell and service you perform—and face stiff

competition for new clients—you may be able to reduce expenses and boost your income. How? Consider a practice merger.

When two veterinarians practicing out of separate facilities combine their knowledge, resources, and time by merging their hospitals, duplicate spending for management, administration, market-

Figure 2

Compensation at well-managed practices in 1999

Owner compensation*

Companion animal	\$204,300
Beef	\$93,000
Dairy	\$100,800
Equine	\$147,000

*Includes veterinary salary, management fee, return on investment, and benefits.

Associate starting salaries*

	Companion animal	Beef	Dairy	Equine
Recent graduates	\$40,000	\$35,500	\$39,200	\$30,500
1 to 2 years of experience	\$46,000	\$38,200	\$42,500	\$35,900
3 to 5 years of experience	\$52,400	\$43,700	\$47,900	\$44,700
More than 5 years of experience	\$59,200	\$46,300	\$51,300	\$51,300

*Salary only, excludes other benefits.

Hourly rates for staff members*

	Receptionists	Licensed technicians	Veterinary assistants
0 to 2 years of experience	\$8.86	\$11.46	\$8.56
3 to 5 years of experience	\$9.09	\$11.70	\$9.17
More than 5 years of experience	\$10.96	\$12.40	\$10.91

*Salary only, excludes other benefits

Figure 3

Expense ratios at well-managed practices in 1999

	Companion animal	Beef	Dairy	Equine
Variable medical	21%	38%	33%	26%
Vehicle	—	1%	1%	3%
Fixed	7%	8%	8%	9%
Staff compensation	23%	12%	10%	12%
Facility costs	9%	5%	5%	7%
Amount available for veterinary compensation and reinvestment	40%	36%	43%	43%

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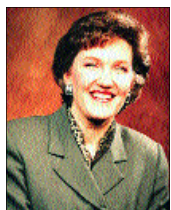
ing, equipment, and facilities stops and real income surges. For example, when two practices that each earn \$400,000 of revenue a year merge and eliminate duplicate spending, the savings could easily reach \$60,000 per year, giving each doctor an extra \$30,000 of income ("Is a Practice Merger in Your Future?" December 1996).

Of course, merging practices isn't a step you should take lightly. Things to consider: Do the doctors' philosophies regarding medicine, patient care, client service, and employee management mesh? Are the practices close enough to minimize the probability of another veterinarian opening a facility nearby? How will owners be compensated for their veterinary services, management duties, and ownership? What are the parameters and terms for dissolving the merger?

When a merger works, the individual hospital owners reap higher real incomes and increased practice values. In addition, they can afford high-tech facilities and equipment, better leverage unique knowledge and capabilities, and increase their availability to pet owners without extending their workweeks. A practice merger also solves the problem of succession.

You really can make your income grow, but only if you're committed to change. Clients will spend the money to support your practice—85 percent of survey respondents believe people are more attached to their pets now because pets are more like family members. So bite the bullet, make a plan, and start earning what your time and expertise are worth. **VE**

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Checklist

Why are my expenses high?

Once you've raised fees to an appropriate level, managing expenses can help you further increase your income. Investigate any expenses that are out of line, and learn ways to help your practice measure up.

EXPENSE	REMEDY
Variable expenses	
High purchase cost	Shop for the best price
Inadequate markup	Standard markup averages 125 percent to 150 percent
Low turnover/overstocking	Target eight to 12 inventory turns per year
Theft	Institute internal controls
Fixed expenses	
High purchase cost	Shop for the best price
Low overall fee structure	Bill appropriately for services provided
Inadequate client demand	Boost your marketing efforts to attract new clients
Lack of budgeting	Plan ahead to avoid overspending or emotional purchases
Staff compensation	
Too many part-time employees	Hire more full-time staff members to maximize efficiency
"Minimum-wage" employees	Choose a caliber of employees that will boost practice efficiency
Lack of supervision and training	Hire good staff members, then provide adequate training and supervision
Turnover	Pay a competitive wage, provide valuable benefits, and value their input and contributions
Facility costs	
Underutilized facility	Expand your hours or the number of doctors or staff members
Inadequate client demand	Boost your marketing efforts to attract new clients
Community economics	Investigate the cost of living and other factors that may drive up the rent, utilities, and taxes. But keep in mind that there's no real remedy—you can't control this factor.