

VETERINARY **focus**

Special edition

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Contemporary issues in practice management



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From left to right: Philippe Baralon, Antje Blättner, Karen Felsted and Pere Mercader

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Phylum acts as a veterinary corporate consultant in the areas of companion animal, equine practice and animal production.

Philippe's primary areas of competence are strategy, marketing and finance. He also focuses on benchmarking the economics of veterinary medicine in different parts of the world.

Philippe is the author of some fifty articles on veterinary practice management; he also designs training sessions and gives lectures in France and abroad.

Antje Blättner

Antje graduated from Ludwig Maximilian University in 1988 after studying veterinary medicine in Berlin and Munich and currently practices part-time in a small animal practice.

After working as an instructor for veterinary nurses, she started giving lectures to German veterinarians and veterinary nurses on client communication, marketing and other management related topics.

In 2001, she took part in a post-graduation course on training and coaching at the University of Linz, Austria and founded Vetkom with her colleague Dr. Wolfgang Matzner. Vetkom is a company dedicated to educating veterinarians and veterinary nurses about practice management through lectures, seminars and in-house training.

Since 2005, Antje has been the editor of "Tierärzthelfer konkret", a German professional journal for veterinary nurses.

Karen Felsted

Karen graduated from the University of Texas at Austin with a degree in marketing and also has a master's degree in business. She spent 12 years in accounting and business management, six of it with Ernst & Young. In 1992, she began her veterinary education at Texas A & M University and graduated in 1996. She practiced both small animal and emergency medicine on a full-time basis while maintaining a veterinary accounting and consulting practice. In 1999 she opened and became Manager-in-Charge of the Dallas office of Owen E. McCafferty, CPA, Inc., a national public accounting firm specializing in tax, accounting, and practice management services for veterinarians. During this time she received her Certified Veterinary Practice Manager certificate.

Karen also spent five years with Brakke Consulting, Inc., an international animal health consulting firm. In June 2008 she joined the National Commission on Veterinary Economic Issues (NCVEI) as Chief Executive Officer.

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Pere Mercader

Pere spent ten years in different marketing management and marketing research positions in a global pet care corporation.

Since 2001 he has been an independent practice management consultant, providing business advice to a number of Spanish and Portuguese veterinary centers.

Pere has also contributed to the design and analysis of profitability and pricing studies in the veterinary profession. He currently coordinates the Marketing and Strategy modules of the Veterinary MBA course organized by AVEPA (the Spanish national veterinary association) and the University of Barcelona (UAB).

Pere is also the founder and managing partner of Veterinary Management Studies (www.estudiosveterinarios.com), a market research firm specializing in the small animal veterinary practice channel. Pere Mercader is a veterinarian, and has a master's degree in business administration and has also completed a doctoral program in management and economics.

Introduction



A changing role for veterinarians

The increasing attention paid by pet owners to the health of their four-legged companions is driving the evolution of veterinary practice towards more sophisticated therapeutic procedures as well as improved preventative care.

The veterinarian is also evolving from doctor and surgeon into a new role as business leader; managing people and new services to protect the health of animals. Nutrition plays a growing role in this practice.

In response to these changes, Royal Canin has asked four specialists in practice management to prepare this Focus special edition to share their knowledge and experiences in veterinary clinic management from a technical, human and financial standpoint.

I hope you will enjoy reading this edition and will be convinced of Royal Canin's determination to add value to veterinary practices as both a scientific and economic partner.

Jean-Christophe Flatin
CEO
Royal Canin

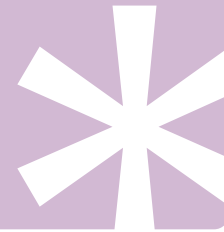
A handwritten signature in blue ink, appearing to read 'J.C. Flatin', is written on a light-colored background.

1. Key strategies to improved employee management

> SUMMARY

In this section, we'll focus on four tips that can help you improve in human resources:

- Know what your employees want.
- Use a hiring checklist to choose the best person for the job.
- Evaluate behavior, not people.
- Maintain internal parity in compensation.



Many small businesses, including veterinary practices, don't do a very good job of managing their employees. A study done in the United States, the 2004 AVMA-Pfizer Business Practices Study (Cron, 1998) clearly demonstrated that most veterinarians don't engage in the business behaviors necessary for successful employee management. For example, only 40% of the study respondents have strategies in place to promote employee longevity and only 27% measure employee satisfaction. The study also measured the usage of very basic employee management processes and found that only 36% of the respondents had formal hiring criteria and a hiring process in place, just 40% of the respondents had written job descriptions in their practices and only 29% did annual performance evaluations. The results of this study also showed a clear correlation between strong employee management skills and financial success in a practice.

The owners of these businesses have very strong technical skills (*i.e.* medical and surgical skills) but don't have the business knowledge or interpersonal skills to most effectively run a business. These businesses are too small to hire specialized human resource managers and often function with a partner or just one all-around

manager in charge of all aspects of the business, including finance, marketing, human resources, and other aspects of operations. These managers are often promoted from the medical ranks and have no management training. Building a high-quality team and keeping them happy and motivated is a difficult task. However, owners and managers CAN obtain the skills necessary. Most people aren't born knowing how to do these things. They are learned skills just as is performing an ovariohysterectomy or putting in a catheter properly.

1/ Keep in mind why management is important

Why is effective employee management important? It is critical to employee retention. Without employees, veterinarians will not be able to offer the high levels of medical and surgical care that they wish to, nor will they be able to provide the kind of client service that keeps clients returning to a practice and allows the business to prosper financially.

Losing employees is also expensive. Some of these costs are obvious: the time and money it takes to recruit, interview, hire and train a new employee. But it's the indirect costs that are the most expensive—lost productivity both before and after the employee leaves, the disruption to operations, client loss due to poor service and the emotional and physical toll on employees still at the practice who are trying to fill in for the staff shortage. It is estimated that the cost of losing an employee is somewhere between 1/3 and 2 times the cost of the employee's annual salary. Depending on the position lost, this could be anywhere between \$10,000 (1/3 of the cost of a technician [veterinary nurses are called technicians in the United States] making \$30,000 per year) and \$200,000 (twice the salary of a veterinarian making \$100,000 per year) in the average US veterinary practice.

Employees don't usually leave for more money or better opportunities. Instead, they leave because of poor leadership and management - *i.e.* ineffective hiring, little to no training, unreasonable expectations and no concern about what the employee wants to gain from the employment relationship.

Outlining all of the skills and strategies necessary to lead and manage employees effectively isn't possible in a short article. However, listed below are four effective techniques to integrate into your practice.

2/ Know what your employees want

The most critical step in retaining good employees is to know what they want. The days are gone when all that mattered to employees was having a job (any kind of a job) and getting a regular paycheck. The employee-employer relationship is now an equal one and employers must offer more than money to keep the kind of staff they need to effectively run the practice.

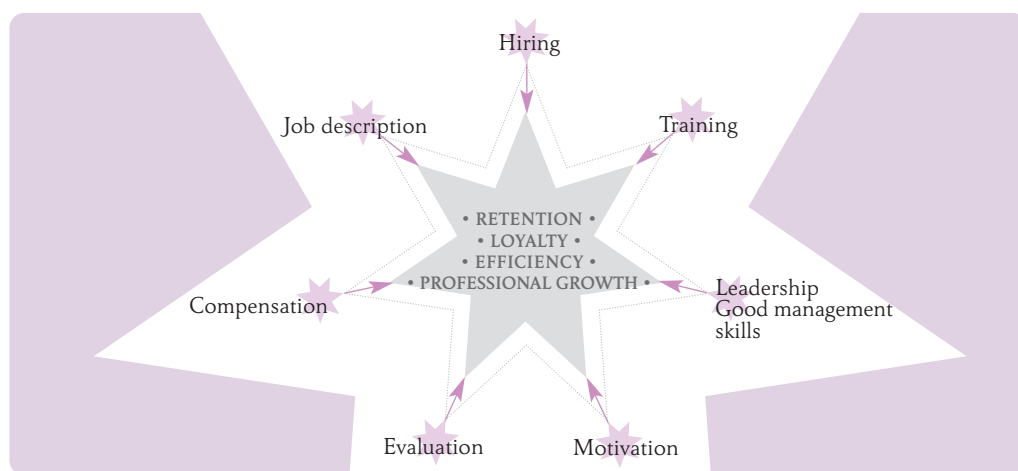
Unfortunately, employers frequently don't know what employees want. Kenneth Blanchard (author of *The One-Minute Manager*) surveyed 10,000 employees about what made them satisfied with their jobs. He also surveyed managers and supervisors as to what they thought made employees satisfied with their jobs. Interestingly enough, the answers were very different.

The truly remarkable finding from this study is that the top three items on the employees' list were the last three items on the employers' list.

Therefore, employers need to remember:

- What you want is not what everyone wants.
- Don't assume you or your managers know what employees want.

Key components in HR



Employees listed the top five components of job satisfaction as being:

- 1) Appreciation of work done
- 2) Feeling of being “in on things”
- 3) Help with personal problems
- 4) Job security
- 5) High salary or wages

Employers thought the things that made employees satisfied were as follows:

- 1) High salary or wages
- 2) Job security
- 3) Promotion in the company
- 4) Good working conditions
- 5) Interesting work

(From K Blanchard)

- Employees have a wide variety of motivators.
- The best way to find out what employees want is to ask them.

3/ Use a hiring checklist to choose the best person for the job

Effective hiring is difficult. The president and CEO of a large American craft store company once said about their holiday hiring program “If the person came in and filled out the application, we basically hired them unless they were followed by a policeman.” While veterinarians often feel this same level of desperation when looking for good employees, it isn’t the way to get the ones who will truly be an asset to your practice.

The hiring process fails for one or more of the following reasons:

- The owner/manager doesn’t really understand the position they are hiring for.
- They don’t understand the culture of their practice and who would be a good fit.
- They don’t get enough information about the applicant.
- They focus only on technical skills as opposed to interpersonal skills when making a hiring decision.
- They don’t remember enough information about each candidate after the interview to make an intelligent decision.

A hiring checklist helps those doing the hiring insure they have completed all the steps necessary to pick the best person. The checklist also improves consistency in treatment amongst applicants which is important both for legal protection and effective comparison of the applicants before making a hiring decision. The checklist should be completed for each applicant. Items to include in a hiring checklist are listed below:

- Basic employee information—name, job interviewed for, interview dates.
- Application process:
 - Did you obtain an application?
 - Did the applicant fully complete the application? Was it neatly done? Did it contain misspellings or obvious errors?
 - Did you obtain a resume? Was it neatly done? Did it contain misspellings or obvious errors?
 - Are there frequent gaps in unemployment? Frequent job changing? Lack of career progression?
 - Did the applicant sign and date the application?
- Interview:
 - What questions were asked of each candidate? What were the replies?
 - Could the applicant adequately explain why they left previous jobs?
 - 90% of the questions asked should be asked of all candidates—this reduces the likelihood of discrimination accusations and allows for comparison of answers across candidates—the other 10% of the questions will generally be individually focused and are follow-ups to information on the resume or job application.

- Reference process:
 - Were all references checked?
 - Was the information consistent with what the applicant said or put on the application/resume?
 - What did the references say about the candidate?
- Background check (to the extent allowed by law):
 - Was education verified?
- Summary of significant strengths and weaknesses in the areas of technical skills, interpersonal skills and work experience—this information will come from the resume, job application and interview—comments might include: “4 years experience as a receptionist in a large veterinary hospital”, “no previous experience in veterinary medicine”, “Able to answer questions clearly and succinctly”, “Did not answer questions asked—wandered off to another topic”.
- Other observations from phone conversations and interviews—for example “Mumbled on the phone—difficult to understand” or “Dressed neatly and professionally”.

Capturing, on paper, the same information about each employee will help the person doing the hiring remember more about each applicant and compare them objectively. The comments made on the applicant evaluation form should be factual, not opinions. This will help you make the most objective hiring decision and will also help protect you from legal claims. Nothing should be noted on this form that you would be embarrassed to have read aloud in a court of law nor

should any comments be made about factors that cannot be legally considered in the hiring process. Employment law varies dramatically from one country to another and you should be familiar with the recommendations in your country regarding legal hiring and appropriate documentation.

4/ Evaluate behavior, not people

Very few managers or employees enjoy the employee evaluation process whether involved in quick, informal assessments or the more formal annual performance appraisal process. In general this is because very few of us like to give or receive criticism. The content of the comment is critical but the success in effecting change will be more dependent on how the comment is presented rather than on the content.

Most individuals can take criticism regarding how they performed a particular task. Very few of us handle criticism regarding our basic personalities or character traits well. All communication, whether with colleagues, supervisors, friends or families will improve if you remember to evaluate behavior and not people.

A hiring checklist will help you to make sure you are picking the most suitable applicant.



Corrective comments should always be made to the employee in private.



For example, John is your kennel employee. He isn't doing a very good job of letting the doctors in the practice know how the boarding animals are doing. You tell him: "John, you have no initiative. You simply must improve in this area. I'm getting tired of coming back here and finding boarders who aren't doing well." This is not effective. John will feel personally attacked and immediately start looking for examples of how he has displayed initiative. He also has no idea of what you really want him to do.

A better way to communicate the comment would be: "John, you're not doing a good job of letting the doctors know when a boarding animal is not eating. We need to know this immediately so we can determine if the pet is getting sick."

John may not like to hear that he isn't performing up to par but he will react much better to this comment than the first one. He hasn't been attacked as a person and there is a clear message about what he needs to do in order to improve.

This strategy also works well with positive comments. For example, you might tell Rachel that you are so pleased with her work because she is so cooperative. Naturally Rachel will be thrilled with the compliment because we all like to hear ourselves praised. However, she doesn't really know what she is being praised for and doesn't know what behavior to repeat in order to continue doing well. A better way to phrase the comment would be: "Thank you Rachel for pitching in and helping the receptionists when you've finished running the lab

Positive feedback can be delivered in public.



work. It really makes things run more smoothly in the afternoons when we are always so busy."

Remember too, that corrective comments should always be made to the employee in private. The only exception to this would be to stop behavior that is going to immediately result in the death or injury of an animal or a person. On the other hand, positive feedback should always be delivered in public. Not only does this enhance the pleasure the receiver of the compliment gets but it motivates others to behave likewise.

5/ Maintain internal parity in compensation

Nothing de-motivates people more than seeing others who perform worse than or comparable to themselves make more! And it is very easy for this to unintentionally happen in a practice. For example, one technician got hired two years ago at \$10.00 per hour. She has had two raises since then and now makes \$11.50. But when the practice goes to hire a new technician this year, they realize they can't get anyone for less than \$12.50 per hour. So they pay it. But the two technicians have equivalent skills and actually the first technician is currently more valuable to the practice because she has been there a couple of years, knows where things are kept, who the clients are, what the routine is, etc. Is it really fair to pay her \$1.00 an hour less? And do you really think she won't find out?

Incentive-based compensation systems: a word of caution

What is the best way to pay the staff of a veterinary practice? Is there a fair, efficient and motivating way to compensate personnel? Why do some people clearly respond better than others to the same incentive scheme? Why do variable incentive systems sometimes create conflict in the workplace?

These and similar questions reflect one of the most common problems described in the management literature: the difficulty in aligning the interests of a business owner with those of his/her employees. Compensation systems are powerful tools for modifying our staff's behavior, both negatively and positively: a poorly designed incentive system is much worse for a veterinary practice than no system at all.

Two important considerations to keep in mind with respect to these systems:

- ❖ Unless the practice has a formal evaluation system in place, it should not consider variable compensation: Many veterinary practices pay variable incentives to their veterinarians without conducting a formal performance evaluation. It does not make sense to compensate for results without objective and structured employee evaluation. We must define, in writing, individualized objectives for our key staff, and meet with

them periodically (twice or three times a year) for evaluation. Incentive compensation should be the natural result of performance evaluation. The contrary may be perceived as whimsical, ad hoc management decision-making, and is a disincentive to effort. Without a good staff evaluation system in place, it is unwise to implement a variable compensation scheme.

- ❖ If the practice decides to use a compensation system based on incentives, the criteria for compensation should be balanced: Many veterinary practice owners can tell stories about problems which arose when they implemented commission systems for veterinarians based strictly on percentage of income generated. Problems included competition between veterinarians for cases, client complaints about short visits and hefty bills, neglect of administrative duties in favor of more billable time, etc. A successful incentive system should fairly reflect the relevant criteria for veterinarian evaluation (not only revenue production, but also quality of medical care, client relations, and administrative responsibility). Wilson, 2000 proposes various examples of compensation systems used in veterinary practices which meet this "balanced compensation" philosophy. The following box proposes an adaptation of such a system.

Example of the balanced incentive-based compensation system

Fixed Salary	100	
Variable Salary	From 0 to 25 additional, depending on performance evaluation (if performance evaluation = 100, then variable salary = 25)	
Performance evaluation criteria	Weight (importance)	Performance measures
Income generation to the practice	30%	Generating income in medical services above 5 times gross salary
Excellence in client service	30%	85% or more of surveyed clients stating that they will come again to the practice
Ability to train and lead more junior veterinarians	20%	80% of junior veterinarians in the practice rating as "good or excellent" the training received
Adherence to the hospital internal procedures	20%	As judged by direct supervisor
	Total	100%

In order to keep this from happening, practices need to evaluate their internal compensation parity at least once a year. One of the times this should be done is when the performance evaluations have been prepared and the raises are being determined.

A worksheet containing the following information about each employee should be prepared: name, position, full-time or part-time status, hourly wage/salary, date of last raise, amount of last raise, hire date, ranking on last performance evaluation, benefits, and any particular comments about the employee's performance.

Employees holding similar positions (doctor, receptionist, etc.) should be grouped together. After the worksheet is prepared, employees in each category should be compared to each other.

Inevitably, questions such as the following will surface:

- Why does the best receptionist make less than the problem child?
- Why does the head technician make less than the people she supervises?
- Why does the new hire tech with unknown skills make more than all but one of the techs in the practice?

Employees in similar categories should also be compared (*i.e.* technicians to receptionists.)

As a part of the raise process, attempts should be made to correct the inequities. And once salaries are normalized,

the practice needs to be careful in hiring not to let them get unbalanced again. One way to do this is to set up a grade system for each employee group such as the one shown below for technicians:

- Grade I \$13-\$15/hour
- Grade II \$11-\$13/hour
- Grade III \$9-\$11/hour

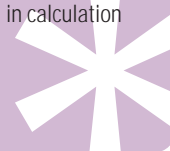
The above ranges are representative of pay ranges in some United States practices and should be adjusted to reflect compensation in your country. The specific skills to be included in each grade need to be determined by the practice and should include interpersonal as well as technical skills. There is not a standard classification of skills available in most countries. One of the biggest advantages of a grade system is that employee pay is determined by the skill level of the employee, not their seniority at the practice. Not only does this kind of system help set initial salaries for hiring purposes, but it gives employees control over their pay. Employees who wish to earn more money can do so by learning the skills necessary to move up to the next level.

While this section focuses primarily on maintaining internal compensation parity, it is important to remember that the salaries offered to practice employees must also compare well to those offered for jobs outside the veterinary industry. If the wages aren't comparable or better, then it will not be possible to attract good quality people. In general, a practice needs to pay above market wages to get above market employees. ■

2. Practice profitability, the single most important financial metric

> SUMMARY

A high level of profitability is essential for a veterinary practice to be able to invest in the staff, equipment and other items necessary to offer high quality medical and surgical care. Surprisingly, calculation of practice profitability is not an easy task. This section outlines a precise methodology for calculating the profitability of your practice along with a discussion of the importance of this metric and the pitfalls to avoid in calculation and use of this benchmark.



In addition to the obvious impact on current cash flow, profitability is also a critical determinant of practice value. And yet many practice owners don't understand how to calculate this and other critical financial metrics. In 1998, the American Veterinary Medical Association commissioned Brakke Consulting Inc (Brakke) to conduct a study of the business behaviors of small animal practitioners, both clinic owners and associates. Brakke, a firm specializing in the animal health and pet care markets, as well as in veterinary practice management, cooperated on the study with two professors from the Edwin L. Cox School of Business at Southern Methodist University (SMU) in Dallas, TX. SMU's graduate business program has a strong focus in organizational behavior research. The study was funded by Bayer Animal Health. The goal of the study was to identify practices or behaviors that, if recognized by veterinarians, could help them increase their incomes either by changing the behaviors, or by finding ways to minimize their effect. The Brakke Management and Behavior Study empirically demonstrated the importance to practice owners of understanding the finances of their practices and how few owners really do. Bottom line: The majority of practice owners don't understand financial terms and those who do, make more money. Only half of the group understood "pre-tax profits" and "cash flow." Only 10-20% of the respondents could

choose the correct definition of the other financial terms in a multiple choice format. And this knowledge makes a big difference in earnings - Male owners who answered three or more questions right had personal incomes of 7% greater than those who didn't - female owners who answered three or more questions right had incomes that were 19% higher than those who didn't.

1/ Why is practice profitability such an important metric?

Understanding the profitability of a practice is one of the most important concepts necessary to manage a veterinary hospital well. Operating profit is the one single number which indicates how well the practice is doing financially. There is also a strong correlation between good medicine and good business. If a practice isn't doing well financially, it can't invest in the equipment, people, facilities and other items necessary to offer good medicine. In addition to the obvious impact on current cash flow, profitability also is a critical determinant of practice value. In the United States, practice owners have historically assumed (and with good

Self-evaluation quiz(*)

(Check just one answer please)

1) Which of the following is the most appropriate way to calculate your practice's return on owner's equity?

- A Pre-tax profits divided by owner's equity.
- B Cash flow divided by owner's equity.
- C Owner's salary and earnings divided by owner's equity.
- D Not sure.

2) Which of the following is the most appropriate way to calculate your practice's return on assets?

- A Pre-tax profits divided by total assets.
- B Pre-tax profits divided by revenues minus total assets.
- C After-tax profits divided by revenues minus the asset turnover rate.
- D Not sure.

3) Which of the following is the most appropriate way to calculate your practice's cash flow for the past year?

- A Pre-tax profits plus depreciation.
- B Pre-tax profits plus depreciation minus taxes.
- C Receipts minus disbursements.
- D Not sure.

4) In your opinion, which of the following is the most appropriate way to calculate your practice's pre-tax profits?

- A Gross margin minus operating expenses.
- B Gross margin minus operating expenses and depreciation.
- C Gross margin minus operating expenses and pre-paid expenses.
- D Not sure.

5) In your opinion, which of the following is the most appropriate way to evaluate your practice's revenue performance?

- A Total revenues generated for the year.
- B Total revenues minus sales taxes collected and refunds.
- C Total revenues minus sales taxes collected, refunds and occupancy costs.
- D Not sure.

(*) from the Brakke study

reason) that when they decided to sell their practices there would be buyers ready to purchase them and willing to pay a good price. In other words, they have assumed there was value in these businesses that could be transferred to someone else. Of course, there have always been a few practices for which this assumption didn't hold true. A buyer couldn't be found or what buyers wanted to pay wasn't remotely what the seller thought the practice was worth. Typically these practices have been easy to identify and had several traits in common. They tended to be smaller practices with owners who had not focused much on the business aspects of the practice. Often the facility and equipment were old and the doctors hadn't kept up with the changes in medicine as much as perhaps they should have. These practices had little profit in them and, because the bulk of practice value is determined by profitability, the practices had little value. Fortunately there weren't too many of these practices.

However, in the last few years, the number of practices with no or little value has been increasing — to the point where the Veterinary Valuation Resource Council of VetPartners (formerly the Association of Veterinary Practice Management Consultants and Advisors — a US based professional association for those involved in veterinary practice management) coined the term “No-LoSM practice” (no value-low value) to describe these practices. More and more practices, when appraised, did not have the value that

would normally have been expected and thus fall into this “No-LoSM category. And, in almost all cases, the owners of these practices were totally unaware of the problem. Some of these practices had traits in common with the practices that have historically had little or no value. They were small practices with a low level of profitability and couldn't keep up with changing client demands regarding service, quality of medicine, advanced technology and improved facilities.

The other practices with no or little value, however, were a surprising group. On the surface, these practices would appear to be doing very well. They are located in very attractive facilities, offer a high quality of medicine and surgical care to clients, have all the latest equipment, a large support staff, offer comparatively high compensation and benefits to their employees and, in the owners' eyes, cash flow is strong. However, practice value is largely based on profits and the very factors that make these practices look attractive on the surface are those that are reducing profitability.

2/ Why is this such a hard number to find?

Calculating the true operating profit of a practice is not a simple task for a small business in the United States. Large or publically held businesses are required to use Generally Accepted Accounting Principles (GAAP) and the financial reports these businesses get consequently include a measure of operating profit. Small businesses are not required to use GAAP accounting and the financial reports these practices generally receive do not include a reliable calculation of the operating profit of the business. Taxable income per the tax return is calculated based on tax law and this figure is not the same as operating profit. This doesn't mean those reports are improperly prepared; it simply means the reports required by the US Internal Revenue Service (IRS) or US accounting standards for small businesses weren't designed to determine profitability. No one report will give a practice all of the financial information it needs to make intelligent operating decisions; unfortunately, the report that seems to be prepared least often is the one that calculates true practice profitability. Because practice owners and managers aren't used to getting this kind of information, they generally don't know what the true profitability of their practice is. The first time

Surprisingly, some practices appear to be doing very well but they belong in the “no value – low value” category.





Calculation of the operating profit is not only necessary when you want to sell your practice, but also before making a big investment, or taking in a new partner. It is the first thing a consultant will look for. Once all the data has been collected, calculation takes about one day's work for a consultant.

many owners realize their true profitability is when their appraiser talks to them about it prior to selling the practice.

The financial and tax reports practice owners receive will vary depending on local accounting and tax regulations. If your reports do not calculate true practice profitability, you will need to either perform this calculation on your own or consult with your financial advisor about doing it. The taxable income per the tax return is usually the starting point for this calculation. While the specific adjustments you may need to make to convert taxable income to operating profit will vary depending upon the methodology used to prepare your tax return, the basic concept is the same in any country. The number you want to calculate is operating profit.

Your accountant or financial consultant can help you determine if this needs to be done. For ease of comparison with other practices, the operating profit is generally stated as a percentage called the profit margin—this is calculated as operating profit divided by gross revenue.

Items that generally must be adjusted in order to convert taxable income to true operating profit include: practice owner payments, facility and equipment rent if these items are owned by the practice owner and leased to the practice, services provided by family members to the practice, depreciation, personal expenses paid by the practice on behalf of the practice owner, and interest on debt.

The basic formula for calculating operating profit is shown below. Various adjustments are made to taxable income to arrive at this figure. These adjustments will be discussed in more detail following the formula.

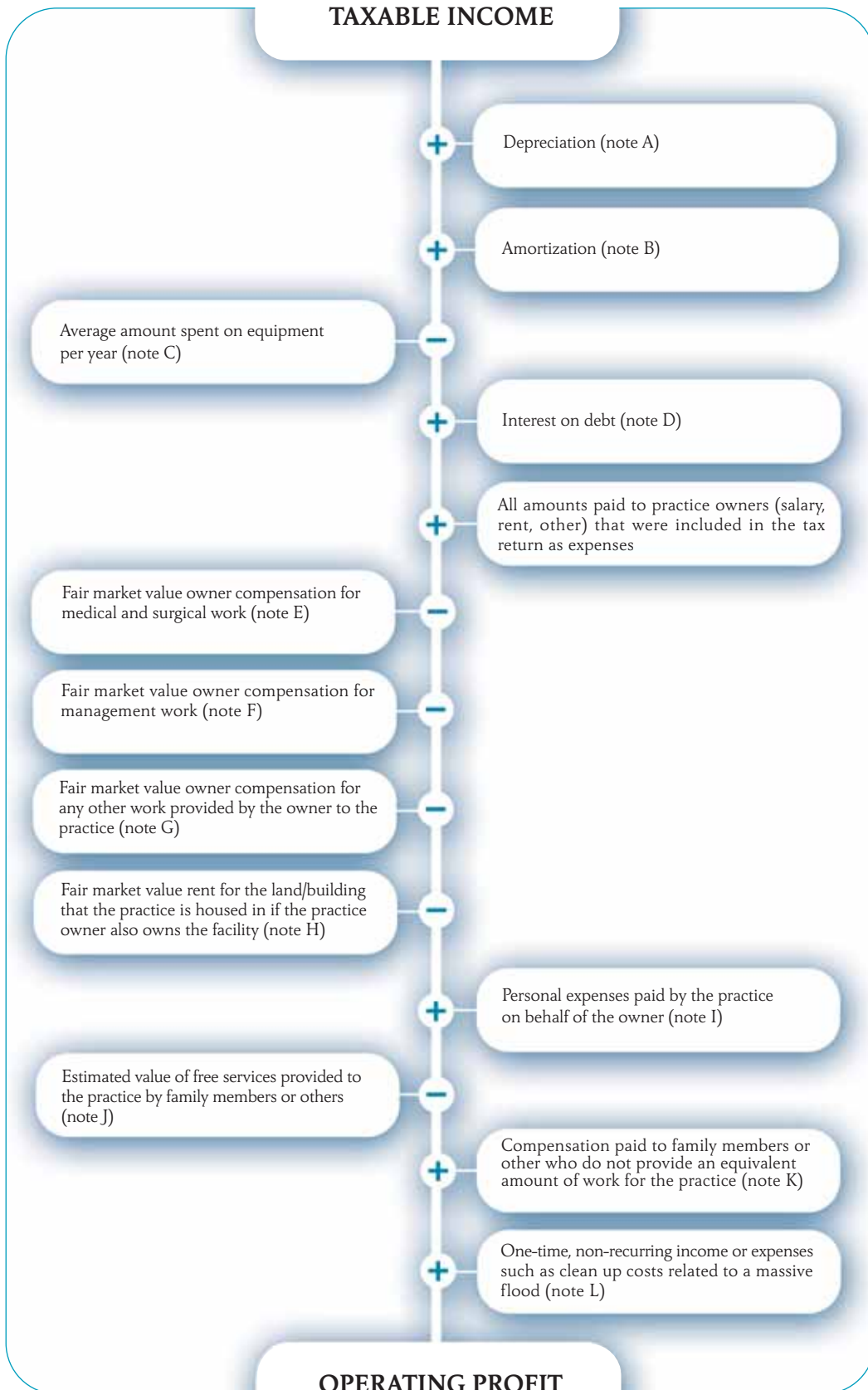
3/ How to calculate profitability

Operating profit is the difference between the operating revenues and expenses of a practice. Operating revenue and expenses include only items normally and necessarily seen in the day to day operations of a veterinary practice. Revenue items would include fees for professional services and income derived from the sale of drugs, pet food or other pet products carried by the practice. Expenses would include facility rent, compensation for doctors and staff and drugs and medical supplies expense. Non-operating items should not be included. Examples include rental income collected by the practice for an apartment located adjacent to the practice facility or personal expenses paid by the practice on behalf of the owner. All operating revenue and expense items should be stated at fair market value rates. Ideally, the reports used for this calculation are prepared on an accrual basis. If they were not, adjustments may need to be made for inventory, prepaid expenses or other items for which there is a significant variation between cash and accrual accounting.

The sum of these numbers will give you an estimate of operating profit. The operating profit is then divided by the gross revenue of the practice to get the percentage profit margin. Because of local differences in tax law, there may be other adjustments necessary to convert your taxable income to operating profit. Remember that your goal is to include all operating practice revenue and expenses in the calculation at fair market value rates. If non-operating revenue or expenses are included in your tax return, remove them. If operating revenue or expenses are NOT included in your tax return, then you must include them in the calculation. If any operating revenue or expense item is not included at fair market value rates, then adjust the figure to fair market value.

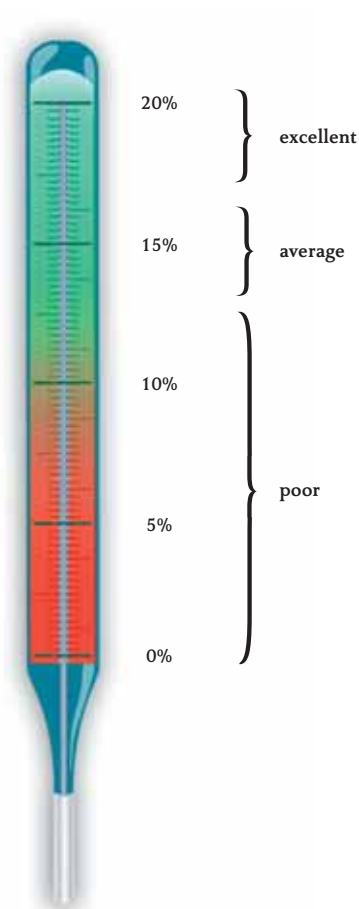
Included below is a discussion of the adjustments in the formula on next page:

- **Note A:** Depreciation and amortization are a way of allocating one time expenditures to the various periods in



which the practice will benefit from the expenditure. For example, the purchase of an ultrasound machine will benefit a practice for more than one year; therefore the entire expense should not be recorded in the financial records of the practice in the year of purchase. Instead it should be spread out over the years that the practice will own the equipment. Tax agencies such as the US Internal Revenue Service often do not use depreciation and amortization methods that truly reflect the “use” of the expenditure by the practice over the life of the equipment. Instead they are using the tax law to promote various policy decisions and the depreciation period used in the tax return does not reflect the actual useful life of the equipment. If this is true in your country, these amounts must be removed from the operating profit calculation and replaced with a better estimate (see below).

- **Note B:** Most items amortized in a practice's tax return (goodwill, start-up expenses) are one-time expenditures that should not be included in the operating profit calculation; therefore, no further adjustment is made for them after removing the amortization expense.
- **Note C:** Depreciation related to equipment purchase is removed from the operating profit calculation because the amounts used in the tax return are not correct for these purposes. However, equipment purchase is an ongoing, important expenditure in a practice and must be included in the operating profit calculation. This is normally done by deducting the estimated average amount spent on equipment per year.
- **Note D:** The interest portion of any loan payments is not included in the operating profit calculation. This is considered a financing cost, not an operating cost.
- **Note E:** Owner compensation is one of the most significant adjustments and almost always has to be calculated differently in determining operating profit than would be done for the tax return. Owners often arbitrarily determine an amount they will be paid through their payroll system; this amount often has no correlation to the actual medical, surgical and management work the owner does in the practice and therefore the tax return looks as if the practice is more or less profitable than it really is. In the US, IRS regulations also dictate how some aspects of owner payments must be handled and these regulations vary by entity type. For example, owner compensation must be reported differently for a corporation than for a partnership. A practice may appear to be more or less profitable than it really is simply because of these regulations. In the US, owner compensation for medical and surgical services provided to the practice is generally calculated as a percentage of the personal revenue generated by the practice owner. 20-21% of personal production is commonly used in a small animal practice. If production pay is not commonly used in your area, the salary could also be estimated as the amount that would be paid a non-owner veterinarian for similar work.
- **Note F:** Owners generally provide management and leadership services to the practice and an estimate of the value of these services must be determined. In the US, management and leadership expense in total generally averages 3-4% of gross revenues. If the owner is the only one providing these services to the practice, a reasonable estimate for owner management compensation would be 3% of total practice gross revenues. If the practice has a practice or office manager who is paid to perform some of these services, the owner compensation would be at a lesser rate—perhaps 1.5% of total gross practice revenues.
- **Note G:** If the owner performs a significant amount of other services for the practice that normally would be done by outside individuals such as facility repair work, a fair market value estimate of the cost of this work should be included as an adjustment. While many owners in the US do small amounts of this kind of work in their practices, it generally isn't of enough significance to include in these adjustments.
- **Note H:** If the practice facility is not owned by the practice owner or a related party, no adjustment is necessary to facility rent expense because it is assumed the rate charged for rent is a fair market value. An adjustment may be necessary if the practice facility is owned by the practice owner and the rent paid from the practice to the owner is not a fair market value rate. Owners will sometimes charge a rent rate different from fair market value for tax or other reasons. A rent adjustment is also necessary if the facility is owned by the same legal entity that owns the practice and no rent is paid. There is an economic cost to using a facility that must be included in the operating profit calculation.
- **Note I:** Many small businesses pay for the personal expenses of owners in order to gain a tax deduction. These payments make the practice look less profitable than it really is. These expenses are not necessary to the operation of the practice and should not be included in the operating profit calculation. Examples of these expenses include: excess meals and entertainment expense, excess auto costs, swimming pool payments, personal furniture, trips to Tahiti, airplanes, etc.
- **Note J:** Family members or others may provide free business services such as bookkeeping or management



Level of profitability of veterinary practices

services to the practice at no charge - if the practice had to hire someone to do this work, there would be a cost involved and this should be included as an expense in the operating profit calculation.

- **Note K:** Family members or others are sometimes paid a salary and benefits from the practice even though they provide no services to the practice. These expenses make the practice look less profitable than it really is and should be removed from the operating profit calculation.
- **Note L:** Occasionally a practice will have some kind of very unusual one-time expense that is not representative of normal on-going operating expenses. These expenses

make the practice look less profitable than it really is and should be removed from the operating profit calculation. An example of this kind of expense in the US was clean-up expenses for New Orleans area practices related to Hurricane Katrina.

In the US a profit margin of 18% or more for a companion animal general (non-referral) practice is considered to be superior, 13-16% average and less than 13% below average. While no study exists to document this, anecdotal evidence suggests that most practices are average to below average. How does your profit margin compare to other practices and to other investments you have?

It is important to remember that operating profit can be measured in both absolute dollars and as a percentage of gross revenues (the profit margin). Both are important numbers and must be understood by the practice owner. The profit margin is useful in that it can be compared between one practice and another. Comparing absolute dollars doesn't make sense because practices differ in their size and character. Profit margin percentages also help predict whether a practice will sell at a higher or lower price. The absolute dollar profit figure, however, drives cash flow and dollar value of a practice.

Obviously, in an ideal situation, both the absolute dollars and the profit margin will increase over time. But what happens if the absolute dollars increase but the profit margin goes down? For example, the dollar profits increase from \$200,000 to \$250,000 from one year to the next but the profit margin decreases from 14% of gross revenues to 12%. Assuming all else stays the same, the practice owner will be able to take more money out of the practice and the absolute dollar practice value will increase. However, the value of the practice as a percentage of gross revenues will generally decrease if the profit margin decreases. This is a very critical point to understand. In the United States, many practice owners hope to have a practice that will sell for 100% of the gross revenues. Generally this only happens if the profit margin is 18% or higher. If a practice owner increases the absolute dollar profits of the practice but has a decline in the profit margin, the short-term increases may be at the expense of what the practice could be sold for in the future. As long as the owner has a good understanding of the impact of the declining profit margin on the future value of the practice, this may not be a problem; however, it is very important that the owner look at both the short-term and long-term implications of situations like this.

4/ What if your profits aren't as high as you want them to be?

If the profits in your practice aren't what you want them to be, what can be done about it? A lack of profitability either comes from revenues that are too low, expenses that are too high, or a combination of the two. Increasing revenue while holding expenses constant (*i.e.* increasing productivity and efficiency) will usually have the most profound impact on practice profitability. However, it is critical that expenses be kept within normal limits. Key expenses to focus on include drugs and medical supplies and doctor/staff compensation and benefits. It is also very important to review the expected profitability of major investments

such as the purchase of new equipment or a move to a new facility. These activities are often less financially successful than expected. Lack of attention to fee schedules, discounts and missed charges can also lead to declining profitability.

Understanding not only the profitability of the practice but the kinds of factors that lead to this state is critical. Until the practice has an idea of the root causes of the problem, it is difficult to determine what the correct solution is. There are a large number of continuing education courses and publications available to help with practice improvement. Another solution is to work with a financial advisor or practice consultant to gain a greater understanding of the issues impacting profitability as well as possible solutions. ■

Answers to the self-evaluation quiz: 1) A 2) A 3) C 4) A 5) B

3. Key Performance Indicators

> SUMMARY

Managing the activity of a veterinary practice involves the review of key performance indicators (KPIs) that reflect the efficiency and effectiveness of the operations. This data, both financial and other, should be collected and reviewed on a regular basis. The KPIs should be compared to past activity in the practice as well as to established outside benchmarks. A standard “management report” can be very helpful in collecting and analyzing this data.



Imagine that you are leaving your practice in the hands of your employees while you take a year's sabbatical somewhere far away. During this time, you discover that it is impossible to contact your employees, and so you have no idea about how your practice is doing, both from a medical and a business perspective. However, shortly before your return, the authorities of this faraway land allow you to contact your employees in writing and ask five specific questions about how your clinic is doing. What would you ask? Which five or six specific facts do you think would best help you to evaluate your clinic's activity from such a distance?

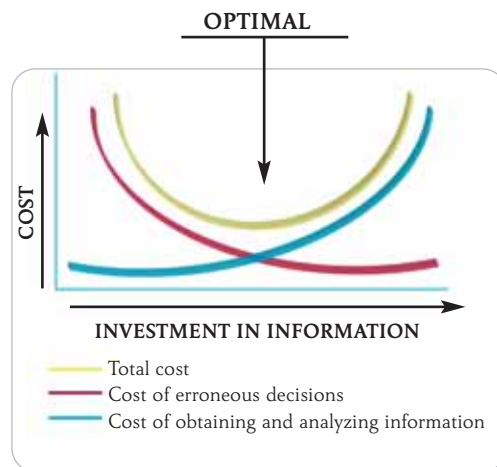
This little dilemma leads us to the following discussion about information management: To what point is it necessary and profitable to invest time in obtaining and analyzing information about our veterinary practice? Is it really worthwhile? Will our decision-making improve enough with this information to justify the cost of obtaining and interpreting it? Will it really make a difference? Can we monitor our veterinary practice without always being physically present?

An economist's view about this issue would be that theoretically it is profitable to invest an additional euro to obtain and analyze information as long as the improved

decision-making resulting from the additional information produces more than a euro in incremental profits for the veterinary clinic. The following graph illustrates this model.

A lack of information generates costs in the form of erroneous decisions with negative financial consequences. But excess information also generates costs related to obtaining and interpreting data (the “analysis paralysis”

Which is the optimal level of management information?



effect, in which managers are unable to make decisions because they are always waiting for perfect information). The optimal point from an economic perspective is found somewhere in the central region of the graph.

In the author's experience, most veterinary practices are still in the situation where they are better off by investing more in obtaining and interpreting additional information to improve their management practices. However, in order to avoid the "analysis paralysis" effect, it is useful for the practice manager to become familiar with some of the more common management indicators available, and select only those which are most relevant to his/her practice.

1/ What management information does it make sense for a veterinary practice to obtain and analyze?

A list of measurements or indicators is provided which are grouped by topic. It is not suggested that the veterinary practice manager use all of the indicators; in fact, that would be counterproductive and the risk would be information overload. The goal of the author in providing this menu of measurements is to offer the practice manager a set of tools from which to make a limited selection.

A) Revenue growth measurement

Practice revenue growth should be monitored, distinguishing between the services typically provided by a veterinary practice ("Medical Services") and the rest of activities which tend to be secondary revenue generators ("Supplementary Products and Services").

Note how in the example used in **Figure 1**, revenue information for a fictitious veterinary practice is analyzed for a one-month period (March 2009) as well as cumulatively for the year to date reported (January-March 2009), and both figures are compared with the same period for the previous year.

*In the example in **Figure 1**, March was a good month for the practice, with an increase in revenues from both "Medical Services" and "Supplementary Products and Services". In the "Medical Services" group, it deserves mention the high growth in areas such as "Hospitalization" and "Diagnostic Imaging", while there is a significant decrease in "Emergencies". Analysis of the quarterly figure (in the two right-hand columns) confirms a positive trend in "Diagnostic Imaging" while providing a different insight on the other two areas.*

B) Assessment of revenue quality

It can also be very useful to measure the weight of each income group relative to the total practice income. In general, practices with a higher percentage of revenue from medical services are more protected from competition from other, non-veterinary establishments that also sell products and services for pets.

***Figure 2** illustrates an analysis of this type, in which year 2008 revenue for our sample veterinary practice is analyzed in terms of percentages.*

Within the medical services category, it is desirable to obtain a large percentage of revenues from surgery or diagnostics, and less from vaccinations. This recommendation is valid for most general practice veterinary clinics. Again, the more differentiated (less replicable) the services which provide the bulk of our revenues, the more our practice is protected from the vagaries of competition. Most veterinary practices offer vaccination services, but not all of them offer orthopedic surgery. This doesn't mean that a practice should aim at doing less vaccines: in fact, the more vaccines they do, the better. What this means is that it is healthier to grow your business on the basis of more sophisticated medical services, so that even if you give more vaccines every year, in fact they end up representing a smaller percentage of your total income.

Figure 1. Revenue growth (fictitious data)

Revenue group	March '09 (euros)	Growth vs. March '08 (in %)	Cumulative January-March '09 (euros)	Growth vs. same period '08 (in %)
Consultations	5,731	8.4%	15,018	6.8%
Vaccinations	4,993	6.9%	14,896	9.4%
Treatments	2,467	13.7%	7,145	2.7%
Surgery	5,323	6.0%	15,462	5.9%
Hospitalization	2,780	22.1%	6,984	3.9%
Diagnostic imaging (x-rays, endoscopy, ultrasound...)	3,201	35.3%	8,216	22.9%
Laboratory analysis	4,855	9.3%	12,282	-2.2%
Emergency	2,028	-15.5%	7,259	6.6%
Other	769	-4.6%	2,371	-3.1%
Total medical services	32,147	10.4%	89,633	6.5%
Medications (<i>prescription and OTC</i>)	6,660	6.8%	21,357	8.1%
Food (<i>maintenance and prescription</i>)	1,508	11.5%	4,865	9.7%
Accessories	993	-13.2%	2,555	32.3%
Shampoo/hygiene	803	82.6%	2,067	6.0%
Grooming	665	1.6%	2,695	13.5%
Total supplementary products and services	10,628	11.0%	33,539	10.5%
TOTAL VETERINARY PRACTICE REVENUE	42,775	10.5%	123,172	7.6%

Figure 2. Composition of revenues (fictitious data)

Revenue groups	Total 2008 (euros)	weight in %
Consultations	59,348	13.7%
Vaccinations	55,745	12.9%
Treatments	7,424	1.7%
Surgery	61,245	14.1%
Hospitalization	22,568	5.2%
Diagnostic imaging (x-rays, endoscopy, ultrasound...)	24,944	5.8%
Laboratory analysis	51,934	12.0%
Emergency	31,178	7.2%
Other	4,526	1.0%
Total medical services	318,912	73.6%
Medications (prescription and OTC)	71,125	16.4%
Food (maintenance and prescription)	19,345	4.5%
Accessories	8,214	1.9%
Shampoo/hygiene	8,236	1.9%
Grooming	7,239	1.7%
Total supplementary products and services	114,159	26.4%
TOTAL VETERINARY PRACTICE REVENUE	433,071	

It is difficult to recommend general values for each type of revenue, but in the author's experience revenue from medical services should not be much lower than 75% of total clinic revenues for a general practice clinic. Likewise, surgery revenues (including hospitalization) should not be much lower than 20% of total clinic revenues, nor should vaccination revenues account for much more than 15% of the total.

The diagnostic ratio is a particularly useful indicator of the style of medicine practiced in our center. The usual means of calculating it is to divide revenues for diagnostic tests and laboratory analyses into the total revenues from medical services. A usual range for this indicator would be between 20 and 25% (Moreau, 2005). Much lower values may indicate a relative tendency in the clinic to make diagnosis based on intuition or experience. Values clearly above this range may indicate over-reliance on diagnostic tests.

The practice in our example shows a diagnostic ratio value which falls in the desired range, as shown in Figure 3. For values much outside the desired range (between 20 and 25%), it would be useful to perform additional calculations of this indicator and determine if it applies generally to all of the veterinarians in the practice or if for some unknown reason there are significant variations between the different veterinarians.

C) Team productivity measurement

Wages represent the largest cost for a veterinary practice. It is therefore important to determine to which extent our human resources are being efficiently used. The usual

productivity measurements establish a relationship between the cost of personnel and their ability to generate revenue.

↔ Cost of personnel as % of total clinic revenues

To determine this indicator, we calculate total salary costs to the firm (gross salaries plus social security costs) for all employees, including a market salary for the practice owners proportional to their work efforts. The term "market salary" refers to that likely to be received by a veterinarian with a similar experience, responsibility and dedication when employed by another practice.

In general, normal values for this indicator range from 38% to 45% of total practice revenues. Percentages above 45% rapidly erode practice profitability and may indicate over-staffing relative to the practice's caseload, inappropriate pricing (too low) or a combination of both.

↔ Evolution of revenue generated by each veterinarian in the clinic

It is advisable to monitor revenue generated by each veterinarian in the practice regardless of the compensation system that the practice is using.

Figure 4 suggests a format for tracking this indicator. In interpreting the results and differences observed between veterinarians, we must consider factors such as years of experience for each, work efforts (full or part-time) and the type of medicine that each of them performs in the practice (for example, a surgeon vs. a dermatology specialist). In the example used in this figure, veterinarian #4 shows an apparently low productivity, despite a positive trend when compared to previous periods.

Figure 3. Revenue 2008 (in euros)

Diagnostic imaging (x-rays, endoscopy, ultrasound...)	24,944
Laboratory analysis	51,934
Total diagnostics	76,878
Total medical services	318,912
Diagnostic ratio	24.1%

Figure 5 illustrates how the apparently low productivity of veterinarian number 4 is partially explained by the fact that he has only fifteen months of experience in our practice.

Figure 6 clarifies further this matter, illustrating historical productivity of the veterinarians in this clinic as a function of years of experience. It is clear that in reality, veterinarian #4's productivity is in line with the average for the first year of experience for the other veterinarians in the practice.

➔ Average active patients by veterinarian

We consider an *active patient* one that within the last twelve months has paid at least once for receiving "Medical Services" at our practice. We can divide the number of active patients at our clinic into the number of full-time veterinarians (using fractions of one for part-time veterinarians) to obtain a reliable indicator of the average workload in our clinic. Again, it is difficult to recommend a value for this indicator: a neighborhood clinic with an emphasis on internal medicine is not the same as a referral hospital, just as a one-veterinarian practice is not the same as a hospital that has 3 or 4 technicians for each veterinarian. However, common sense and experience show that a clinic with less than 500 active patients per full-time veterinarian is not making efficient use of its resources.

D) Indicators related to client dynamics

Another indicator relevant to the veterinary practice manager is the gain or loss of patients by the clinic.

The Net Patient Flow (NPF) measures the gain or loss of patients by a veterinary practice over a period of time.

Theoretically, a veterinary clinic gains two types of new clients:

- New patients (NP): the patients that come to our clinic for the first time. These "regular" patients are distinguished from those that have come through referrals or during emergency hours (as those do not necessarily become regular patients of our clinic).
- Recovered patients (RP): those that have returned during the last 12 months, more than a year after their last treatment at our clinic.

On the other hand, veterinary clinics lose two types of patients:

- Deceased patients (DP)
- Lost patients (LP): those who were treated by us in the past, but have not visited our veterinary clinic during the last year.

Figure 4. Revenue generated per veterinarian (fictitious data)

	Revenue Generated March '09 (euros)	Growth vs. March /08 (in %)	Cumulative revenue generated '09 (euros)	Growth vs. same period '08 (in %)
Veterinarian #1	21,345	3.6%	59,766	5.8%
Veterinarian #2	13,597	-8.5%	42,151	-3.7%
Veterinarian #3	17,832	14.6%	57,062	12.1%
Veterinarian #4	11,953	12.6%	31,078	18.8%
Average per Veterinarian	16,182	5.6%	47,514	8.3%

Figure 5. History of revenues generated per veterinarian since joining the practice (fictitious data)

Revenue generated from medical services Per veterinarian (euros)	2004 (euros)	2005 (euros)	2006 (euros)	2007 (euros)	2008 (euros)
Veterinarian #1					239,085
Veterinarian #2					216,234
Veterinarian #3					166,234
Veterinarian #4					132,456
Average					188,502

Revenue generated from medical services Per veterinarian (euros)	2004 (euros)	2005 (euros)	2006 (euros)	2007 (euros)	2008 (euros)
Veterinarian #1	121,356	178,953	207,435	227,700	239,085
Veterinarian #2			118,345	169,928	216,234
Veterinarian #3				160,045	166,234
Veterinarian #4					132,456

Figure 6. Average billing by veterinarian on the basis of years of experience in the practice (fictitious data)

Revenue generated from medical services Per veterinarian (euros), based on experience	1st year	2nd year	3rd year	4th year	5th year
Veterinarian #1	121,356	178,953	207,435	227,700	239,085
Veterinarian #2	118,345	169,928	216,234		
Veterinarian #3	160,045	166,234			
Veterinarian #4	132,456				
Average	133,051	171,705	211,835		

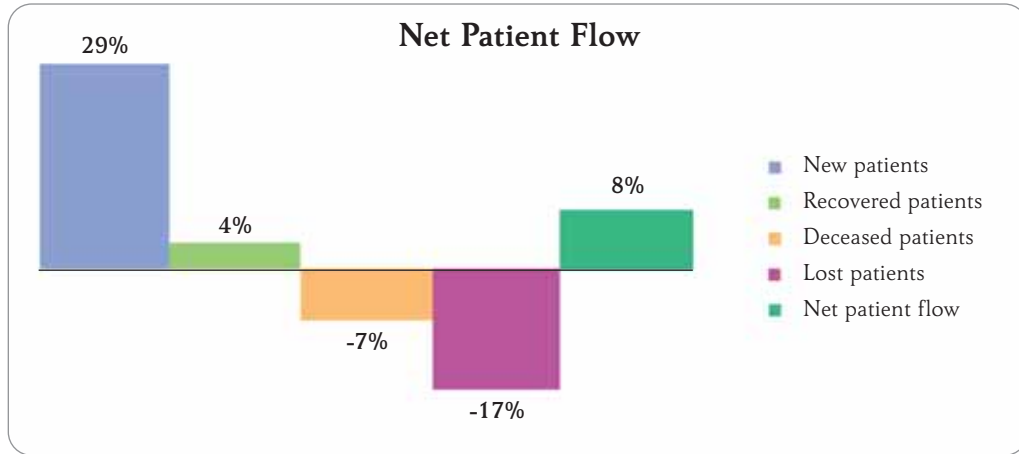
The annual net gain or loss of patients for the veterinary clinic is the sum of these four variables (see graph on the following page).

These indicators should be reviewed by the veterinary clinic periodically. In practical terms, they can be expressed as a % of the number of active patients at the beginning of the period. In this way we can compare patient flow in veterinary clinics with different client bases.

Example:

A veterinary practice has 3,250 active patients on January 1, 2008. During the year 2008 it gains 934 new patients and also recoups 124 former patients that had failed to return during the year 2007. However, during the year 2008, 242 clinic patients are deceased. Finally, it is observed that 547 of the clinic patients fail to return during the year 2008. What is the net patient flow for the clinic for 2008? Using the model below:

Patient number dynamics in a veterinary practice



New patients (NP): $934 / 3,250 = 28.7\%$
 Recovered patients (RP): $124 / 3,250 = 3.8\%$
 Deceased patients (DP): $242 / 3,250 = 7.4\%$
 Lost patients (LP): $547 / 3,250 = 16.8\%$

The result, that is, the net patient flow (NPF):
 $NPF = NP + RP - DP - LP = 8.3\%$

calculations we will use first visits, subsequent visits, emergency visits and home visits. Once this has been calculated, we will tabulate the number of some of the most common medical procedures (dental cleaning, x-rays, blood analysis, urinalysis, electrocardiograms, ovariohysterectomies, rabies vaccines, etc.) billed in this period for each thousand visits.

Some of the practice management software used in veterinary practices automatically make these calculations.

.....
Figure 7 shows the average results obtained from 161 Spanish veterinary clinics in the year 2008 for each of these procedures. These indicators may provide a useful reference for comparing and detecting significant differences in our medical practices. In the event of significant differences in the numbers of some of these procedures for each thousand visits, the practice may want to consider some of the medical protocols or treatment styles. It is also useful to determine if these variations are specific to one or more of the veterinarians on our team.

E) Indicators related to medical procedures

Why is it that apparently similar veterinary clinics do very different numbers of certain medical procedures? To which extent are these differences due to the patients, or on the contrary, when are they related to the veterinarians themselves?

The first step in answering these questions is to quantify the number of the different medical procedures conducted by the clinic in proportion to the volume of patients treated.

Using management software, a veterinary practice can determine how many "visits" have been made to the clinic over a period of time. For the purpose of these

F) Purely financial indicators

There is a wide variety of strictly financial calculations that we can use in our practice. Two good examples are the following:

Procedure	# carried out per 1000 visits
Blood chemistry	173
ECG	47
Hospitalization	101
Dental hygiene	37
Ovariohysterectomy (cat)	28
X-rays	261
Progress exam consultation	350
Canine rabies vaccination	361
Specialist consultation	21
Feline trivalent vaccination	90

Source: VMS (www.estudiosveterinarios.com)

Figure 7. Number of procedure carried out per thousand visits in a sample of 161 Spam veterinary clinics.

- Inventory days: This is calculated by dividing the value (cost price) of our inventories into total yearly purchases and multiplying the result by 365. Inventories of medications, food, accessories, etc. affect our business costs. They take up space and time, have a financial cost, and larger inventories increase the risk of shrinkage or expiration. Therefore, a manager should aim to minimize inventory as long as it does not affect client service. As a rule of thumb, we should review our purchasing and inventory policy if it results in more than a sixty-day supply. There should be a very good reason for having more than sixty days' worth of inventory.
- Pending accounts receivable, expressed in euros and as % of the practice's annual billing. Changes in this indicator can alert us to excessive relaxation of our client credit policy. We may want to look at these measures and at the "aging" of these accounts receivable if we have reasons to believe that our practice has a problem in this area.

2/ Selecting key indicators: the management report

As the reader has become aware by now, there is a wide range of management indicators available to veterinary practice managers. The challenge for the efficient manager is to use a limited but appropriate selection of these indicators for periodic monitoring. Management literature (Kaplan, 1996) has popularized the term KPI (Key Performance Indicators) to refer to the key management indicators for a business. The selection of specific KPIs to monitor depends on a clinic's business model and the priorities established by the owner and management. However, the management report featured on page 30 is in a one-page format which may be useful to most general practice veterinary clinics.

The reader is encouraged not to accept this format as a given, but rather to adapt and fine-tune it in any way which suits the specific needs of their veterinary practice. For instance, if a practice has bought a new piece of equipment, it may make sense to incorporate a control measure on how many medical procedures using that equipment have been performed over the period.

3/ The management report: practical considerations for use by a clinic

The following issues should be considered when implementing a management report in a veterinary practice:

- Who will be in charge of preparing it? We need to assign a specific person to periodically produce the report, clearly supporting him/her with resources available at the clinic (management software, accounting, etc.) This person may be an associate or anyone with administrative responsibilities at the clinic.
- Which is the ideal format: ideally, one page, and always with the same sections, as determined by the management team. This requires us to prioritize current relevant

Example of a management report

Revenue Analysis

Revenue groups	March '09	Growth vs. March '08 (in %)	Cumulative January-March '09 (euros)	Growth vs. Same period '08 (in %)
Consultations				
Vaccinations				
Treatments				
Surgery				
Hospitalization				
Diagnostic imaging (x-rays, endoscopy, ultrasound...)				
Laboratory analysis				
Emergency				
Other				
Total Medical Services				
Medications (prescription and OTC)				
Food (Maintenance & prescription)				
Accessories				
Shampoo / Hygiene				
Grooming				
Total supplementary products and services				
TOTAL VETERINARY PRACTICE REVENUE				

Productivity of veterinarians

	Revenue generated March '09	Growth vs. March '08 (in %)	Cumulative revenue generated '09 (euros)	Growth vs. Same period '08 (in %)
Veterinarian #1				
Veterinarian #2				
Veterinarian #3				
Veterinarian #4				
Average per veterinarian				

Number of procedures

	# of procedures March '09	Growth vs. March '08 (in %)	Cumulative # of procedures 2009	Growth vs. Same period '08 (in %)
Vaccinations				
X-Rays				
Ultrasound				
ECGs				
Surgery				
Hospitalization days				
Dental hygiene				
Laboratory (urinalysis, blood analysis...)				
Pre-surgical profiles				
Geriatric check-ups				
Total number of patient visits for the period				

Other useful figures:

- Number of new patients in a month
- Number of active patients at month end

indicators, minimizing the cost of obtaining and interpreting information. It should also allow us to automate as much as possible the repeated capture of this information and accustoms users of the statement to analyzing the business situation in a standardized way.

- How often and when should it be prepared: ideally, coinciding with monthly or quarterly cycles. For example, it could be decided that the report must always be prepared and delivered to management on the 5th day of the month after the analysis period, and that it will be reviewed together with management on the 10th day. It is important that the report serves as a basis for management team discussion, rather than being a mere written document circulated and read individually by the addressees.
- Who is the target audience of the management report? Who should receive it? By default, practice owners and management. Occasionally, parts of the report may be shared with some or all members of the team.

4/ Final comment: references for comparison

It is advisable that the veterinary practice manager compare the values obtained by his/her practice for the different KPIs. The most immediate source for comparison is the values obtained by the practice in previous periods (trend analysis). However, it is also very desirable to use external references, the so-called "benchmarks".

The availability of benchmarking information is very diverse depending on the country where the veterinary clinic is located. In the United States there are exhaustive industry studies conducted by associations such as AAHA (www.aahanet.org) and AVMA (www.avma.org), in addition to a sophisticated on-line benchmarking tool developed by the National Commission of Veterinary Economic Issues (www.ncvei.org). In countries such as France (PanelVet, www.panelvet.com), the United Kingdom (FDI) or Spain (VMS, www.estudiosveterinarios.com) there are private initiatives which allow interested veterinary practices to access business benchmarking services.

In addition to the initiatives above, it is becoming more common for groups of independent veterinary clinics to meet informally, or to meet periodically with a consultant, to share financial information and develop their own "benchmarks". ■

4. Caring first for healthy animals!

> SUMMARY

Practitioners are primarily trained to take care of sick pets. But surprisingly, the future of veterinary clinics is also based on healthy animals. A differentiation strategy focused on wellness care will improve pet health, increase client loyalty, and make the practice more financially successful. This chapter outlines the best ways to develop preventive products and services.



If you ask randomly selected people in the street about how they define the veterinary profession, there is no doubt most of them will answer that “veterinarians care for sick or injured animals.” If you look at the daily life of a practice dedicated to providing general services for pets anywhere in Europe, it is obvious that this definition is only partly true, since many of the services provided are for healthy animals. Paradoxically, this aspect of veterinary medicine is underestimated and veterinarians do not really highlight these services. A differentiation strategy focusing on the practice’s wellness services for animals that are neither sick nor injured contributes greatly to improving client satisfaction and loyalty and, consequently, the veterinary business’s economic performance.

1/ Why should we focus on healthy animals?

A) Threefold importance

Let us take a look at all the contacts between a general veterinary practice and owners of dogs or cats that are moderately well cared for. Over the standard duration of

the years owners share with their pets - approximately twelve - the pet is taken to the practice:

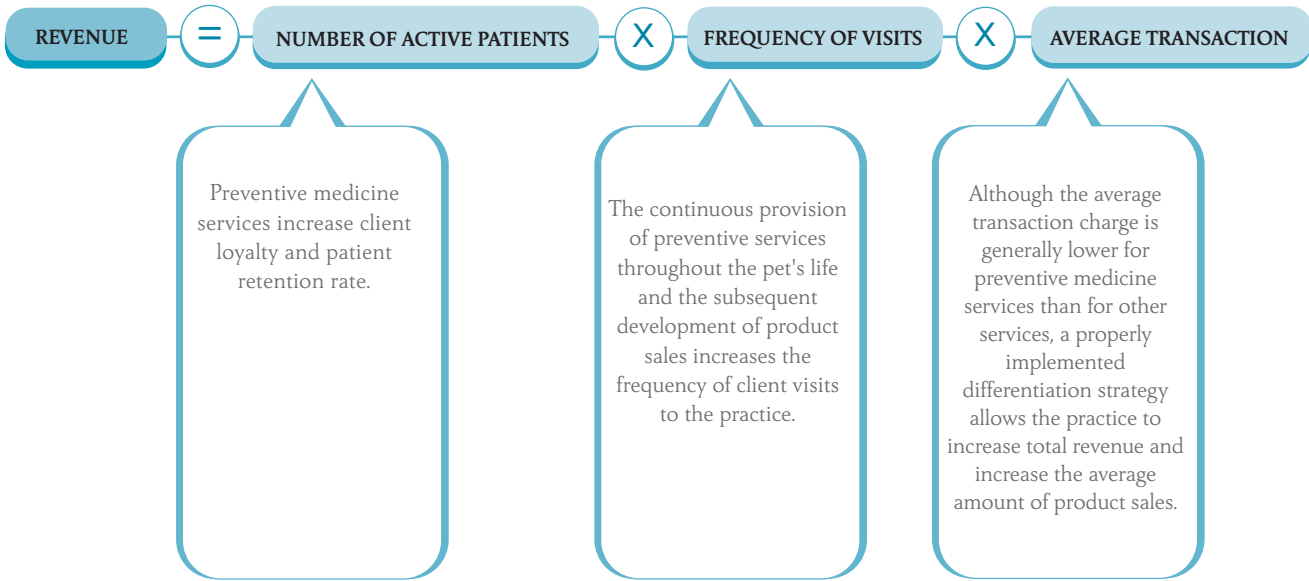
- 10 to 15 times for wellness services; the variation in visits primarily occurs in the first year and depends on whether or not there is a purchase consult, a puberty check and surgical sterilization.
- 7 to 20 times for services related to illness or injury; the variation being linked to chance as well as the amount of care provided to the pet in the last years of its life.

In all, between one-third and two-thirds of all visits concern wellness services for basically healthy animals. In a general veterinary practice, the share of these services ranges from 40 to 50% of total visits and from 25 to 40% of gross margin (Gross margin = gross income minus cost of goods sold).

In addition to the frequency of these visits, the importance of wellness services is also due to two other factors:

- The provision of these services can have a major impact on the practice’s image with clients; it will enhance this image if the practice is well-organized to

Figure 1. The positive impact of the development of preventive medicine services on a practice's revenue



provide the best-quality services, but detract from the practice's image if the veterinarians consider them routine and uninteresting.

- These services provide a base for developing services for sick or injured animals because, from the start of the relationship with the owner, the practice can demonstrate the competence and variety of the practice's services and also provide screening for sub or preclinical problems, especially in senior pets.

In summary, **Figure 1** shows how the development of preventive medicine positively impacts the revenue of a veterinary practice.

B) A very strong trend over time

As veterinary medicine evolved, clinics very quickly developed wellness services; typically, they began with vaccinations and neutering.

The history of vaccinations is particularly enlightening. Over time, three successive stages can be identified. Originally, offering vaccinations was a service in itself:

the "vaccine injection" stage. In continental Europe, rabies prevention efforts contributed to establishing this initial approach. Demand was spontaneous or triggered by regulations; the offering was very basic.

Soon, however, the vaccine injection alone was replaced by a more comprehensive service including increasingly complete clinical examination of the pet before vaccination. This was the "vaccine consult" stage. Clients did not perceive the increasing technical complexity of the service since the justification for the clinical examination was to make sure the pet was healthy enough for vaccination. Consequently, the service still focused on the vaccination.

Gradually, the offering of services developed considerably beyond vaccinations, with a complete clinical examination aiming to determine the animal's state of health and actively check for diseases to which it was exposed according to age, breed and lifestyle. Targeted advice on health as well as training and nutrition was given and other examinations recommended as needed. Better yet, a certain number of these services did not include injection of a vaccine (as with a purchase consult).

Depending on the country, region or town, this evolution took from twenty to forty years, some stages being more or less transitory and the trend may remain incomplete.

In short, the standard notion of a simple mass service was replaced by a modern vision of far more complex, customized service forming a continuous healthcare chain from adoption to the end of the pet's life, when chronic pathologies require regular care.

C) A paradoxical situation

Major services developed and became more varied. Everything would be perfect in this best of all possible worlds were it not, paradoxically, for the temptation to make things seem routine. Veterinarians do not see the significant advantages of this preventive approach and, worse yet, they often tend to consider such visits only as "loss leaders".

First, we must explain the "loss leader" concept: a loss leader is a very attractive price to help either attract new clients to a point of sale or act as an incentive for the consumption of additional products or services, thereby enabling the service provider to make up the difference in revenue lost from the low "loss leader" prices. Mobile phones for €1 (but with a 24-month subscription) or the

promotion of specific food brands are typical examples of this practice. The problem in veterinary medicine is that price is not always a key criterion. It is definitely so for widely distributed products (like an external anti-parasitic by a well-known brand) or a service perceived as standard, but certainly not for medical or surgical services seen as more sophisticated, for which considerations of safety and trust in the practice are the main motivations. In other words, a "loss-leader" price for neutering or vaccination is of interest only if the practice sells only this type of service. This is the strategy deliberately adopted by low-cost clinics in the UK and US, which specialize in neutering and vaccination and make considerable use of advertising. In many countries, numerous veterinary clinics contribute to this trend by providing minimum content, little or no client education and low prices.

The low-cost strategy is not really effective for growing veterinary clinics with a complete range of services or when national legislation bans advertising. On the contrary, strategies intended to differentiate preventive services can both satisfy clients and open the way to developing long-term relationships with them in all aspects of the pet healthcare process.

The general purpose is to offer a consistent action plan tailored to each pet which enhances the likelihood of owners enjoying a long, fulfilling life with their pets.



The "loss leader" concept is not effective in a general practice services.

2/ Primary dimensions of preventive medicine

A) Three medical themes

Obviously, the preventive approach aims to avoid the onset of illness or, when this cannot be done, to detect disease as early as possible in order to better control it. This approach includes the three following components:

- Active screening for common disease processes, targeted according to species, breed, physiological stage, is the basis for prevention. This includes a complete clinical examination for young adults and the inclusion of more sophisticated screening protocols where necessary. Examples of this would include testing for osteoarthritis or cardiac disease in senior dogs or for infectious or genetic diseases in recently adopted puppies or kittens. This is the main source of value in preventive services, yet veterinarians often do little to capitalize on this aspect. Consequently pet owners do not easily perceive its value.
- Prevention of infectious diseases remains crucial for animal health as well as public health. Vaccinations remain a fundamental element of growth checks and yearly check-ups. Adapting vaccination practices to epidemiological reality and pets' changing lifestyles remains one of the roles of veterinarians and should involve ongoing client education as opposed to rote practice. For example, in Western Europe from the 1970s to the 1990s, rabies vaccines were prescribed by the regulatory authorities to protect against endemic rabies in foxes; today in Eastern Europe, it is useful to vaccinate routinely in order to protect against sporadic cases of imported rabies which can appear anywhere at any time given the movement of people in the global economy (On condition the pet is identified and has a European passport).
- Prevention of internal and external parasites represents another essential theme for any preventive approach, given the epidemiological importance of parasite infestation. The veterinarian should prescribe customized prevention programs according to species, lifestyle and physiological stage. The initial plan is discussed with the client at first contact (for example, purchase or growth check), then altered as necessary throughout the pet's

life. Veterinarians should review the client's compliance with these recommendations each time the pet is seen and investigate any failures.

B) Four additional important preventative themes

The preventive approach is not limited to the medical sphere in the standard sense, but also should include other areas that affect the dog or cat's health, well-being and the relationship between these pets and the families they live with. At least four points seem fundamental:

- The nutrition of domestic carnivores is a key factor for pets and their owners, from both a health and a financial standpoint. (It is one of the main expenses associated with owning a dog or a cat.) A healthy diet is critical to the overall health of the pet; this makes it essential for veterinarians to prescribe good quality food for healthy pets as well as for sick ones. In particular, diets for the following types of pets should be recommended by the veterinarian (in decreasing order of priority):
 - Animals that have just been neutered and whose metabolism changes drastically right after the surgery;
 - Growing puppies and kittens whose needs differ greatly from those of adults;
 - Senior pets;
 - Overweight adults, for whom weight loss is important.
- Oral hygiene is the second major concern since dental problems can be detrimental to the relationship between pets and their owners as well as cause other health problems. Regular dental exams and prophylactic cleanings should be recommended as needed.
- Behavioral disorders, which are often hard to treat, can seriously disrupt the relationship between pets and their owners. A preventive approach implies taking action very quickly. Behavioral issues should be reviewed at the purchase consult, growth checks and puberty check and advice given on training or other options.
- Finally, issues concerning reproduction cannot be disregarded, regardless of sex or species, given the consequences to the owner and the animal's health. Recommendations should be based on the owners' wishes as well as the best medical practices.

C) A range of services

Ongoing medical care for pets is comprised of a series of services throughout the animal's life. Schematically, several phases can be distinguished:

- The growth phase during which a particularly rich level of services is offered since, in less than a six month period, from adoption to puberty, most practices recommend: a purchase consult (**Box 1**), one to three growth checks, neutering and a puberty check (**Box 2**).
- The young adult phase, during which the primary service is usually limited to yearly check-ups.
- The pre-senior pet phase during which additional examinations and diagnostics are offered for those pets that are not yet elderly but run the risk of developing chronic disorders (osteoarthritis, heart disease, etc.). The senior pet phase during which prevention is usually replaced by medical follow-up dedicated to existing pathologies.

Figure 2 illustrates an example of this succession of services throughout life.

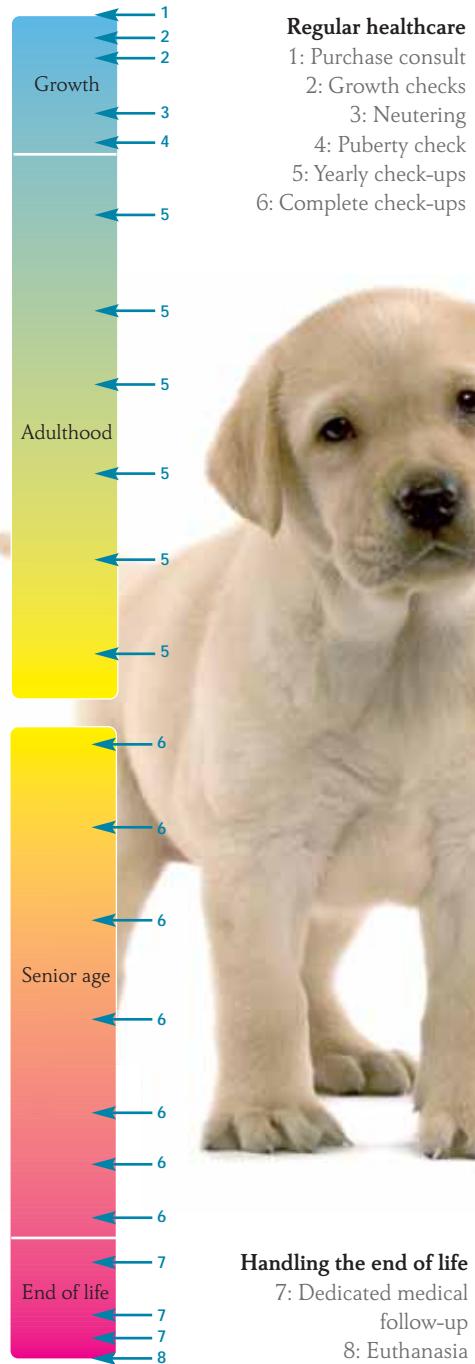
D) A range of products

In addition to services, the preventative care program also includes the sale of products prescribed by the practice. It is not only a matter of offering these products for sale, but also prescribing them during a regular healthcare sequence. Let us concentrate here on three essential categories.

The availability of pet food for sale in the practice is basic. Since veterinarians provide dietary prescriptions, it would be surprising not to be able to deliver food to suit these recommendations (In a few countries including Italy, however, veterinary practices do not sell pet food, but this in no way alters the need for dietary prescription).

Similarly, offering a range of external and internal anti-parasitics whenever possible helps improve the efficacy of the veterinary prescription by playing on the unity of place and action. For example, applying a spot-on during the yearly check-up as well as providing a three-month supply of the product can improve observance of the prevention plan recommended by the practice.

Figure 2. Healthcare needs throughout a pet's life (example: female Labrador living 14 years, including 12 in good health).



Box 1: Example of a purchase consult

• **Who? Who is this service for?**

The purchase consult is useful for all owners having just acquired a pet, regardless of the conditions of the acquisition.

• **Why? What is the purpose of the service?**

The purchase consult serves to make certain the new pet is in good health. It is intended to help owners learn the right behavior in terms of health, nutrition and training from the start. The purchase consult also helps preserve buyers' interests when animals have an illness that could jeopardize their integration into the family.

• **What? What is the full content of the service?**

The purchase consult begins with a complete clinical examination¹ and continues with a set of specific recommendations on the key issues of health, nutrition and training. It helps answer the main questions new owners ask.

• **How? How is the consult conducted?**

The purchase consult should take place by appointment as soon as possible after the animal enters the family and lasts 20 to 30 minutes². If the clinical examination and/or the financial stakes so justify, the veterinarian can suggest tests to detect any infectious diseases.

• **How much? What is the cost of the service?**

The price of the consult is €X (X being higher than for a standard visit and slightly less than for a growth check with vaccination). Any further examinations entail additional cost.

Finally, offering a range of practical and effective oral hygiene products provides for concrete extension of the veterinary prescription.

Clearly, offering a range of services, even when complemented by the appropriate products, is not enough for a successful differentiation strategy. It is important to first provide a sufficient variety of these services and then educate owners about their advantages.

Box 2: Example of puberty check

• **Who? Who is this service for?**

The puberty check is intended for all dogs having reached the age of puberty, a crucial period from a behavioral standpoint.

• **Why? What is the purpose of the service?**

The general purpose is to check the dog's growth, dentition and good social integration, and provide for any adjustments that may seem necessary.

• **What? What is the full content of the service?**

The puberty check begins with a complete clinical examination¹ plus an interview and specific tests³ to make certain the socialization process is complete.

• **How? How is the consult conducted?**

The puberty check should take place at the age of approximately 7 months, a month or so after neutering. With the owner's consent during a growth check, the clinic issues a reminder two weeks before the target date and the owner makes an appointment. The puberty check lasts about a half-hour.

• **How much? What is the cost of the service?**

€Y (Y corresponding approximately to the price of two consultations).

¹ It is necessary to detail what is involved in the complete clinical examination.

² It is important not to address too many issues at the same time since this would lead both to exceeding the owner's ability to assimilate and to making future growth checks seem unnecessary.

³ Once again, the nature and conduct of these tests must be specified: for example verification of the enforcement of hierarchy (control of feeding, space, contacts, sexual behavior), verification of obedience to simple orders...

3/ How to develop a wellness care program

A) Defining the content of services

The first step is to make certain the preventive service recommendations are consistent regardless of the day,



During each subsequent visit, when the client arrives for an appointment, the reception staff checks that the information in the client file is still valid.

time, or veterinarian consulted with. This requires clearly defining the scope of the services. This may seem useless to many veterinarians who obviously know all about vaccinating dogs and neutering cats. A close look at the life of a practice, however, reveals that such recommendations often vary greatly from one time to another and between veterinarians. Drafting detailed medical protocols (These protocols are initially designed for internal use but may also be a good starting point for the design of communication tools aimed towards clients) for each service establishes standard recommendations shared by all staff (see brief examples in **Boxes 1 and 2**). These protocols answer five questions:

- Who? For whom is this service intended?
- Why? What is the purpose of the service?
- What? What is the full content of the service?
- How? How is the consult conducted?
- How much? What is the cost of the service?

The value of these recommendations, even if clearly defined, is not often easily perceived by clients. This is why an effort to explain them is necessary.

Before providing the service, the practice is often required to educate the client about the need for it. This is the case at the end of each stage in the healthcare process, when the veterinarian explains the next step. For example, at the end of each yearly check-up, veterinarians must specify the next recommended service: the next yearly check-up or a more

complete examination because the animal is reaching the pre-senior stage. This explanation can also be given over the phone, with staff answering questions for current or potential clients.

During the examination, explanations of the findings should be given to the client (for example, “the ears are clean”, “nothing abnormal revealed by cardiac auscultation” or “look: there’s some tartar on the teeth...”.)

After the service, the explanation is reinforced by handing out descriptive documents to supplement the oral discussion or prescription. Examples include: nutritional prescription forms, post neuter surgical reports, results of blood tests, hip x-rays for the puberty check...). A detailed invoice listing all the different procedures and remarks in the medical file contribute greatly to explaining the service for clients.

B) The key role of the medical record

The medical file is the written expression of this personalized medical care. It enables owners not to feel they are dealing with just a veterinarian, but with their veterinarian. Its use should be perceived by the client. This involves five key steps:

- On first contact with the pet, even if the owner is a long-term client, the reception staff opens the pet’s file by gathering basic information.
- During each subsequent visit, when the client arrives for an appointment, the reception staff checks that the information in the client file is still valid.
- At the start of each preventive service, the veterinarian consults the pet’s file and asks about what has occurred since the last visit (“What happened with that cough last February?”) and inquire about the occurrence of other problems that have arisen in the meantime.
- At the end of each preventive service (obviously, this approach applies to all consults, not just preventive services) the veterinarian documents the procedures and other information in the file, even if all is well.
- Between services, the reception staff makes note of clients’ purchases at the counter (pet food, external anti-parasitics) or any relevant information (for

example, the date and the animal's weight when the owner has it weighed at the practice for those on a weight-loss diet).

C) Making the best use of reminders

Reminders are typically used for "vaccinations". They are also useful for yearly check-ups, and can be proposed when the veterinarian and the owner have agreed on a future treatment to be performed more than three weeks in the future (for shorter periods, it is advisable to make an appointment immediately for the next visit: puberty check, neutering, etc.) Reminders are a service offered to owners to facilitate handling the steps in a pet's healthcare plan and clients appreciate it. There is no reason to hesitate to offer it, on three conditions:

- By definition, reminders are only for regular clients, whose pets receive regular care at the practice.
- Reminders should concern treatment the client has agreed to and the reminder itself should be accepted (it is because acceptance is very high that it is indispensable to obtain such consent!).
- Reminders must use non-coercive terms ("Lolita is now almost six months old, the age at which we had agreed to have her neutered, for her health and your peace of mind").

D) Recommendations are based on trust

The preventive approach we suggest here is based on trust between the veterinarian and the pet owner. Such trust is manifested in concrete terms by acceptance of the recommendation. To be respected, recommendations must be consistent and effectively explained.

We can illustrate this with an example of nutritional recommendations made after neutering. It is necessary in all cases, regardless of sex or species, that part of the neutering process include a visit between the veterinarian and owner within 48-72 hours after the surgery. The nutritional recommendation emphasizes the changes in metabolism associated with neutering that entail increased risk of weight gain (and even obesity) and of developing

urinary stones in cats. Since appropriate diet can control such risks, veterinarians then prescribe the proper food and write out a dietary prescription. Before making a recommendation, the veterinarian must first listen to and understand what the client has already done.

For example, learning about the flea treatment already implemented by the owner allows the veterinarian to either simply approve it if it is appropriate or discuss possible inadequacies.

E) A profitable, but difficult approach

In the end, implementing a differentiation strategy through the recommendation of preventive services has a threefold advantage:

- Improving the practice's image by broadening the range of treatment offered (for example, a "simple vaccine injection" for a dog may seem very expensive, while, for the same price, a 20-minute yearly check-up will be perceived very differently when it includes a clear explanation of the complete clinical examination, discussion of key recommendations - nutrition, parasitism, oral hygiene, and prevention of infectious diseases).
- Direct profits from the sale of services and the margin provided by associated product sales (for example, pet food and anti-parasitics) can be considerable (In many cases, the sales of healthy dog or cat food enables the practice to double the gross margin for a given animal).
- Indirect profits by increasing the number of opportunities to prescribe services and additional products; for example through early detection of a chronic disease in senior pets, long before the client would have consulted the veterinarian after seeing clinical signs.

Conversely, implementing a consistent strategy to differentiate preventative services can very often be hindered by the difficulty in mobilizing staff support. In cultural terms, we veterinarians are inclined to meet technical challenges. We are very interested in finding solutions to daunting medical or surgical cases. Most preventive services do not involve the latest technical resources available to practitioners. Neutering a cat or performing a yearly check-up on a three-year-old Poodle is not the stuff of veterinarians' dreams. Yet, in both cases, the

stakes are high in terms of client relations; it is necessary to explain, convince and, we dare say, sell a future service or one or more products. None of this is part of veterinarians' basic culture and, consequently, requires strong commitment on the part of clinics' management to obtain from staff the commitment necessary for the differentiation strategy to succeed.

Conclusion: what is the veterinarian's societal role?

Beyond the consideration of clients' expectations, structuring a differentiation strategy based on preventive services poses the question of the societal role of veterinarians.

Although it is intended above all to "cure" or "care for" sick or injured dogs and cats, modern veterinary medicine can provide pet owners with more than that. Increasingly, veterinarians are professionals who enable pets to fulfill their social function in owners' families for as long as possible. Pets are an integral part of these families and their role differs depending on whether there are children, or the owners live alone or with a partner. Not only is it necessary for them to be alive and in good health, but they must also be fit, look good and, more generally, bring satisfaction to their owners. This means that veterinary medicine in the 21st century is necessarily preventive above all, hence the importance of caring first for healthy animals. ■

5. Selling medicine: how to make it work

> SUMMARY

How can the veterinarian and his team create a symbiosis between medicine and marketing?

First of all the practice must change its attitude toward the subject of "sales". Secondly, you must create value in every area of your clinic and in all stages of the client contact. Finally, good communication with the pet owner is essential throughout the consultation process.



Veterinarians all over the world love their jobs, continue to educate themselves and want to pass this knowledge on to their clients as well as use it for the best of their patients. However, during the consultation a strange change in their behavior occurs: minutes before, he or she was bright-eyed and passionate about modern diagnostics, advanced veterinary medicine and preventative care and then the veterinarian's demeanor changes by 180° when eye-to-eye with a paying customer. He or she becomes "small", quiet and reserved and avoids everything that could direct his discussion with the client toward the subject of money.

During this he often physically turns away from the client and avoids eye contact and speaks in "medicalese" to the computer monitor. Who could be surprised when the client reacts to this with uncertainty and therefore does not accept the advice and recommendations of the veterinarian? The veterinarian takes the client's rejection personally and thinks: "I knew this client would not accept my recommendations. Next time I am not going to make them." And the veterinarian does not realize that he is at fault for the client's denial.

The results caused by the veterinarian's behavior are fatal for his practice success because:

- He decreases his own medical and financial success
- He offers poor service to his clients by only presenting limited recommendations
- As a leader he becomes a poor role model for his practice team
- By not being a "sales person" he insures that the idea of "marketing" is viewed as negative and is not capitalized on

The result is that, for years, he and his team court a clientele that in reality is not willing to spend money. A typical statement repeatedly heard during my talks on marketing is: "I can't do that (specific services) with my clients, they don't want to spend any money".

The fact is and remains that every veterinarian has the clients that he or she deserves!

This means: as a veterinarian you have to actively do something so that your clients accept your recommendations in a positive way and will buy them. This has nothing to do with "power selling" but it's rather about offering every client the best service that the practice can. Use the above noted points as a checklist to see how much you and your team resemble this description!

What can the veterinarian and his team do in order to improve consultations, the provision of services and sales?

The following three steps will show you how a symbiosis of medicine and sales can be successfully achieved and how you can show your clients that you and your team are worth their money!

1/ First step: Your attitude toward the subject of "sales" has to be evaluated and changed

The veterinarian and his team have to first work on their perception of the "sales" and "services" aspects of the practice in order to change their behavior. This change will elicit positive feedback from clients which in turn will strengthen the team's resolve to continue down this path together.

It is important to always be aware of the following three facts:

1. Clients do not primarily judge veterinarians based on the price of a visit!

Most pet owner surveys repeatedly prove that clients use criteria other than price in making their decision about their choice of a veterinarian. The top 3 factors are friendliness, advice and competence. A low price for the consult ranks at the bottom of the factors considered, according to the results of a phone survey of 1285 pet owners, **Figure 1**.

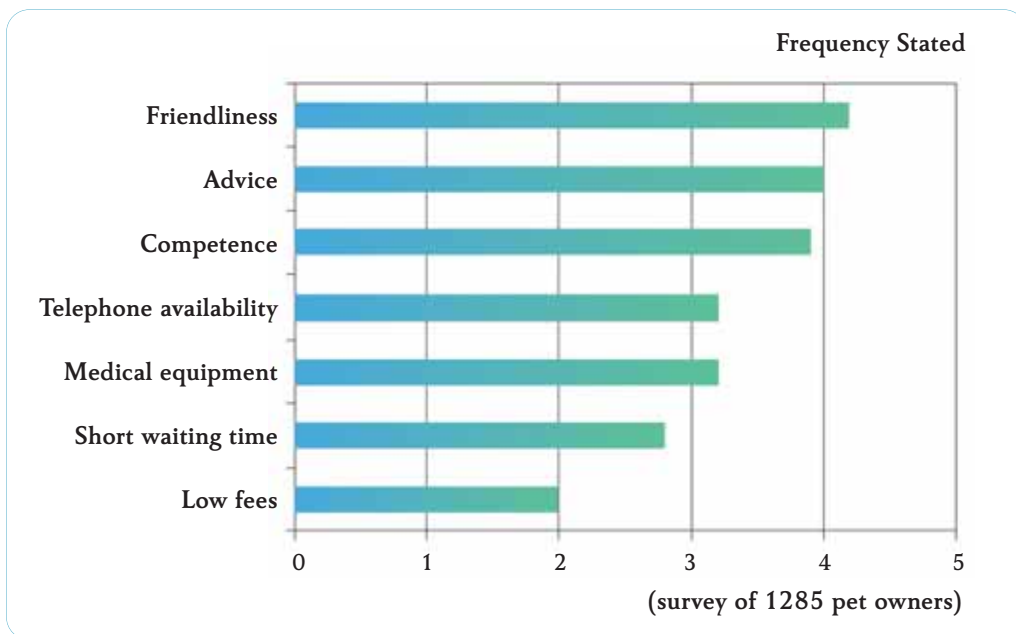
2. The client comes to the clinic because he wants to buy something!

Clients come to you for information, advice and in order to buy services, medications, supplements and care. This means that the client's visit in and of itself is an obvious sign of his willingness to buy. Why else would the client come to a veterinary clinic?

3. The price is only a problem for the client when the value is missing.

The value of a practice visit is created by the subjective

Figure 1. Criteria for the client's selection of a veterinarian.



Source: Energy Marketing, Austria, 2004, www.energy-marketing.at

assessment the client makes of his communications with the clinic. This communication includes all interactions that the client has with the clinic, **Figure 2**.

The diagram below demonstrates that the interaction time between the client and the veterinarian is very short compared to the number of and the duration of visits made to the practice in total and that the value perception of the client is made up of many individual facets to create a "total practice experience".

For the veterinarian, this means that it is not sufficient to rely only on the client-veterinarian dialogue in order to create value, but rather that all "stations" (see below) need to be integrated into the creation of a valuable experience for the client. It is this experience that, at the end of the visit, the client weighs against the price, **Figure 3**.

The client's perception of the experience as being a positive one depends to some extent on the services rendered by the veterinarian but much more importantly

it depends on how these services are provided. Only professional communication can create a bridge between the client and the practice and forms a solid base for the relationship between the client and the clinic.

To facilitate the role change for the veterinarian and his team from pure "medicine man" to business man and provider of veterinary services, the veterinarian should consider himself to be a consultant rather than a salesman:

- The role of a consultant is defined by the quality of his contacts, which means it is important to him to educate his clients in detail and to build a long-term relationship. The pet and its owner are the focus of his attention.
- A salesman is fixated on measuring the quantity of his contacts, the product is the focus and the client is only a means to achieve his goal.
- In order to make a business out of the veterinary clinic, an internal commitment to consistently build long-term relationships and a consultant mentality are paramount!

Figure 2. All experiences with the clinic count in creating value for the client.

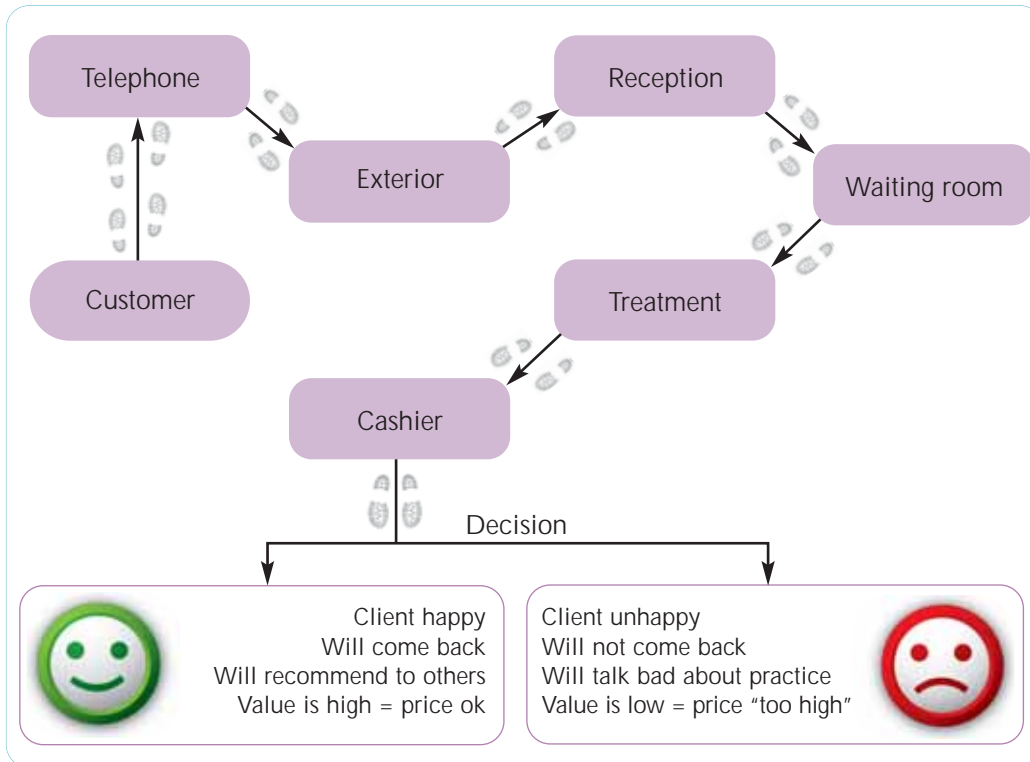




Figure 3. The client bases his satisfaction on comparison between price and value.

Clients want information, consultation and sales of veterinary care as well as service –why else would they be in your clinic?

2/ Second step: The atmosphere in the clinic creates value

Figure 2 demonstrates that in addition to the active dialogue between the client and the clinic team, there are many other aspects that influence a client's experience positively. Even though the first contact most often occurs on the telephone, it is the exterior of the clinic which the client actually sees first!

A) The exterior

In order for the client to have a good first impression, it is important that the immediate clinic surroundings are designed such that they are client-friendly and inviting, **Figure 4.**

It is equally important to check regularly that these standards are maintained:

- Absolute cleanliness (no dog feces or garbage lying around, plants are well-tended).
- Easy access to the clinic and clearly understandable signs in the parking lot (the parking spots by the entrance should not be occupied by the clinic personnel!).
- Clinic and other signs:
 - Is the information easily legible and well lighted so that it can be read quickly at night and in case of emergency?
 - Is the information clearly and unambiguously explained? Can the client tell when the clinic is open and if it is a "by appointment only" clinic?
 - Is the sign an "eye-catcher" that invites potential clients to look your way?
 - How often is the sign cleaned?
- Which signals are you sending that say: "You are welcome here. We are going to take care of you and your pet!?"
 - A waiting area (bench) outside for nervous or aggressive animals?
 - A hook in the wall for the client to "park" his dog in order to register at the reception area?
 - Water bowl, garbage cans, ashtrays?
 - "Pooper-scooper" (for example, an automatic plastic bag dispenser for the client to remove animal feces or a "dog toilet" with a tree for marking by the males).



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Figure 4. The exterior of the clinic should always give a good first impression.

and every inch of the counter is covered by displays, brochures and information materials, **Figure 5.**

The client cannot take this all in – especially not on the first contact and it is too much of a good thing in the truest sense of the word!

The client's needs are a lot more simple than this. Upon arrival he would like:

- A clean, well-maintained and good smelling atmosphere.
- A competent and accommodating contact person who:
 - Greets him, helps him and his animal through the door and takes down important data.
 - Gives him an approximate waiting time.
 - Gives him an “overview” of what will happen.
 - Ensures that he gets everything he needs to make his time in the clinic as comfortable as possible.

B) The Reception desk

The next station for the client is one of the key areas in terms of client contact and should represent itself as such. In all clinics this area is multifunctional and a high traffic area. Here the client is checked in at the beginning of the visit and pays for their services at the end of the visit. This means that this area must be tailored to the needs of the clinic team as well as to the needs of the client. Unfortunately the reception areas of today are often completely cluttered with materials in an effort to put into practice marketing workshop advice. Posters are affixed to the counter and to all other available surfaces

At departure it is optimal for the receptionist to:

- Give the client a short verbal summary of the consultation.
- Discuss the medications with the client (use, tips for administration, etc.), and make the next appointment.
- Get feedback from the client by asking: “What questions do you still have regarding ...?”.
- Presents the invoice, explains the charges and thanks the client for the visit adding that the client can call the clinic any time with questions.

Figure 5. A cluttered reception area (left picture) confuses the client, a well kept reception area (right picture) helps the client to focus on important information.





Figure 6. Friendly staff at the reception desk is one of the most important assets for every clinic!

The reception area should, of course, also serve as a marketing platform, however, not in the way described above. The motto here should be “less is more”; this means to carefully select which information and which format will be used to educate the client about certain topics. Additionally, selected products that fit the “topic of the month” (see below) can be placed in appropriate display areas with one or two brochures. Medications that are often used should be in the immediate proximity of the reception area - an open shelf system is best - so that the clinic personnel are within reach of the items they discuss with the clients and so the client can see what is available, **Figure 6**.

The goal of the reception area and the waiting room design is to enhance “the veterinary clinic experience” with a sale-inducing atmosphere that exudes price-value and presents your clinic from its best side.

This includes:

- Photos of the clinic personnel in various areas of the clinic.
- Information about the clinic and all its services and products-perhaps as a “tour behind the scenes” so that all clients know what the clinic offers and not only those who have used specific services such as ultrasound or inpatient care.

Ways to do this include:

- Framed photos of all the different areas of the clinic with appropriate descriptions.
- A waiting room TV and professional movie about the clinic and its services.
- Information regarding current seasonal animal health topics including treatment methods as well as preventive care. The main topic should be changed every month and run like a “red thread” through the clinic starting in the reception area and including all other rooms in which clients visit.

C) The Waiting room

The waiting room is the information platform of your clinic!, **Figure 7**. Here you can educate your clients in regards to important subjects and achieve two goals:

- The veterinarian and other staff members can start a dialogue with the client based on the information available in the waiting room. For example, if the subject “dental health” is featured in the reception and waiting areas, your client will already have some information regarding this topic and will listen to your comments more carefully.
- You are making the client curious to ask about subjects that are important to him and of which he was not

Figure 7. Attractively presented information in the waiting room educates your client and awakens interests in further consultation and sale!



Figure 8. Equipment for a comfortable waiting room (all items should be in an immaculate condition and should be checked several times daily for cleanliness and damage - for example torn magazines).

	For the client	For the animal
Seating arrangements	Chairs or benches with soft surfaces	Washable floor mats for large dogs
Useful furniture	Small tables for bags	Small tables between the chairs so that the animal can be at the client's eye level. Clients dislike placing their animals on the floor.
Coat stand	Within eyesight of the clients	
Drinks	Coffee/ Water dispenser	Clean water bowl with fresh water or water dispenser with empty bowls
Snacks	Cookies and hard candy in glass bowls	Doggy biscuits in a bowl
Reading materials	Current magazines: - Celebrity magazines - Auto magazines - Animal magazines	
Activities	For children (your clients of tomorrow!): - Coloring pens and paper or a wall-mounted chalk board - Easy puzzles - Dolls / model cars	Outside: possibly balls / throwing toys for puppies
Plants / Flowers	Fresh or artificial plants or flowers add color	
Disposal for feces, urine or vomit	Paper towel roll and garbage can	

previously aware. A good example for this is the subject "travel disease". When you present information on this as your "topic of the month" you increase the client's awareness of this issue and give him the opportunity to ask you more questions individually.

Aside from being a source of information, the waiting room should, of course, be designed to ensure that the client and the animal are at ease! **Figure 8** above lists some ideas that your clients will love.

3/ Third step: communicate better with your customer

After the client has been carefully prepared as described above it is time for the "highlight" of the clinic visit: the veterinarian consult. The client should not be disappointed in this; otherwise all the work was for nothing! The goal of the dialogue is to educate the client about the medical diagnosis and treatment and to offer him all the services that are appropriate for this particular problem as well as those that are important and recommended for the animal's general health. Every client should be informed about all the services the clinic can offer for him and his animal.

The question that every veterinarian (and team member) should ask during the client visit is: "Have I offered everything to this client that could be important to him?"

A) Basis for a professional consult

During the consultation, the veterinarian should be impartial and focused on the client's needs.

Impartiality, in this context, means that the veterinarian and all who consult and sell in the clinic are not influenced by the external look of the client when making recommendations. A quick judgment of the other person is human nature, but the subsequent assessment of his willingness or ability to spend money can unfortunately lead to an erroneous assumption with the result that the patient receives limited services. When the client drives an old rusty car and is dressed sloppily that does not mean that this person wants to or has to save money in the treatment of his animal!

Use the power of the positive attitude and think: My clients all want the best services that I have to offer. This means you are giving your clients the chance to actually use your services!

Positive assumptions such as "Our clients all want the best service that we have to offer", lead to an optimal basis for education, consultation and sale.

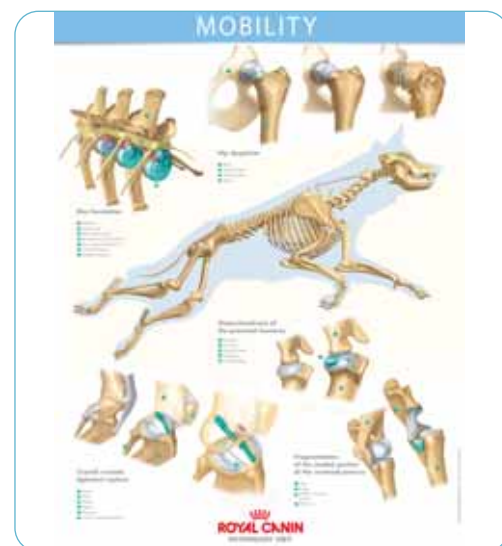
The needs of the client play an important role in the optimal consult, because only when you are "in tune with the client", will he accept your advice and buy your services. Need in this sense includes:

- Amount and depth of information given
- Appropriate tools and literature
- Individual concerns of the client

Veterinarians and their teams tend to consult their clients too much based on their own needs. This means that you give your client a mini-lecture about medicine with all the details that are important to you without asking the client actively about his information needs. Mostly the client listens attentively, however, as soon as he has left your consultation room, he will ask your team to explain the whole thing again in a way he can understand!

In order to avoid this lack of communication and insure the client is not left behind during the examination, diagnostic and treatment procedures, it is important to have a standard outline for client dialogue. This standard gives structure to the consult and ensures that the client is served optimally.

Figure 9. Posters are a good visual support in client communication.



B) Elements of a professional consultation

1) Greeting and history-taking

A professional greeting sets the mood for the consultation:

- Greet the client and his animal by name.
- Concentrate initially on the client, the animal stays on the floor or in the crate.
- Start the dialogue with the question: "What brings you here today"? and listen carefully to what the client says.
- Give the client a short summary of what he has said and ask him if you have understood him correctly. This way you get feedback for further discussion.
- If the client asks additional questions that have nothing to do with his reason for coming to your clinic today, make a note of these questions and explain that you will come back to these topics at the end of the consult.
- Give the client an overview of your physical exam and tell him you will provide an in-depth explanation at the end of the examination. This allows you to concentrate on the animal and you don't have to try to read the client's requests from his lips with the stethoscope plugged in your ears.

2) Exam and diagnosis

The exam and diagnosis phase of the appointment are important building blocks in the client contact during which your behavior and ability to communicate well can create (more) value!

- Make brief comments during the examination such as: "I am now examining the gums" or "I am now listening to the heart and cannot hear you while I am doing that". This allows the client to understand what you are doing for his animal. The client will feel as if he is a partner in the process and will be able to value your service more because you are making it transparent for him.
- Summarize your findings at the end of the exam and, if appropriate, give a preliminary diagnosis. You must speak in a language the client can understand and not in "medicalese"! Further tests may be necessary to obtain a final diagnosis; this will be discussed next.

Elements of a professional consultation

- 1) Greeting and history-taking
- 2) Exam and diagnosis
- 3) Recommendations, information and treatment related to the problem the client has come to see you about
- 4) Discussion of other recommendations related to the pet's health and well-being (these would be topics not related to the primary reason for the visit but that the veterinarian feels are important to the pet and the client)
- 5) End of Consultation—ask the clients if they have any further questions, escort to the reception desk

3) Recommendations, information and treatment related to the problem the client has come to see you about

During the recommendations, information and treatment phase, it is important that the consequences of the findings and the diagnosis are explained, the treatment steps are planned or agreed upon and/or the further necessary diagnostic steps are discussed.

- Use aids in your explanations that help support your points such as models, brochures or drawings. Not every person is able to understand facts only by listening. Some need visual support (**Figure 9**) and others need something they can touch (**Figure 10**).
- Keep your explanations short and don't overload the client with information. Don't be concerned that you talk too little, usually the opposite is the case: The client gets slammed with information! Instead ask about the information needs of the patient: "What information about this subject can I give you?" Then you give him exactly what he asks for and he will really listen to what you are saying.

- Discuss further diagnostic steps and explain what you hope to achieve with the test.
- Discuss the costs of the diagnostic services you are recommending at this time. Create a cost estimate for the client and discuss the individual services. This approach shows respect for the client and, if necessary, you can modify the plan if the client cannot afford your recommendations.

Giving the client an estimate of your services prevents disappointment, makes you appear honest and enhances the value of your consultation!



Figure 10. Models help clients “grasp” information.

- After the diagnostic procedures are completed, in-house treatment follows and, subsequent to that, a careful explanation of home therapy and further care measures. It is important here that the client receives a written Treatment Plan (see page 51), which summarizes the entire consultation including the medications prescribed. A template for this plan should be present on your computer for easy updating for each individual client and handed out in printed format. The plan is additionally saved in the patient's file and can be pulled up anytime if questions arise in regards to the treatment ordered for the animal.
- Optimally, a team member will go through the plan with the client prior to him paying his bill. This should include a discussion of the medications prescribed and advice on how to administer them. This discussion actively creates more value for the client and anchors the clinic visit positively into his memory because you are showing him again what you have done for his animal.

Remember: Everything into which you invest time and effort in the dialogue enhances success of your consultation. A complete conversation in the clinic reduces the client's need for “after” information that is often in the form of an (annoying) phone call: “How do I get the cat to take the pills? How long do I have to give the medications?” Such questions indicate that, during the consult, information was either lacking or was given in a form that the client was not able to take in.

Ask yourself during every client consultation if you have offered the client everything that you can that is appropriate to his and his pet's needs.

4) Discussion of other recommendations related to the pet's health and well-being

Once you have completed the dialogue related to the client's reason for visiting your practice, you can offer supplemental recommendations, depending on the situation and the previous diagnosis. These would be topics not related to the primary reason for the visit but that the veterinarian feels are important to the pet and the client. Naturally, if the pet's illness is very grave, you may end the dialogue at this point, and not offer any extra services. Instead you move on to saying good-bye. Even if it isn't appropriate to discuss these topics now, at least refer to any questions the client asked at the beginning of the consult so he doesn't think you have forgotten them. More information can be given at a better time.

If there is time and the client is interested in more information, consider proposing the following types of items:

- Services related to topics the client has discussed with your team and that have been added to the animal's records; for example that the dog vomits each time he rides in a car. You should take up this topic, give advice to the client and sell appropriate medications or refer him to an animal psychologist.
- Specific health checks recommended due to an



PROPOSAL FOR FORMULATION OF A TREATMENT PLAN

Dear Mr. John Brighton,

You were in our clinic today on April 24 with Rambo for an examination.

Diagnosis: Bladder infection

Your next appointment: April 26 at 10:00 a.m.

Please administer the medications as prescribed
(see added separate prescription).

Dietary prescriptions:

Urinary s/o diet. Daily ration: 60 grams, divided into two meals,
fresh water. Please don't give additional snacks or treats!

Other supportive measures:

- keep Rambo warm and reduce his daily exercise
to a necessary minimum for the next three days.

Please call us if you have any questions.

We thank you for your visit and wish a quick recovery for your pet.

Your Clinic Team

increased risk for certain diseases based on the pet's age or breed. Actively recommend preventive services; the client has a right to this information and will be grateful.

- Recommendations related to other findings noted in your exam such as dental decay and gingivitis. Show the client what you are talking about and explain to him what the incidental finding means and what treatments you recommend.

Most additional recommendations require a written cost plan for the client, especially if they are complex. Estimates don't need to be prepared for the sale of small amounts of medications or other similar items, but should be completed for more expensive services.

Some clients need some time (at home) to think about your recommendation. If this is the case, wait a few days and then telephone the client regarding your plan or talk to him about it again at the next visit. If the client is ready to make an appointment right away it is of course all right to go ahead and schedule it. But don't give your client the feeling of being pressured into a commitment, even if your main focus is the animal's best health. Remember: You are his consultant, not a sales person.

On the other hand, if you are under significant time pressure or the service you are recommending is very complex, you should put together your estimate when you have more time after the client has left. Communicate the plan to the client by mail, fax or telephone. Estimates created under pressure often tend to be unrealistic and potentially too cheap!

C) End of Consultation

At the end of the consultation all the important information is summarized and the client is sent on his way:

- Summarize the consultation briefly and ensure that the client has understood your orders.
- Finalize the visit with: "What questions do you still have for me?" and "I thank you for your visit and refer you to my team at the reception desk where you will be given your treatment plan and medications, can pay for the visit and make your next appointment. Always use every contact as an opportunity to present your services to the client and to show him that you are worth his money! Make offers and awaken needs, don't be held back by your (secret) fear of a client's "no".

Only those who have the courage to hear a "no" have the chance to hear a "yes"! Without an offer the answer is always "no".

If the client says "no" despite your efforts:

- Don't take a "no" personally and recognize that even if the client says "no" this time it doesn't mean that he won't come back and accept your recommendations later.
- Ask yourself critically if you are sure that the client truly understood your recommendations.
- Ask the client if he has additional questions regarding your recommendation.
- Make a note in the patient's file to repeat the recommendations at another date. A consultant must recognize that the fruits of his labor may be earned later! Your goal is the creation of a long-term relationship by offering full service and stating your position as a concerned and committed veterinarian who is offering the best service to his clients!
- If the client has said "no" twice, drop the offer.

And now: practice, practice, practice. I wish you much success and fun! ■

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Chapter 1

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Chapter 3

1. *Practice Financial Indicators: Measure Your Productivity* (Moreau, P) *EJCAP* - Vol. 15 - Issue 2 - October 2005.
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Personal notes

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This book has been prepared with the greatest care, taking into account the latest research and scientific discoveries. It is recommended that you refer to the specificities of your country. The publisher and authors can in no way be held responsible for any failure of the suggested solutions.

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