

Beef Sessions

Moderators: Neal Roetemeyer, Brad White, D.L. Step

Drivers of Income and Economic Growth in Mixed Animal Veterinary Practices

Brad White, DVM, MS

Department of Clinical Sciences, Kansas State University College of Veterinary Medicine, Manhattan, KS 66506, bwhite@vet.ksu.edu

Abstract

Business management techniques, procedures, and services can impact the overall economic success of veterinary practices. Gross practice income and income growth rate are two important metrics for gauging practice economic well-being. Practices with higher economic growth rates have been associated with utilization of specific business management techniques, including the frequency of updating prices and the employment of a business manager. Every practice has a brand, or perceived value by the client base, and practices can generate a long-term plan to capitalize on competitive advantages. Providing convenient client services and actively communicating with clientele promotes economic success.

Résumé

La méthode d'administration des affaires, la manière de procéder et le type de services peuvent avoir un impact sur la viabilité économique globale des cliniques vétérinaires. Le revenu brut des cliniques et le taux de croissance des revenus sont deux importantes mesures pour évaluer la viabilité économique des cliniques. Les cliniques avec des taux de croissance économique plus élevés ont plus souvent recours à des méthodes particulières d'administration des affaires, incluant la fréquence de mise à jour des prix et l'emploi d'un directeur d'affaires. Chaque clinique se caractérise par sa marque ou jouit d'une certaine perception par la clientèle et les cliniques peuvent générer un plan à long terme capitalisant sur leurs avantages compétitifs. Le fait de fournir des services commodes aux clients et de communiquer directement avec la clientèle favorise le succès économique.

Introduction

Economic health is an important aspect of all businesses, including mixed animal veterinary practices.

The Brakke management study identified several business factors that could be used to increase income in veterinary practices.³ Additional research^{1,6} described the veterinary practitioner's economic health and ability to capitalize on emerging opportunities. These studies indicate the greatest areas of potential economic improvement are in business and financial acumen rather than clinical skills and aptitudes. Recent research focused on food supply veterinary careers also noted the importance of business skills in maintaining future demand and projected continuing labor shortages in several areas.⁵

A variety of metrics can be used to gauge success in veterinary practice; however, there is no single number that determines success for all practitioners. Economics is not the sole source of career satisfaction for many practitioners, yet maintaining financial stability is still a component of success in practice. Veterinary practices are structured in a variety of manners,⁹ and directly comparing net income or return on investment from these diverse businesses is challenging. Gross practice income is an important metric and this number is often a component in practice valuation assessments.^{4,7} Economic growth is also important, because to maintain the same economic base the practice must grow at a rate keeping pace with inflation. Identifying factors that lead to increased gross income and improved practice growth rates can assist practitioners when evaluating specific areas of opportunity within their practice.

Improving practice economic health requires a systematic approach, and identification of opportunities for economic improvement is an important first step. The objective of this manuscript is to describe factors related to increased gross income and economic growth in mixed animal veterinary practices.

Practice Size and Growth

In a recent survey,² 54 mixed-animal practitioners provided information regarding their business manage-

ment practices and practice gross income over a five-year period (2003-2007). Although the majority of practices were less than three doctors and located in relatively small communities (less than 25,000 people), practice gross incomes had a wide range, from \$100,000 to \$3.2 million. The average annual percent growth rate of gross practice income in the study was 8.5%; however, this variable changed over the study years and varied from -9.2% to 34% (Figure 1). To facilitate comparison between practices of different sizes, gross income can be compared on a dollars-generated-per-veterinarian basis. The dollars generated per veterinarian also increased over the study period, but also exhibited a wide range in growth rates between practices (Figure 2). The wide ranges in both gross incomes and practice growth rates allow identification of potential business management techniques associated with increased practice size or growth rate.

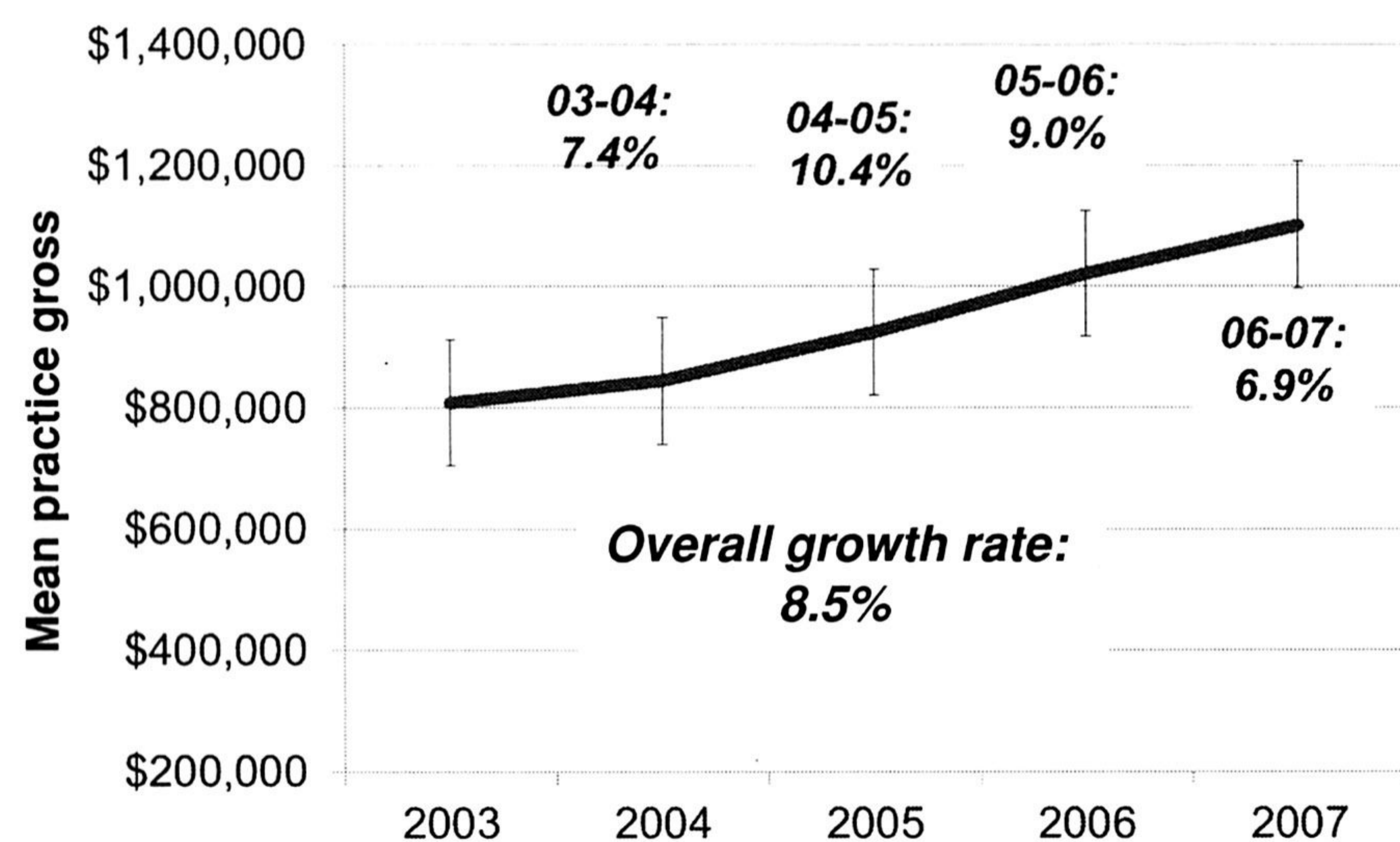


Figure 1. Mean gross practice income (and standard error) and associated growth rates for 54 mixed animal veterinary practices between 2003 and 2007.

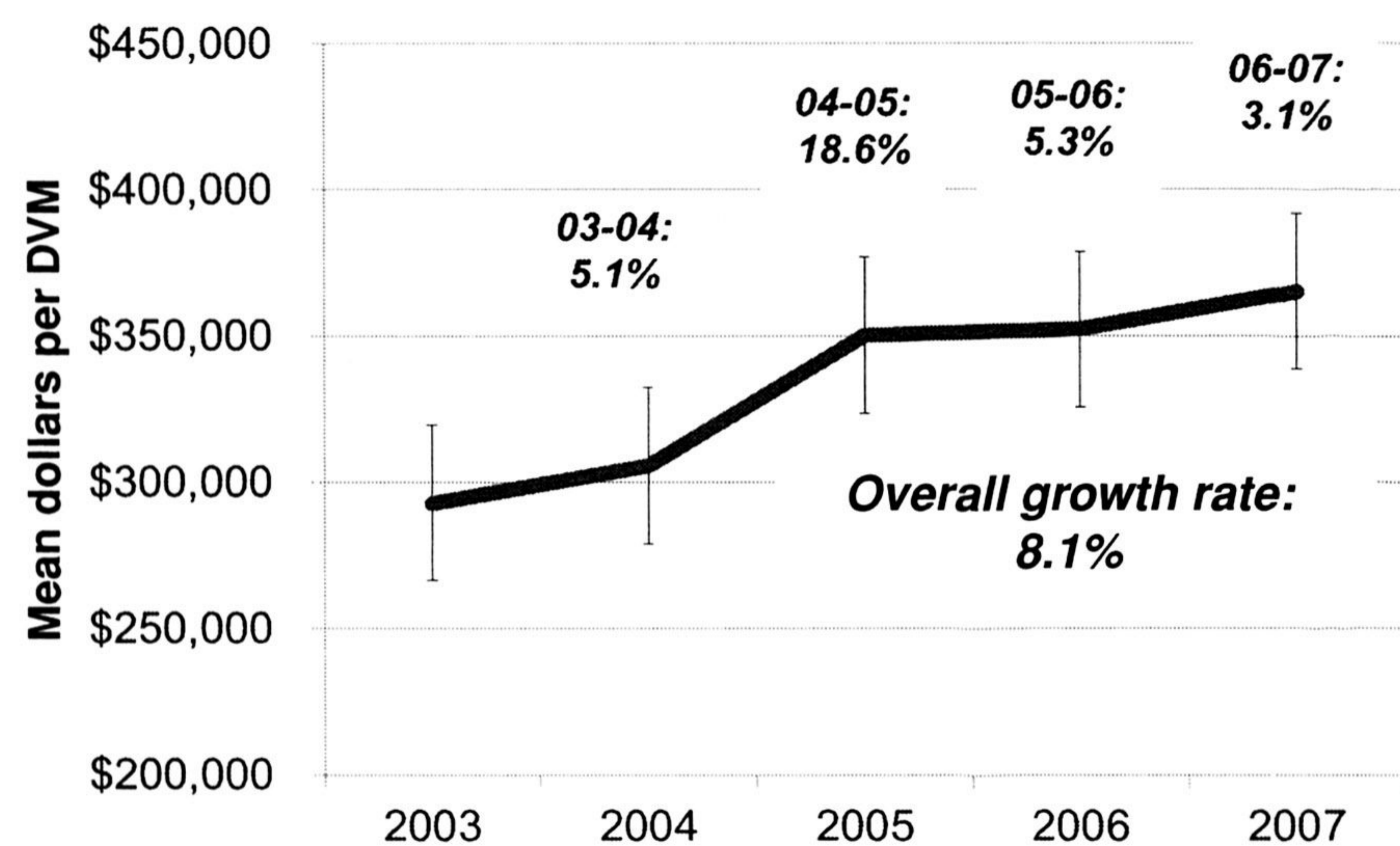


Figure 2. Mean income per veterinarian (and standard error) and associated growth rates for 54 mixed animal veterinary practices between 2003 and 2007.

Several key factors contributed to economic size and growth in these practices, including practicing good client communication (having a website, newsletter), active business management (frequency of evaluating pricing structures, financial records), and forward planning (utilizing external consultants).² Thus, maintaining economic health and sustaining growth in private practice is possible, but requires active management. This research revealed several factors influencing practice growth related to business management practices, the ability to customize services to clientele and active client communication.

Business Management Practices

Veterinary practices have varied business structures and multiple areas of income generation, yet frequent financial evaluation of practice performance is consistently an important component of long-term success. Analogous to working with an animal production system, maintaining accurate, easily usable records is necessary to make data based decisions. Practices updating prices on an annual or semi-annual basis have been shown to have higher growth rates in gross incomes compared to practices updating prices every two or five years.² Mixed-animal veterinarians often play many roles in the practice, including office business manager and human resources specialist. Some practitioners excel in these areas; however, each practice should critically evaluate the amount of time and level of business acumen necessary to complete these tasks effectively. In the survey of mixed-animal practices, having a business manager was associated with a higher gross income per veterinarian (\$400,081) compared to practices without a business manager (\$323,248).² Hiring additional help to complete some of the necessary management tasks may be beneficial, but the practitioner should still have a system for evaluating success or failure of previous business decisions.

Rapid expansion and increased practice size is not a goal for many practices; however, expenses increase annually and at least nominal economic growth is necessary for a successful practice to be sustainable. Practice growth can be achieved by expanding services in specific areas, incorporating new procedures into the practice, or adding new employees in the form of associates, technicians, or lay help.

Customization of Services

In marketing terms, a brand is the embodiment of all information associated with a product or service. All veterinary practices have a brand or perceived value determined by their clients. The way the practice is viewed by consumers affects the types of services requested and

the kind of client attracted to the practice. Modifying the practice brand to match the competitive advantage of the veterinarian is a viable method to increase net returns. A key component to this concept is that the brand matches the potential competitive advantage. Merely having a brand does not promote success or value. The practice identity provides value only when congruent with the practitioner's skill sets and the opportunities in the potential client base.

A competitive advantage is the ability of a business to differentiate in the marketplace and offer consumers a product of greater value. Value is achieved through lower prices or higher quality that justifies greater prices. Competitive advantages come in many different forms and each practice must identify the area where they can excel. A true competitive advantage revolves around a product or service the practice performs better or more efficiently than other businesses, and also generates a reasonable economic return. Veterinary practices can utilize product sales, technical services, and information to create an area of excellence in their practice; however, it is difficult to be outstanding in all of these areas. The manager/owner should critically evaluate and select a specific area to focus efforts. This doesn't mean ignoring the other facets of the practice; rather, an application of disciplined planning to develop the area with the greatest potential to be a competitive advantage.

Not long ago, veterinary practices held a competitive advantage for the sale of most animal health products because they were the most convenient (or only) source in the community. Today, farms anywhere in the country can purchase vaccines and over the counter antibiotics from a variety of locations including delivery trucks, feed stores, catalogs, and the internet. Increased competition leads to decreased margins available for the sale of each product. Thus, as in any market where the products are undifferentiated, the lowest price will be selected the most often. Competing in a commodity marketplace dictates that additional revenue is generated through increased volume. To make more money, the practice has to sell more product. This is a reasonable business plan for some practices, and to make the most of this opportunity, efforts should be allocated to areas such as inventory control.

Knowledge base and the ability to interpret information can be a real competitive advantage for the veterinarian. The challenge is applying this knowledge in a manner that garners an economic return. The clients must value the information and an appropriate infrastructure should exist to capture income from sharing information. One method to capitalize on this advantage is to modify how the practice is perceived by clients.

In a subset of the mixed animal practitioner survey, the frequency of performing specific services was com-

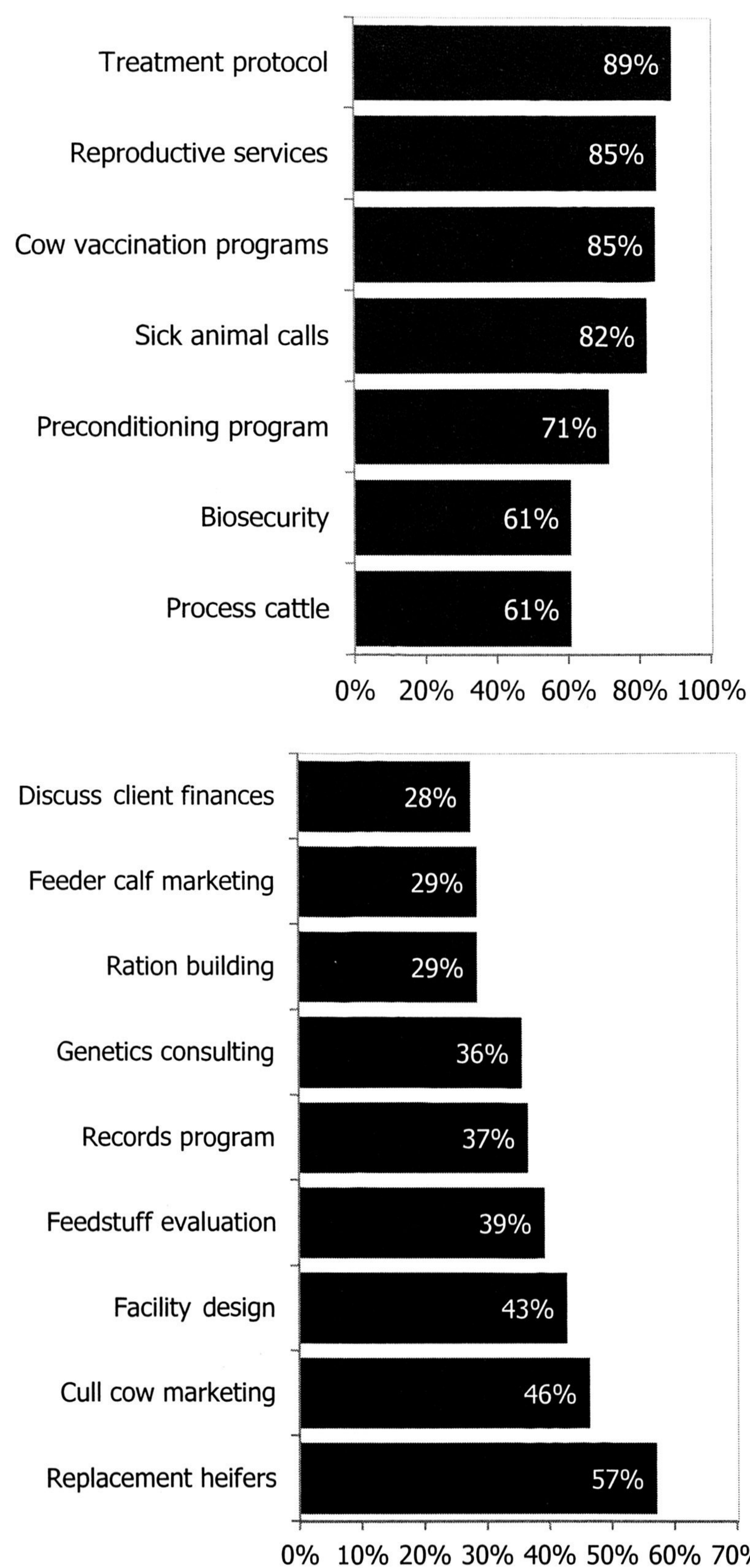


Figure 3. The percent of veterinarians performing traditional (3a) or additional (3b) services with greater than 10% of the clients.

pared with practice growth rates for 38 practitioners who spent more than 40% of their time with cattle.⁸ Many of the services that would be considered traditional veterinary practices were offered frequently (Figure 3a), while some of the additional consultation services were offered by fewer of the practitioners (Figure 3b). A comparison of the list of services to the growth in gross dollars generated per veterinarian revealed that only two of the services (consultation on genetic decisions and involvement in production records) were associated

with higher practice economic growth rates.⁸ Evaluating current services offered and the potential for net returns and growth associated with each service is an important first step when refining the practice competitive advantage.

The value of the practice brand based on specific competitive advantages or services is not captured through changing current clients to a specific way of thinking. One of the benefits of a clearly defined brand is attraction of new clientele who desire these specific services or products. Adding progressive clients who value the services offered is beneficial to the practice.

Convenience

Coupling traditional veterinary and production management services is an opportunity to create a comprehensive program to the client that achieves farm goals. Veterinarians have long realized the value of preventative medicine or herd health programs; however, the challenge is implementing the program in a manner that rewards the veterinarian for their time and efforts. Health programs add value for clients, yet a value-capture system must be in place to allow both veterinarians and clients to benefit from the recommendations.

Sound medical or management recommendations to clients are not always followed. Increased client compliance with properly structured suggestions should lead to increased profitability for the client and veterinarian in a mutually beneficial relationship. Three main reasons clients do not follow advice are: reluctance to dedicate necessary resources, perceived complexity of suggestions, or limitations due to labor and time. The recommendations need to be economically sound so returns are recouped via improvements in outputs or efficiency. Therefore, we should focus our efforts on providing clear recommendations in a situation that fosters easy implementation. The goal is to provide a convenient service to meet client needs.

Labor is often the rate limiting step for implementation of new programs in many agricultural systems. Most operations have their hands full with daily maintenance tasks associated with feeding and managing the cows. Thus, even good ideas may fail to be applied in the operation. Providing farms with not only an idea for improved management, but also a mechanism for implementation of the recommendations, is a valuable service.

Coupling traditional veterinary and production management services also offers several benefits to the clinic. The pricing structure is relatively traditional; producers are used to paying for labor via a fee-for-service arrangement. Clinics can benefit by capturing greater income from each farm. Generating efficient

production for the farm fosters sustainability and allows the farm to continue to retain the services of the veterinarian. The relationship also involves the veterinarian in the farm decision making process and encourages client loyalty.

Client Communications

Communication is very important to a successful business. Transfer of information between the practice and their clients is one of the best ways to ensure full utilization of available services and provide clients with a benefit beyond traditional veterinary services.

Communication with producers is either active or passive. Does the practice wait for producers to call and schedule herd work? Or does the clinic receptionist send reminders and call to arrange times for herd visits? Active communication allows the clinic to send the appropriate messages to clients at times that encourage the farm manager to participate. Examples of active communication in the veterinary practice include mailing reminder cards, sending letters describing and promoting specific services, and holding informative meetings for clients.

Conclusions

Improving practice profitability requires a plan and a systematic approach. Practices can generate income by evaluating the practice brand and implementing a plan that generates a competitive advantage for the practice. Growth in mixed animal practice is dependent on creating a sustainable, long-term business management plan.

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