

Financial Efficiency



Pricing is more important than cost control because pricing is unlimited while cost control is not.

8 ways to keep you from being behind the 8-ball

by Carolyn C. Shadle, PhD, and John L. Meyer, PhD

This article is the fourth in a series of four to help build efficiency in your practice.

“I entered the profession when the primary goal was to assist the patient and the client. The new business model is to run your business as a business, which may not always be in the interest of your client. I know I’m a dinosaur. But I’m lucky. I graduated when tuition was low with no student debt. I purchased my practice in a small town where expenses were also low. What would I do if I were to graduate now?” So said John, a longtime veterinarian.

Times have changed. “If you don’t pay attention to the financial side, you can’t stay in business to provide animal care.” So said Denise Tumblin, president of Wutchiett Tumblin and Associates, which annually authors resources for veterinary financial management.

Check yourself on these eight things to consider when managing the financial side of your business:

1. Understand the concepts of profitability and benchmarking

“Do you have enough money to buy the new software system you are considering? Can you afford the benefits

you are offering the staff? Are your services paying for themselves?

You may have areas of productivity, even increasing productivity, but productivity reflects revenue without considering costs. Your goal is not simply productivity, but profitability—having a positive balance after expenses are paid, which leaves enough in reserve to buy the new software system, or the benefits, or...

The big questions are: Is your practice profitable? And how profitable?

When you look at your revenue and deduct your expenses, is there a positive net? If so, that might seem like good news.

“Not so fast,” says Karen Felsted, CPA, DVM, owner of PantheraT Veterinary Management Consulting. Felsted points out, “Your profit and loss (P&L) statement doesn’t show your profitability. For example, your interest expense, while deducted as an expense, is not an operating cost and shouldn’t be included when calculating profitability. On the other hand, some expenses, like the owner’s draw, may not be included as an expense in your P&L—or the owner may be taking less than fair market value. Also, you may have volunteers or the owner’s spouse who contribute time and expertise. Their contributions must be considered at a fair market value before you know how profitable you are.”

When you calculate your profitability (not your net) and then divide your profit by your total revenue, what do you get? What should you get? “If you get 20 percent, that’s fantastic,” says Felsted. “If it’s only 6 percent,



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—KAREN FELSTED, CPA, DVM

that’s not so good. But, whatever the number, it is useful information.”

As you continue to update your business, it is important to know what kind of return you will get when you invest in new equipment. Wutchiett Tumblin and Associates provides an equipment payoff worksheet, which calculates the cost of the equipment and an estimate of the number of times it will be used in a year, allowing you to know how long it will take to recoup your investment. For example, Tumblin points out that, if calculating the use of a new digital radiography machine purchased for \$80,000 to \$90,000, you may find that it will take 3 to 5 years to pay off.

Can you afford that, or should you look at something with a more rapid payback?

Mark McGaunn, CPA/PFS, CFP, with McGaunn & Schwadron CPAs, urges veterinarians to look even further and compute a longevity index, referred to as a Financial Strength Index (FSI). Such a number can help you determine whether, along with your profitability, you have enough to weather a rainy day or to invest in the future. The FSI, based on about 10 calculations including your margin, your daily cash on hand, age of your facility, and your financed debt, can be computed by your professional accountant.

When you're trying to get closer to that 20 percent number, you will want to look at a host of revenue sources and expenses.

You might start with a community survey. Wutchiett Tumblin and Associates urges its clients to make anonymous calls as prospects to the practices in their community, inquiring about their charges for vaccinations and other elective procedures. The bonus of this research, says Tumblin, is what impressions the researcher gets of those practices based on how they answered the phone.

Another efficient way to know whether your figures are appropriate for your practice is to refer to useful resources, such as *Financial & Productivity Pulsepoints*, published by the American Animal Hospital Association. Another is *Benchmarks 2013: A Study of Well-Managed Practices*, published by *Veterinary Economics* and Wutchiett Tumblin and Associates.

The first, *Pulsepoints*, provides a picture of a "typical" hospital. Data are reported according to number of veterinarians, practice revenue, AAHA member status, and the number of years a practice has been in business. You'll see not only the average statistics, but also the median and the 25th and 75th percentiles. Explanations of the statistics are included to help you understand what steps to take to improve your practice. Benchmarks are provided for productivity, revenue, expenses, and other must-have data, such as frequency of fee increases.

The second resource, *Benchmarks*, draws from a handpicked group of 100 "well-managed" practices. It

evaluates how owners and teams know when to spend and when to cut back. In addition to an analysis of fees, revenue, and expenses, the topic of communication is apparent in each chapter. How well care is delivered is related to the ability to convey the medical needs of the patients and the ability of the client to understand. To that end, tools and tips are included throughout.

2. Monitor revenue sources and expenses

You must monitor an array of revenue sources and expenses, most efficiently gathered in your practice management software.

Wendy Hauser, a member of the AAHA Board of Directors and a facilitator for AAHA's North American Business Association (NABA), draws from *Pulsepoints* and recommends a minimal list of benchmarks to be monitored monthly:

- Average hospital transaction
- Average doctor transaction
- The number of transactions per month
- The monthly hospital gross
- The monthly associate gross
- The number of new clients

She points out that regularly monitoring this data will enable the leadership team to be aware of trends and know when to get advice.

Leslie Mamalis, with Summit Veterinary Advisors, LLC, is one of the authors of *Pulsepoints*. She recommends that all practices look beyond total gross fees, payroll, and the bank balance to instead review key performance indicators (KPI) each month. Look first at three key revenue numbers:

1. Total gross fees
2. Total gross by doctor
3. Client accounts receivables

Then, turn to your largest expenses that will have a major impact on profitability and cash flow:

- Cost of drugs and medical supplies
- Laboratory expenses
- Total cost of professional services
- Total doctor and staff compensation
- Benefits
- Facility rent

3. Develop efficient strategies to manage your inventory.

It is likely that a large part of your business relates to your inventory—including the products you need to provide care to your patients as well as products that you carry to provide a convenient retail service for your clients.

Lindsay Peltier, LTV, hospital administrator at Centerville Animal Hospital in Chesapeake, VA, has given a lot of thought to managing inventory finances and says you must start by appointing someone to manage inventory who has passion, education, and time.

Kathryn Kennedy, LVT at Thumb Veterinary Services in Sandusky, MI, is one of those people. She recalls, "Three years ago, I was given the task of inventory management within our practice. This job was given to me with a 'good luck with that...' attitude. The significance of managing the second highest expenses to the practice was not lost on ownership and management. However, it is a

time-consuming and often undesirable task (lucky me). My greatest challenge is finding the time to give inventory the attention it deserves. Slowly, I learned more about it through various continuing education programs and [by] brainstorming with my coworkers. I've grown to enjoy it."

She says she is continually learning and trying to grapple with the complex operation. "None of us are perfect, and mistakes are bound to happen," she says. "Efficiency is gained if I can catch errors within a short period of time, identify them, and come up with a solution to decrease the chances they happen again. If a missing product is caught

within a week of the error occurring, the likelihood it points to where the error happened is much greater than it would be one-plus months out."

Abby Suiter, practice manager at Daniel Island Veterinary Hospital in Charleston, S.C., puts it this way: "Accepting the idea of shrinkage—it drives me crazy! It's difficult to successfully track every inventory discrepancy. Was it a missing charge? Waste? Incorrectly received? Stolen? Too often I have to accept that we have less (or more) on hand than the computer says we should, adjust, and move on."

Mary Brookings, RVT, CPhT, is an inventory management consultant

with MWI Veterinary Supply who offers AAHA-sponsored webinars on inventory management. She suggests an efficient process for controlling your inventory, which she calls the ABC Analysis: A items, which are the big-ticket items (by price or turnover), are closely monitored weekly; B items are counted monthly; and C items, the smallest, are counted quarterly.

Kennedy follows this system and says, "If at any time my counts are showing large amounts of loss, we increase the frequency of counts. During flea and heartworm season, those products are counted almost daily. This has drastically cut down on the amount of product loss we are seeing."

To be more efficient, Kennedy has the whole team engaged in inventory. "I ask the staff to participate in daily counts. We try to share the workload so that no one person is stuck counting over and over again. Splitting counts up into small, manageable sections allows the job to be done quickly, which is critical in a high-paced veterinary hospital.

"It is crucial to track the amount of loss you are seeing at your practice. Very rarely do we just adjust the quantity on hand. Adjustments can't be tracked. In [our software] we have a profit center called 'loss.' If I am missing product, I remove it as in-house use for the 'loss' center. This enables us to track the dollar amount of products we are losing while, at the same time, correcting my quantity on hand. With a little brainstorming, every system should be capable of tracking loss. Putting a dollar amount to inventory loss is a sure-fire way to get everyone's attention and cooperation."

Resources

Financial & Productivity Pulsepoints: Vital Statistics for Your Veterinary Practice, 7th edition, with contributions by Lorraine Monheiser List, CPA, CVA, and Leslie A. Mamalis, MBA, MSIT, published by AAHA Press, press.aaaha.org.

Benchmarks 2013, A Study of Well-Managed Practices, focuses on statistical targets and fees, published by Wutchiett Tumblin and Associates, wellmp.com.

Benchmarks 2014, A Study of Well-Managed Practices, focuses on time management, mentorship, marketing, and affordability of care, published by Wutchiett Tumblin and Associates, wellmp.com.

Another excellent opportunity to explore efficiencies is through membership in AAHA's North American Business Association (NABA). This group gathers geographically diverse practices to meet and share twice a year. Practices learn by sharing operational and financial information with the goal of improving overall performance, morale, and, of course, the bottom line. Visit aahanet.org/Membership/NABA.aspx to learn more.

For more information about EMR, see "Switching to the Long-handled Shovel," by Carolyn C. Shadle, PhD, and John L. Meyer, PhD, in *Trends*, May 2014.

Wendy Hauser and Debbie Boone, *A Veterinarian's Guide to Healthy Pet Plans: How to Design, Implement and Measure Your Way to Preventive Care Plan Success*, available at dboone2managevets.com.

Like any business that has inventory, yours has to create a “retail environment.” Brookings acknowledges that your primary mission is pet care, not building a retail environment like that of the big-box stores. “However,” she says, “since you are, in fact, providing a retail convenience for your clients, you want to do retailing the right way and learn about merchandising. This involves pricing and displaying. For example, since you stock certain medications, like ear wash, why not bring them out where your clients can see them and know that these items are available from you?”

4. Secure the proper tools

When it comes to managing your inventory efficiently, good practice management software can make inventory so much easier. “Unfortunately,” warns Kennedy, “just having good software isn’t enough. The software needs to be properly set up in order to handle the job with accuracy. Having someone in the practice who can take the time to review all your inventory and service codes will ensure that your software isn’t actually working against you.... It can streamline the ordering process, reduce overstock, increase profitability, and reduce shrinkage.”

If you have electronic medical records (EMR) software to capture information about your patients and their health care, your software probably has the capacity to manage financial data: product costs, client charges, invoicing, inventory stock and usage, taxes, markups, etc. Brookings says many practices fail to use all the practice management software features. Don’t be one of those practices! Beyond that, she says, most vendors have tools that will piggyback on your

software. Take advantage of those to help you create orders or count your products. In some cases, additional features can be secured or a financial management package, such as QuickBooks, can work in tandem with your EMR. Whichever way you go, you will find that having a central, electronic depository for your data will enable you to access the numbers you need most efficiently.

“You have to bring the numbers together in one place so you don’t spend time looking for the numbers rather than actually reviewing them,” says Mamalis.

Your single largest expense is more than likely payroll, and it should be tracked carefully. Mamalis recommends QuickBooks as the best accounting package for veterinary practices to use. “It’s easy to learn, easy to use, and provides practices with the reports they need to manage the business,” she says.

After practice management software, Kennedy says, “My second favorite investment has been a pill counter. No one likes to sit and count pills for hours on end. Our pill counter has been a life-saver. Initially, I thought the pill counter would be used for inventory counts, but the staff uses it frequently to fill prescriptions as well. With the pill counter, you don’t have to worry about being interrupted or losing your place when counting. We all love it.”

5. Review your revenue sources

Many practices resist considering new sources of revenue because it often means also increasing expenses. To that McGaunn responds, “You’d rather have 60 percent overhead expense

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“Revenue generation per veterinarian is a significant predictor of practice profitability.”

—LESLIE MAMALIS

with \$1.5 million revenue than be a practice with 50 percent overhead and only \$1 million in revenue.” He goes on to say that almost any practice in financial distress can be traced back to a revenue problem, not an overhead program. He believes that pricing is more important than cost control because pricing is unlimited while cost control is not.

What options do you have? Consider these tips:

- Evaluate each doctor’s production compared to his or her compensation. According to Mamalis, “Revenue generation per veterinarian is a significant predictor of practice profitability.”
- Raise your staff/DVM ratio.

- Consider using more than one exam room at a time per DVM.
- Ensure that your practice’s highest-paid employees are spending as much time as possible on the thing that actually earns the practice money: patient care.
- Increase the number and complexity of patient encounters from new patients.
- Perfect the art of delegation (with a well-trained staff).
- Add labs, imaging, lasers, and ancillary services. But, McGuann cautions, “Be sure they dovetail with your practice’s current services, meaning that you have the time, equipment, and marketing to make the new service a

success. Whatever it is that you do, you want to be fantastic at it, and you need the systems and people in place to handle added business.”

- Offer a wellness plan. In its “Veterinary Care Usage Study,” Bayer Healthcare Animal Health division identified what it called the “sticker shock” problem and pointed out that there is demand among pet owners for monthly payment plans.

This is a hot idea that Hauser and co-author Debbie Boone, BS, CCS, CVPM, of 2 Manage Vets Consulting, have described in an ebook on the subject, titled *A Veterinarian’s Guide to Healthy Pet Plans: How to Design, Implement and Measure Your Way to Preventive Care Plan Success*. Hauser says, “Wellness plans are a powerful vehicle for increasing patient visits and revenue, when thoughtfully and carefully constructed... but [are] not an appropriate business decision for all practices. These plans are basically loyalty plans. Where they work well are in practices that have low new client numbers, also in practices that have decreasing patient visits and increasing competitive pressure. They are typically a compilation of preventive care recommendations and, as such, have the added benefit of increasing compliance and promoting proactive pet health care.”

One variation is a proactive approach designed by Foothill Animal Hospital in Lake Forest, Calif., in collaboration with Rethink Veterinary Solutions. According to Dee Allen, RVT, CVPM, the hospital offers clients an annual Wellness Reward Card membership for \$80 per year, which includes two examinations and redemptions for future services.

Liane Ehrich, CVT, hospital manager at Ventana Animal Hospital in Tucson, Ariz., is excited about their new policy. She said they had pretty good compliance with vaccines but not with regular, biannual (every 6 months) well-care visits. About 800 of their 1,500 clients were coming in only once per year. It is well understood that declining veterinary visits lead to ill-informed owners, which leads to preventable disease numbers rising. “We want to break this cycle,” Ehrich says. “For all its seeming briefness, a physical exam is a very detailed look at our clients’ pets. So we have decided on a radical new approach. We will reward those who come regularly by offering free core vaccines for life. There is a minimal one-time enrollment fee of \$29 per pet, and as long as the clients keep bringing

their pets in for biannual exams, they will never pay it again. We are putting up little hearts all over the building with the names of pets who are enrolled to create buzz and a sense of specialness.”

Steve Maughan of Veterinary Practice Profits suggests adding value to this concept by offering breed-specific wellness plans.

Before you embark on a wellness plan, talk with those who have gone before, listen to an interview with Dr. Karl Salzsieder on CD from Veterinary Practice Profits, or read the ebook from Hauser and Boone.

When considering the multitude of revenue opportunities, Suiter reminds practices of a common problem: “Staff

have a terrible tendency to devalue their work and deflate when facing pushback on charges.”

6. Scrutinize your billing

- Review your client billing. On a busy day, staff may fail to mark a care that is provided on the circle sheet or on the hospital white board. If you use practice management software, you will lose fewer charges, but you may find that staff are not well versed enough in all the functions of the software. Denise Tumblin, CPA, president and owner of Wutchiett-Tumblin, advises that you also look at your processes. Is there a glitch when it comes to capturing costs, such as waiting until hospital discharge before recording all the costs?

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- Update your fees—more often than annually. Identify areas where gross fees are lower than expected. (For example, Mamalis says, it might be from not promoting senior pet care.)
- Formalize your collections procedures in writing, so they are not lost when key staff members leave.
- Improve your insurance company collections.
- Monitor your accounts receivable regularly.

7. Reduce your expenses

Payroll is often a practice's biggest single expense. Reviewing *Pulsepoints* or *Benchmarks* can help you determine if your payroll costs are appropriate for your practice. Suiter says her practice budgets human resource costs at 38 percent of revenue for all W-2s. "This includes management salary and the owner's commission for veterinary work. It does not include the 1099 groomer or mobile specialists. Total human resources are benchmarked at 50 percent of revenue," she says.

Your P&L statement will tell you which expenses are small, such as utilities, and might be worth shopping for cost.

As for distributors, Peltier cautions practices not to get trapped using only one or two. Maintain a good relationship, but shop for prices, she advises. Brookings of MVI admits that distributors would like to be your sole source and suggests that you establish a relationship based on value, service, and price with one vendor for at least 80 percent of your stock and with a secondary vendor for the other 20 percent. She points out that your staff members must be realistic and

not waste time shopping just to save 15 cents.

When it comes to your reference laboratory, Peltier says that staying loyal to a single reference laboratory will mean better, more efficient service.

8. Practice doing business with a budget

A budget is a planning tool that provides a guideline for decision-making. Without a budget, you run the risk of spending more than you should or perhaps not spending enough to grow your practice. With a budget in place, you will be able to efficiently identify strengths, weaknesses, and what is normal.

Mamalis says, "I wish I could say most practices have budgets, but probably only 10–15 percent of practices have a budget that they actually use as a management tool. They need to review it monthly, using the budget to identify where the differences are, and take steps to get back on track when necessary."

Mamalis recommends that practices build a budget that aligns spending with industry standards where appropriate. This means reviewing benchmarks and determining whether to accept that "standard" as a goal for your practice.

With a budget in place, you can measure progress toward achieving your goals, ensure that you keep the right amount of cash on hand, hopefully build up an emergency fund, plan for short-term borrowing, and identify and address potential problems before they arise.

Even with a budget, Mamalis cautions, "Merely setting a budgetary goal

does not ensure widespread change. If you historically spend 6 percent on laboratory expenses, merely budgeting it at 4 percent will not bring your lab costs down. You may need to change your ordering patterns, switch vendors, modify pricing, do more staff training—or any combination of these. It won't happen just because you put some numbers on paper."

Doing it efficiently

Whether it's your general financial management or your inventory control, efficient management depends on being committed to the business side of veterinary care, developing the know-how, securing the right tools, and hiring staff with passion.

With these in place, you can move from a concentration on financial management to a focus on medicine and feel secure that the practice will live on. ✨



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