

Veterinary Economics: **Building a Better Practice with Data**

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In the general world of business, benchmarking is the process of comparing the performance of one's own business to others either within or outside the industry who are known to be the best and then using that knowledge to improve processes and performance at one's own company.

Small businesses like veterinary practices often don't have the resources to set up sophisticated benchmarking systems such as Xerox or other big companies do, but there is still much that can be done to improve the financial, operational and patient care performance of a veterinary hospital through the use of benchmarking.

Before discussing what data should be analyzed, it is first important to discuss why benchmarking is important. There is an old cliché that says "If you can't measure it, you can't manage it." While it is easy to ignore clichés because you've heard them so many times, these phrases are generally clichés for a reason—they are widely applicable truths that should not be ignored. Obviously these specific words have to be taken with a grain of salt—it's not necessary to count the paperclips on a daily basis in order to manage the purchase of office supplies but managing most areas of the hospital well means you need to measure the activities involved. Benchmarking helps you identify areas for improvement, define specific, objective measurements for outstanding performance, monitor and review progress and, ultimately, improve the quality of patient care and the financial success of the practice.

Quality patient care requires a sound economic foundation. A practice that is not financially successful will find it difficult to invest in the facilities, equipment, medications and staff necessary to provide the best patient care much less provide for the financial security of the practice, its owners and the staff. Results from the AVMA-Pfizer Business Practices Study released in 2006 clearly demonstrated the connection between the measurement of data and those hospitals that are financially successful. In a nutshell, the study showed that the majority of practice owners don't use financial concepts to manage their businesses and those that do make more money. For example, only 38% of the survey respondents indicated they used financial concepts to manage their business. The number of respondents who performed a monthly review of financial data ranged from 22% to 77% depending on the individual items analyzed. And yet the study showed that there was almost a \$50,000 difference in the average earnings of veterinarians who used financial concepts to run their businesses versus those who did not. Information from the 2011 Bayer Veterinary Care Usage Study indicates that many practices still do not track key metrics on a regular basis.

Benchmarking can be broken down into multiple types. Two that make the most sense for veterinary medicine include internal benchmarking and outside (competitive/generic) benchmarking. Internal benchmarking is that which takes place within a single organization. For example, revenue per full-time-equivalent doctor is compared from 2012 to 2013. This is often the easiest kind of benchmarking to perform because data is readily available. However, there is no guarantee that improvement means a practice is doing well; it may simply mean they are doing less badly than before. Some comparison to outside benchmarks is important to make that assessment.

One form of outside benchmarking is called competitive benchmarking and refers to the comparison of one's own company with direct competitors. This simply isn't possible within veterinary medicine. However, it is possible to do generic outside benchmarking in which your practice data is compared to a pool of data available for other veterinary practices. There is a fair amount of financial and operational metric information collected and made publically available in veterinary medicine for this kind of comparison purposes. This forms the basis for the key metrics that all practices should be tracking. However, all practices will have areas they want to track and improve for which published benchmarks aren't available and this can still be done through internal benchmarking.

The concept of benchmarking can be used in many areas of the hospital. For example, if a practice wants to improve its financial performance, it should be calculating and comparing profitability to industry standards. If improved dental care is the goal, then metrics to be tracked would include the frequency of recommendations made by doctors and the percentage of clients who accept those recommendations. If the practice is concerned about client service, one metric to track would be the time clients spend waiting in either the reception area or the exam room before a doctor arrives. If productivity is an issue, there are multiple metrics that can be analyzed—doctor/staff ratios, hours per transaction, client adherence to practice recommendations and others.

Results from benchmarking can be dramatic. Rank Xerox (a European company that is 80% owned by US based Xerox) reviewed the sales data of its European sales teams and noted that Switzerland was by far the leader in the sales of DocuPrint digital copiers, France sold five times as many color copiers than the other teams and Austria was the leader in capturing service contract renewals. By reviewing the systems and processes in place in each of the leader sales teams and implementing these tactics within other sales teams, Switzerland increased its unit sales by 328%, Holland by 300%, and Norway by 152%.

This can be done even within the context of a small veterinary practice. If your doctors aren't as productive as those in the published studies, why aren't they? Is it because they don't see as many patients or because their ATC isn't as high? If their ATC

isn't as high, why? Comparisons can be made within the practice as well. What does your most productive doctor do that the others don't do? Does she generate more revenue because she sees more patients? Is that because she works more hours or because she is more efficient during the hours she works? Why is she more efficient? Does she utilize techs better than the other doctors? Does she make more recommendations for follow-up care (dentals, rechecks, etc)? Does she make better use of client education materials—handouts, models, etc?

Listed below are the critical areas in which data review and analysis should be done by every practice on a regular basis. Also included is the source of the information. Your practice most likely has two sets of software used in the operational and accounting functions of the practice; these systems are where you will gather most of your benchmarking data from. The first is the veterinary practice management information system (PIMS) which helps manage and analyze revenue collection, inventory, receivables and other revenue related information. The second system is an accounting package such as QuickBooks or Peachtree. The accounting software is used to manage the payment of bills and payroll, prepare financial statements and aid the accountant in the preparation of the practice's tax return.

Metric	Frequency	Source of information
Profitability	Yearly	Tax return, financial statements, other
\$ revenue	Monthly	PIMS
% growth from same month last year		
Revenue by category	Monthly	PIMS
Dentistry		
Laboratory		
Other		
Revenue by FTE doctor	Monthly	PIMS
Practice revenue by FTE doctor		
Medical revenue by FTE doctor		
Individual doctor revenue		
Transactions and ATC	Monthly	PIMS
Practice transactions by FTE doctor and practice ATC		
Medical transactions by FTE doctor (visits) and medical ATC		
Individual doctor transactions and ATC		
Discounts and missed charges	Monthly	Medical records & invoices
Revenue & profits per square foot	Revenue-monthly Profits-yearly	Revenue--PIMS Profits--tax return, financial statements, other Square feet--loan or building documents, measure
Revenue & profits per exam room, surgery suite, boarding & grooming	Revenue-monthly Profits-yearly	
Compliance	Monthly	PIMS
Clients	Monthly	PIMS
New		
Active		
Lost		
Source of clients	Monthly	PIMS
Accounts receivable	Monthly	PIMS
Total %		
% of gross		
Aging		
Expenses	Monthly	Accounting system, PIMS (need production for doctor analysis)
Doctor labor costs		
Staff labor costs		

Cost of goods sold		
Rent and other facility costs		
All other		
Marketing activities	Monthly	Various
What are you doing		
Response/success rates		
Human resources	Monthly	PIMS, payroll, etc
# staff on a FTE basis and compared to FTE doctors		
Staff and doctor hours		
Overtime		
Staff efficiency—hours per transaction		
Management staff, hours, activities		
Turnover	Annually	Payroll system

It will often be necessary for the practice to gather additional information beyond that discussed here. The metrics listed in this paper are the starting points. When a trend is discovered or an area that appears problematic, further analysis will be necessary. For example, let's say that the practice owner or manager is analyzing the revenue of the practice at the doctor level and finds that the average revenue per doctor is lower than that seen in most practices and that there is a great deal of variation in productivity amongst doctors. Some of the information you may want to gather to help determine how to address this situation includes the following:

- Number of hours worked each week by the doctors—revenue variability may be a function simply of the time spent in the practice
- Support staff help utilized by each doctor—some doctors may be able to produce more because they have access to and use more support staff
- Number of key procedures (CBCs, chemistry panels, x-rays) performed by each doctor in relation to the number of transactions they generate—revenue may vary because of different approaches to cases which should be more consistent
- Measurement of client compliance with key recommendations by doctors and staff

In general the process for using metrics is as follows:

1. Identify the areas you want to review or improve—these can be selected either based on your knowledge of the practice and what areas need help or by looking at some of the areas commonly benchmarked by other practices
2. Collect data from your practice and compare to others
3. Determine whether improvement is necessary
4. Identify relevant strategies needed to effect change
5. Implement new systems and processes
6. Measure results and modify if needed

Guidelines for effective benchmarking are summarized below:

- In order to compare your practice to others, it is necessary to set up your revenue and expense categories in both your practice management and accounting systems in a fashion similar to those commonly used in veterinary medicine and used in the published studies you will be comparing the practice to.
- Record information in the same categories or perform calculations in the same way each time you do them in order for your numbers to be comparable over time. In order to achieve this comparability, it is important to carefully set up your categories and define your calculations when you set up your system. You will need to change some aspects periodically and must keep in mind the impact on comparability when you do.
- Comparison of raw numbers is useful to a point in financial analysis but, in general, it is necessary to do some kind of ratio analysis or use a common basis of comparison to get the best results. The most common ratio used in veterinary financial analysis is that of expressing types of revenue or expenses as a percentage of total gross revenue. This kind of ratio analysis is critical to accurate comparison over time or between practices of different sizes. Another frequently used common basis for comparison is the calculation of doctors on a full-time-equivalent basis. This makes it possible for you to compare your numbers to practices that have different numbers of doctors or to compare the figures in your own practice from year to year as you add doctors.
- Key factors to remember when comparing your practice to published data--Is the data meant to represent an average practice or "best practices"? Is the data reliable? Reviewing the methodology section of the reports will give you a feel for how many practices responded and how comparative the data is. It is also important to understand how certain calculations were performed in order to know if that metric is comparable to your practice. No study will be perfectly

comparable to your practice. This doesn't mean the study is useless to you. You can still get very valuable information to help you operate your business more effectively. It simply means you need to take these comparisons with a grain of salt and use them as one tool in running your business, not as the final word about how well your practice is doing.

There are a number of readily available sources of industry metrics that you can compare your practice to. The most common are:

- Benchmarks: A Study of Well-Managed Practices (available for purchase from Advanstar)
- Financial & Productivity Pulsepoints and Compensation and Benefits (available for purchase from the American Animal Hospital Association)
- AVMA Business Measures Study (available for purchase from the AVMA)

Finally and most importantly, identifying trends or problem areas is not enough. It is critical that you investigate the changes or the potential problem areas and determine if action is needed to correct an issue.