



Partners In Practice™

Business Solutions for Equine Practitioners

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Setting fees 101

You know *why* it's crucial to charge what you're worth. It's the *how* part that's got you stymied. Financial experts weigh in to help you set appropriate fees.

By Michelle O'Neal

Good design can't fix broken business models," says Jeffrey Veen, author, speaker, and Web consultant. Or, in our case: Good medicine can't fix poor fee structures. Do your fees accurately reflect the level of patient care and client service your practice provides? If the answer is no, it's time to reevaluate before you lose another dollar. Grab a pen and paper and use the following recommendations and formulas (see *Formulas for success*, page 2) to fix your ailing fee structure.

Analyze your offerings

Start with a classic evaluation of veterinary fees—breaking down all services and products into three main areas: **shopped services**, **value-added services**, and **product and drug sales**, says James Guenther, DVM, MBA, MHA, CVPM, a practice-management consultant in Asheville, N.C. "You can't just say, 'I think I'm going to charge X dollars.' You must work *on* your practice, not just *in* your practice," he says.

Shopped (or price-sensitive) services are the procedures that horse owners shop around for. These services include vaccinations, pre-

purchase exams, routine castrations, and sometimes reproductive ultrasounds. What services get shopped for may depend on your area.

Denise Tumblin, CPA, director of consulting services with Wutchiett Tumblin and Associates in Columbus, Ohio, recommends conducting market research to learn what competing practices are charging for shopped services. Ask staff members to call practices posing as potential clients. In addition to collecting data, they will learn the importance of first impressions. How was the call handled? Was the person friendly and knowledgeable?

Analyze your findings with the goal of being in the mid- to high-end of the range. Dr. Guenther recommends that you be in the top 75th percentile for shopped services in your area, or better yet, leading the pack. Conduct additional market research on the National Commission on Veterinary Economic Issues' website, www.ncvei.org (see *Do your homework*, page 3).

Value-added services aren't typically shoppable services and may include examinations, lab work, diagnostic imaging, and abdominal

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RESEARCH • PERFORMANCE • INTEGRITY

Formulas for success

It's time to roll up your sleeves. We'll define basic fee-setting terminology and offer formulas and an example of a fee for a 15-minute procedure.¹

Fixed expenses (or overhead) are the nondirect expenses that do not vary substantially month to month (e.g., your facility's rent, utilities, maintenance, insurance, taxes, and depreciation on your truck or stalls). Make sure that all fixed expenses are, in fact, necessary and pay for themselves.

Variable expenses can include labor, materials, drugs, and grain. Calculating variable expenses requires that you scrutinize your past performance. Though labor is typically a variable expense, a practice manager's salary might be considered a fixed expense, notes Dr. James Guenther, a practice-management consultant in Asheville, N.C.

Labor and billable time represent about half of total working hours are billable. If you work 60 hours/week, only 30 hours are billable. Thirty billable hours/week × 50 weeks = 1,500 billable

hours/year. If the practice needs to make \$90,000/year (the annual overhead), then the veterinarian's billable rate is \$60/hour (\$90,000/1,500). This equates to \$1/minute, so a 15-minute procedure equals \$15 of overhead.

If a technician works 40 hours/week, only 20 hours are billable. Twenty billable hours/week × 50 weeks = 1,000 billable hours/year. If the technician's annual salary is \$25,000, then the technician's billable rate is \$25/hour (\$25,000/1,000). So, for a 15-minute procedure that requires both the veterinarian and technician, the labor cost would be: (\$60 + \$25)/4 = \$21.25.

Material costs consist of the cost of the item plus the cost times a minimum 30% to 45% markup to cover the indirect costs associated with managing inventory. For example, if a vaccine costs you \$20, the charge would be \$20 + (\$20 × .45) = \$29.

Profit margins will vary, but we'll use 25% for this example.

Use the following algebraic equation:

$$\begin{aligned}
 C \text{ (client fee)} &= T \text{ (overhead + labor + materials)} + \text{Profit margin}(C) \\
 C &= (\$15 \text{ overhead} + \$21.25 \text{ billable labor} + \$29 \text{ material}) + .25C \\
 C &= \$65.25 + .25C \\
 C - .25C &= \$65.25 \\
 .75C &= \$65.25 \\
 C \text{ (client fee)} &= \$87
 \end{aligned}$$

¹Some formulas and examples were excerpted from *Blackwell's Five-Minute Veterinary Practice Management Consult* by Lowell J. Ackerman (2006).

surgery. Fees for these services take the veterinarian's time and knowledge into account. The perception of value plays a huge role in setting these fees. In addition to expertise, intangible things—professionalism, timeliness, cleanliness, trust, and courtesy—convey value and influence what a client is willing to pay. Veterinarians who combine these qualities with good medicine can charge the highest prices in their area.

Note that fees for value-added services may be different for racetrack veterinarians vs. rural ambulatory practitioners. Tumblin takes demographics into account when helping veterinarians set fees, noting that examination fees are a good economic indicator for an area. Based on the typical exam fee in a market, she applies formulas that determine prices for all other

value-added services. (Visit her company's website, www.wellmp.com, for more information.)

Product and drug sales present somewhat of a conundrum for the equine practitioner. First, you have to consider that there are a lot of players in the market. The answer to the question, "Can I compete?" is probably "no." Second, inventory doesn't earn money sitting on a shelf or in your truck, so less is more. Many equine veterinarians are writing more prescriptions and managing fewer products.

Third, Dr. Guenther recommends adding a minimum 30% markup on products. The indirect costs of managing inventory—storage, personnel, breakage, theft—add up quickly. If you're only marking up products 15% to 20%, you're losing money, he says.

Equine veterinarians can also take a hint from their food-animal colleagues who offer tiered pricing structure for products, says Dr. Guenther. Clients have three options: 1) Buy a product off the truck with a markup of 100%. 2) Pick it up at the office where the markup is 35%. 3) Have it dropped shipped with a reasonable markup. “You’d be amazed how many clients value the convenience of receiving products right away, and they don’t bat an eye at the higher price,” he says.

Tumblin recommends a 140% to 175% markup on dispensed or administered medication plus a dispensing fee of \$9 to \$12 to cover management costs (Note: The dispensing fee and the markup are both rolled into the total prescription price). She then suggests comparing the total to a table with your minimum prescription fee for every drug. If the total is lower than your minimum, use the higher fee. For medication bought in bulk, she recommends the following markups:

- Vaccines bought in bulk—125% to 150% markup
- Antibiotics bought in bulk—100% to 125% markup
- Dewormers bought in bulk—50% to 75% markup.

Don’t give away freebies

Everything in your practice must earn its keep. Many veterinarians make the mistake of charging for antibiotics, but perform follow-up examinations for free. If anything, you should do the opposite. There will always be more profit potential in services than products. “It may seem counter-intuitive because you forked out real money for those drugs, but remember that you paid a lot more for your education,” says Dr. Guenther.

Reduce the fear factor

Most equine practitioners are overly sensitive about fees—assuming clients prioritize cost when it comes to choosing a practice. However, the American Association of Equine Practitioners market research has repeatedly demonstrated that competence, professionalism, and interpersonal skills—among other factors—rank higher in importance than cost and fees. In fact, in the last 15 years, cost has never climbed higher than the No. 7 spot on the list of reasons why clients give a particular practice their business.

Horse owners who seek equine healthcare are also typically affluent (40% make more than \$75,000 annually) and well-educated (75% have completed college coursework). If you demonstrate value coupled with five-star service, most clients will feel they are getting their money’s worth and will keep coming back.

Review and remain flexible

No one suggests that you raise prices and adhere to them come what may. Dr. Guenther says that you

Do your homework

The National Commission on Veterinary Economic Issues (NCVEI) maintains a website (www.ncvei.org) designed to help you understand the economics behind veterinary practice and gain solid analytical information. Helpful checklists allow you to organize your data before plugging it into the online tools. Then, you can compare your fees with more than 10,000 clinics and fine-tune the results on a state or regional level. The Equine Tools section will help you answer questions like:

- Will my fees keep me afloat?
- Where is my money coming from?
- Where does all the money go?
- Do I have enough income coming in?

If it’s been awhile since you’ve visited the NCVEI’s website, check out these new features:

- An express login that allows you to access the benchmarking program faster and view updated results without having to navigate through the question sections.
- A tool filter that helps you quickly access the tools you need.
- A user feedback section.

should watch for changes in the first 30 days after increasing prices. “About 10% of clients complain no matter what,” he says. “But if more than 10% of them grumble, your fees may be too high or the perceived value too low.”

According to Tumblin, equine practices need to review pricing structures every six months. Ambulatory practitioners may need to reevaluate fees more often (especially to accommodate fuel prices). If you only examine fees once a year, you may learn that you’re spending more than your practice takes in.

Add value and the rest will follow

Many veterinarians feel trapped think their clients will be scared off by higher fees. When in doubt, follow the golden rule of fee setting: If the price goes up, so must the perceived value. Dr. Guenther achieved this by switching to closed castrations that use both ligation and an emasculator. They were safer, quicker, and better on the whole for the horse and doctor. Word got out that horses had fewer post-operative problems, and clients lined up for the service. “Horses healed faster, clients were happier, and I could charge more,” he says. Now that’s good medicine and good business. ■

Michelle O’Neal is a freelance writer and editor in Shawnee, Kan.

Q&A

Send your questions to *Partners In Practice* by:

• **Mail:** 8033 Flint, Lenexa, KS 66214

• **E-mail:** partnersinpractice@intervet.com

• **Fax:** (913) 492-4157

• **Voice mail:** (800) 255-6864, ext. 184. Include your name, title, hospital name, address, and phone number.

Ask Partners In Practice

Your questions answered by top equine industry experts

Q How can I minimize my accounts receivable?

A Not every client can pay in cash, so sometimes credit is necessary. But without an effective collection strategy in place, your accounts receivable can build up. At one point in my practice's history, I had \$100,000 in accounts receivable.

All likelihood of collection is based upon the qualifications met or not met by the debtor. If accounts are kept in-house, you should have a credit department in your veterinary hospital, and they should have high criteria for screening clients' credit-worthiness. In addition to requiring the client to have a favorable credit score, you must also have some basic rules in place to further minimize your risk. These rules could include: no credit to new clients, no credit to those who were not on the same job longer than one year, and no credit to those who cannot show stability in residence, whether rented or owned.

In addition to screening clients thoroughly, collection department personnel should be on the phone immediately when an account becomes delinquent. They should at least try and set the client up with a payment plan. After a payment agreement has been reached on the phone, follow-up letters should be sent out.

These days, the availability of credit cards and third-party credit providers make it possible for veterinarians to have little or no accounts receivable at all. Third-party credit can be approved in less than a minute with today's sophisticated technology and access to information. This is nonrecourse credit, and you might have to pay a service fee. But considering that you get paid in cash within a short time after you perform the service, it's worth it. It takes the pressure off of you to collect if the account goes past due. And it's a more flexible option for the client, as many third-party creditors allow several months for repayment.

Karl Salzsieder, DVM, JD
Salzsieder Consulting and Legal Services
Kelso, Wash.

Q What should a chart of accounts include?

A Recently, the American Association of Equine Practitioners Practice Management Committee made available to its members a suggested chart of accounts. Changing to this uniform accounting method will allow the profession to share information with greater ease and organization.

Listed in the sample chart are categories I use in my practice (see *Sample chart of accounts*). But expect there to be some fine tuning in the first year or two, as you might decide that information is best suited in one category over another.

AAEP members can obtain a free copy of the full chart of accounts by calling the organization office at (800) 443-0177. Non-members can purchase the suggested chart of accounts for \$89.95. All proceeds will be donated to the AAEP Foundation. ■

Greg Smith, DVM
East County Large Animal Practice
El Cajon, Calif.

Sample chart of accounts

Assets

Current assets
Fixed assets
Other assets

Equity

Stockholders' equity

Expenses

Compensation
Contract labor
Employer payroll taxes
Benefits and human resources
Business travel and lodging
Continuing education
Administrative expense
Facility and equipment costs
Collections and bank charges
Depreciation and amortization

Miscellaneous

Other income
Other expenses

Liabilities

Current liabilities
Long-term liabilities

Income

Revenue from operations



MONEY MATTERS

Strategies for making sound decisions about your personal and professional finances.

Strategies for retirement

The right plan can help maximize benefits.

By Courtney Hagen

Whether you've been in practice for two, 20, or 40 years, there is one constant: Retirement is coming. And when it's time to put away the hoof testers, rasp, and stethoscope for the last time, you want to know that all your years of saving and planning have been worth it. But figuring out which retirement plan will maximize your benefits the most can be difficult. After all, Retirement 101 wasn't a course offered in veterinary school.

Fritz Wood, Certified Public Accountant and Certified Financial Planner for H.F. Consulting in Lake Quivira, Kan., says the key to planning a successful retirement is choosing the most effective plan for the kind of practice you run. Do you fly solo or have a staff? Wood recommends two retirement plans that the federal government offers for practitioners and employees of either solo or large practices.

Simplified Employee Pension (SEP) plan

SEPs are a smart choice for solo practitioners, Wood says. Part of a profit sharing program, the plan allows veterinarians to set aside 25% or about \$45,000 in pretax wages each year. Wood says the plan makes good sense for small practices because the employer's contribution rate is the same for all employees. The employer has the option to raise or lower the annual contribution rate depending on the fiscal success of the company.

Savings Incentive Match Plan for Employees (SIMPLE)

A SIMPLE is designed for businesses with fewer than 100 employees. Both employer and employee make contributions to the plan. Employees contribute up to \$10,500 each year, with the employer contributing up to a 3% match. Participants over 50 can also utilize the plan's catch-up provision, which allows them to contribute more than they usually would. Wood says the SIMPLE plan is a safe bet.

"It doubles your money without taking a risk at all," Wood says. "For people who don't contribute, you don't put in money for them. There's not a lot of commitment or liability."

Mutual fund companies offer set-up assistance to ease the stress of getting started with SEPs and SIMPLEs. More information can be found at www.irs.gov by clicking on the Retirement Plans Community link.

The earlier, the better

Saving early is vital because it affords the power of time, Wood says. If you're in the beginning to mid stage of your career, he recommends setting aside 10% of your gross pay each year. If you're nearing retirement and you don't have a lot in savings, he says the number should be between 20% and 30%.

Better late than never

Even if retirement is looming, Wood says you still have options. "If you're a practice owner the best thing to do is to groom your practice for sale," he says. "The price is determined by how profitable a practice is. A lot of people do the opposite—they get older and then downsize their workload, which results in a decrease in profit."

At this point in a career, Wood recommends starting to think about how much money will be needed for retirement such as how much will go to a mortgage and how much will come from social security.

It's about what you know

Whether you're selling, developing, or starting a practice, Wood stresses that the key to comfort is knowing what financial options are available and preparing for the long haul. He also recommends keeping your employees educated about what options are available by meeting as a group or giving out informational retirement packets each year. ■

FROM THE FIELD

STRATEGIES THAT REALLY WORK FOR AMBULATORY EQUINE PRACTITIONERS



Scheduling made easy

Three steps to maximize efficiency and save time.

By Rhonda Rathgeber, DVM, PhD

Make your practice more efficient and manageable by optimizing your time in the field. An organized ambulatory call can easily increase client service, maximize earning power, and give you more time for family and recreation. Use these three steps to schedule more into your visits without overbooking yourself.

1. Dial-in

To make your practice more efficient, you need to effectively communicate with clients, colleagues, and office staff. Technology greatly increases your ability to communicate, so consider having a laptop and mobile printer in your vehicle. You can use your laptop to e-mail case reports, schedule changes, and send billing information to clients or the office between calls. This saves time because you don't have to drive back to the clinic to fax, mail, or deliver information. Data entry can be done on the drive between calls by a technician or yourself if you use a voice-activated program on your laptop. There's no reason not to have your paperwork done at the end of each day.

2. Route it out

Arranging your calls by location can improve your efficiency and gas mileage. Use an appointment program to schedule future or follow-up calls on site. It will show you what days you will be in a certain area so you can schedule accordingly. To save on gas, use the Internet to pencil in pit stops between calls. You can find up-to-date gas prices in your area or on your route by visiting www.autos.msn.com.

Quick tips

Save time and money by:

- Bringing along a laptop and mobile printer
- Arranging calls by location
- Use appointment software
- Finding the gas stations with the lowest gas prices via the Internet
- Calling clients a day or two in advance of their appointment.

3. Make the call

It's a good idea to call clients a day or two before their appointments—not just as a reminder, but as a means to reevaluate your workload. Often clients will schedule a follow-up appointment and then discover additional problems they want you to address. Being proactive and communicating with clients will keep you on, if not ahead, of schedule. Communicating cases and findings with other regional veterinarians also helps; colleagues can save you a trip if they're already in a particular area.

Scheduling your ambulatory calls efficiently doesn't happen overnight. As we all know, a process can work immaculately one day and fall to pieces the next. You just need to find a method that works for you. This will enable you to be more efficient and have more time to concentrate on your patients. ■

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REAL SOLUTIONS

Implement these winning ideas from other equine practitioners.

Big money makers

Top revenue-generating services and how to promote them.

Emergency services

Far and away, emergency services are the most profitable. I can charge virtually anything I want, and I am always the hero, no matter what the outcome of the call.

How do you promote the service? Answer the page, pure and simple. Clients learn quickly that other vets don't sometimes, but I will. Heck, the promotion is free!

Ruth V. Sobeck, DVM
Palos Verdes, Calif.

Surgery

In our practice, surgery service produces the greatest gross revenue; however, after profit center analysis, both surgery, medicine, and ambulatory services produce a balanced net profit.

We promote our surgical services both by constant communication with our referring veterinarians, by targeted promotions at horse events, and in printed media. Our most effective promotion is with the referring practitioners. We also produce a practice brochure that fully describes our services.

Reynolds Cowles, DVM
Blue Ridge Equine Clinic
Free Union, Va.

Client care

The single most important income-generating service a practice can offer is incredible client care by the front office staff. They are the first and last contacts with every client. They are the lifeline between the practice and the clients and ones who fill the appointment book ... or not. Unless they are able to draw clients in the door, nothing else matters. Do they answer by the third ring, use the proper name and gender of the pets, or say "thank you"? It is their attitude that makes ALL the difference.

Dave Gerber, DVM
Simmons & Associates
Coeur d'Alene, Id.

Pre-purchase exams

Pre-purchase exams have the biggest impact on my overall revenue. I perform comprehensive examinations and recommend appropriate ancillary diagnostics. I follow the exam with timely and thorough reports and am available to the client for additional consultation.

Thoroughness of the exam and service level provided acts as the promoting mechanism. I also pick up additional work from the parties involved in the exam (buyer, seller, trainers, etc.) because of the attention I provide during the exam and the client service I provide after.

Aimee M. Eggleston, DVM
Eggleston Equine LLC
Woodstock, Conn.



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