

# Balancing Profit and Value

**Brian Reed, DVM, MBA**

*Agricultural Veterinary Associates, P.O. Box 190, Denver, PA 17517*

## Abstract

As veterinarians, all of us want to provide valuable service for our clients. We want to feel we bring value to our clients with the service we provide. At the same time, we need to maintain profitability of our practices to help meet our goals as well as those of our families. Sometimes we think, as profits increase, the value of our services to our clients must be decreasing. In reality, the goal is to maximize value for our clients while attaining our goals for practice profitability.

## Résumé

En tant que médecins vétérinaires, nous voulons tous donner un service de qualité à nos clients. Nous ressentons le besoin de donner de la valeur au client avec les services que nous offrons. Par la même occasion, nous voulons aussi que nos pratiques soient rentables afin de mieux rencontrer les objectifs de nos pratiques de même que ceux de nos familles. On pense parfois que la valeur de nos services aux clients doit se détériorer lorsque les profits s'accroissent. Dans les faits, le but est de maximiser la valeur au client tout en rencontrant nos objectifs pour la rentabilité de la pratique.

## Introduction

A successful veterinary practice must be profitable. This is absolutely necessary to meet personal and business goals. For most practices, virtually all income comes from clients they serve. Because we work closely with clients and get to know them, their families and their employees well, it is often difficult to charge what we need to charge them for services we provide. Sometimes we may be afraid if we charge what we should, they will seek services we offer from somebody else. After all, from our college economics class, we all know that higher prices lead to decreased demand. If our price is higher than that of another provider of the same services the client will obviously use that provider because they will give them better value. Right! Not necessarily so. I will show in this presentation that it is much more complicated than that. Providing high value to our clients can be compatible with a highly profitable practice.

## Understanding Value and Profit

It is important to understand which party receives profit and which party receives value. Profit is realized by the business providing the products or services in a business relationship. Very simply, profit is what is left of the gross receipts after expenses have been paid. To increase profit, either gross receipts need to be increased or expenses decreased, or a combination of both. Later we will discuss ways to influence these two factors.

Value, on the other hand, is received by the client. No matter how much we try to influence the value our client receives from our products and services, it is completely our clients' perception of what they receive that determines value for them. The value they receive, or perceive, is determined by the total performance of the product or service in relation to the cost. This concept of the value equation was developed by Proctor & Gamble, mainly referring to products, but I feel it applies just as well to services. The basic equation is:<sup>1</sup>

$$\text{Value} = \text{Performance} / \text{Cost}$$

further:  $\text{Performance} = B1 \times \text{Quality} + B2 \times \text{Speed} + B3 \times \text{Flexibility}$ ,  
where B1, B2 & B3 are the weights the customer places on each variable.

It is important to understand that every client has a different weighting on the variables involved. Some clients place more emphasis on quality, while others may focus on speed or flexibility of the services provided. There are always a few clients that may not value any of the top variables much and focus only on the cost factor. They view veterinary service as a commodity that should be provided by the cheapest provider. Every practice needs to decide if they want to pursue these clients.

## Providing Value to Clients

Now that we understand the mathematical expression of value, what can we do in practice to increase the value our clients receive from our products and services? Considering the products we provide, there is probably less we can do to influence the value equation through performance than the services we offer. Because the products are the same products somebody else can pro-

vide, the quality of the product doesn't vary much. We can have some effect on the convenience to the client, availability, proper handling and proper labeling and instructions for use that our clients may value. Even if we do a great job in these areas, we still need to be somewhat competitive on price for our clients to give a high value to the products we sell in the course of practice. This area is further complicated when you consider prescription products. I firmly believe we can, should and do make a profit on the products we offer, we just cannot or should not expect to make all our profits here and sell ourselves short on prices of the services we provide. I think most clients in our practice view the services and products we provide as a package deal, and value the whole package as one. There are exceptions to this, but they are a minority in our practice.

When we consider the value equation for services, things are different. There are a tremendous number of factors that affect the way our clients value our services. We will first consider the quality variable. First and foremost, our clients expect us to provide high quality services in all areas in which we serve them. They expect us to be knowledgeable, use appropriate techniques and procedures and communicate our thoughts and recommendations well. Further, most clients value our insight to prevent problems, help problem-solve production constraints and opportunities, and bring innovative ideas and solutions to their operations. In short, they want us to use all the information we learn at conferences like this, combine it with our experience, and apply it to their operations on a daily basis. Those among us who can do this consistently are providing great and appreciated value to their clients.

There is an additional side to quality that also must be considered in veterinary practice. This relates to the entire experience the client has while dealing with your veterinary practice. This can include things like the courtesy, competence and frame of mind of your receptionist. It also includes accurate, timely and understandable billing procedures. Cleanliness of vehicles and veterinarians is valued by many clients. Even things like cleaning the blood off cows after surgeries and cleaning up the milkhouse after you leave are important to many clients. The general demeanor, personality and people skills of the veterinarian providing a service are all quality factors that are extremely important for providing a highly valuable service for clients.

The second factor that makes up performance is speed. In veterinary practice, speed refers to appropriate and convenient timing of services. If a truly emergency situation exists, speed may refer to how fast the veterinarian can get there to take care of the problem. In most situations, I think the client wants appropriate and predictable service. If you say you are going to be there at a certain time, they expect you to be there at

that time. They also may prefer receiving a call when a doctor is enroute. In short, our clients' time is valuable and they value our services more highly if we come when we say we will and keep open communication in those instances when there are necessary changes to our schedule.

The last factor that goes into performance is flexibility. From a product standpoint, customers want a product that can be changed to meet their specific needs. A good example of this is ordering a steak in a restaurant the way you want it, not necessarily how the chef would want it. When we relate this to production medicine on our clients' farms, this means developing programs, protocols and solutions that fit their operation's goals, limitations and desires. I do not think most clients value pre-packaged programs as much as those that consider their unique situation and include some of their feedback in the development of the program or protocol. This is good news for those of us in practice because we probably understand their operation better than anyone else. If we take time to work with them closely, as we develop programs and protocols, most clients will highly value this service.

The denominator in the value equation includes all costs the client incurs for the product or service. This may include the extra labor they need to hire to assist you, lost production if cows are locked up in headlocks for several hours waiting for your arrival, or even the costs associated with improper diagnosis and treatments. In short, this factor, like all the other factors, is more complicated than it appears at face value. In the value equation that is subconsciously being calculated in our clients' minds, the cost factor is not just your hourly, contract or quoted rate. This is important to realize if you are trying to maximize the value your client receives, while at the same time trying to meet your financial goals.

### **Optimizing Profit for the Veterinarian**

There are many factors that go into the profits generated by a veterinary practice. This presentation is much too short to delve into this too deeply. I will discuss a couple of perspectives that may be of use, however.

As I discussed in my introduction, if you want to increase profits, either gross receipts must increase or expenses decrease, or a combination of the two must occur. If we consider just the service side of practice, increasing receipts must come from a higher unit price (e.g., hourly rate) or more units billed for. If we assume we are billing on an hourly basis, you must bill more hours by either working longer hours or billing for more hours during your existing work day. I will call this increasing billing efficiency. Personally, I am working

enough hours now and am not interested in working longer hours. Therefore, we are left with increasing our rates or increasing our billing efficiency to increase gross receipts from services. Hopefully, I convinced you in the first part of this presentation that increasing your rates can be accomplished while still maintaining a high value for our clients when we focus on all the factors that go into the value equation. But how do we increase our billing efficiency?

To understand this, we must discuss capacity and demand management. We all understand capacity on the dairy farms we work on. The capacity of a 100 cow tie-stall dairy barn is 100 cows. If there are only 90 cows in the barn, this dairyman is only using 90% of his capacity at this time. If 100 cows were present, utilization would match capacity perfectly. If, in your practice, you decide you want to work eight hours per day to meet your personal and professional goals, this is your capacity. If you bill an average of four hours per day, you are at a 50% billing efficiency. If you increase this by one hour per day, you will increase your gross revenue from service by 25%!

There are at least two strategies to help accomplish increasing billing efficiency. The good news is that the first method fits well with production medicine in all its forms. If we practice good production medicine, we should be more involved on the farms we serve and therefore spend more time on the farm when we are there. If we do this, we can make fewer farm visits in our eight hour day, but bill for more time because we are not driving around all day between farms. Therefore, the first strategy to increase billing efficiency is to spend more time on the client's farm doing more things that they value.

The second strategy is to use good demand management in your practice. If you are selling a product, you can inventory that product during slow times and then sell many of them during busy times. If, however,

you are providing a service, you are essentially selling your time. You cannot inventory your time to sell later. If you decide you are going to work from 7:00 to 5:00 today, but do not have your first appointment scheduled until 9:00, assuming something will come in, you have lost two hours of potential prime billing time if nothing comes in. This is an example of poor demand management. Practices that have a high percentage of their work scheduled ahead of time, especially if they start the day with scheduled calls, have higher billing efficiency. When you add this rationale to scheduling based on geography of the clients, practice efficiencies can be improved. Same day "sick work" can be filled in around and after the scheduled work. Increased call charges or hourly rates for calls that come in after a certain time are another example of demand management. The core idea of demand management is that you want to make it advantageous for both you and your client to schedule work efficiently.

### **Summary and Conclusions**

Hopefully, this paper helps the reader better understand factors that influence value. Value is not the same as price, but rather a complex impression that our clients perceive about their whole experience with the products and services we provide to them. If we focus on managing our practices to increase the value that our clients will receive, we can charge a fair price for our services, so we can have a profitable practice to meet our personal and financial goals.

### **Endnote**

<sup>1</sup> This concept comes from the value model introduced by Proctor & Gamble CEO Edwin L. Artzt, Quality Forum VIII, October 1, 1992.

# PROBLEM: PERSISTENT BVD INFECTION.

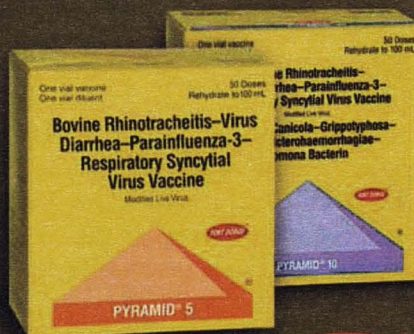
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and calves nursing  
pregnant cows<sup>1</sup>

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1. May be used in pregnant cows and calves nursing pregnant cows provided the cows were vaccinated pre-breeding, according to label instructions, with PYRAMID 5 or PYRAMID 10.  
2. Data on file, Fort Dodge Animal Health.  
3. Clint Peck. "Battling BVD." *Beef*, Nov. 1, 2004.