VHMA Veterinary Hospital Managers Association

INSIDERS' INSIGHTS

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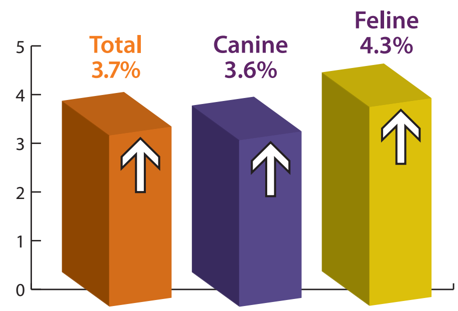
The Insider's Insight Benchmark Report is a publication provided by the Veterinary Hospital Managers Association (VHMA). The report tracks key economic indicators to determine how VHMA member practices are performing, as well as results from VHMA surveys on issues impacting the profession. There are approximately 800 VHMA member practices who contribute to the data for the key economic indicators. Data is representative of companion animal practices only.

February, 2019 vs. February, 2018

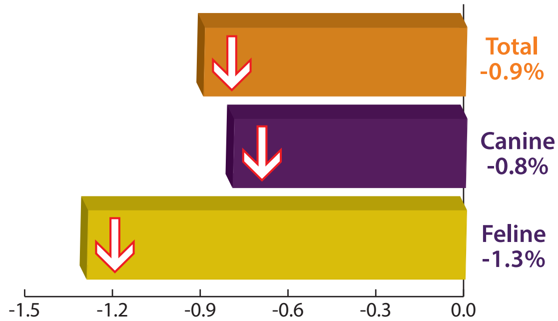
Revenue Growth
February, 2019 compared to February, 2018



Revenue Growth

Companion animal practice revenue for the 771 VHMA practices included in this month's study showed growth of 3.7% from February, 2018 to February, 2019; both months had the same number of work days in them. Canine revenue growth was 3.6% and feline revenue growth was 4.3%. Year-to-date growth for 2019 is 4.8%; quite a bit higher than 2018 growth of 3.4%. This growth continues to be stronger than the overall growth seen in the U.S. economy.

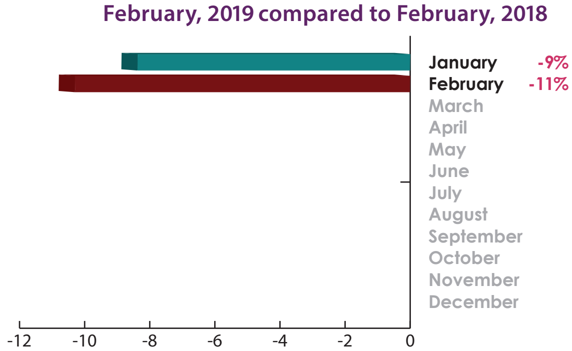
Patient Visits
February, 2019 compared to February, 2018



Patient Visits

Total unique patient visits for the same period, February, 2019 compared to February, 2018 declined by almost 1% with canine visits down by 0.8% and feline visits down by 1.3%. Year to date growth for 2019 is just 0.1% compared to a total decline in visits in 2018 of 0.6%. (Note that the term "visits" is defined as unique purchases of either products or services for an individual pet.)

New Client Growth
February, 2019 compared to February, 2018



New Client Growth

New client numbers in February, 2019 compared to February, 2018 declined by 11%. This continues to be a discouraging trend as these numbers have declined almost every month of the last four years.

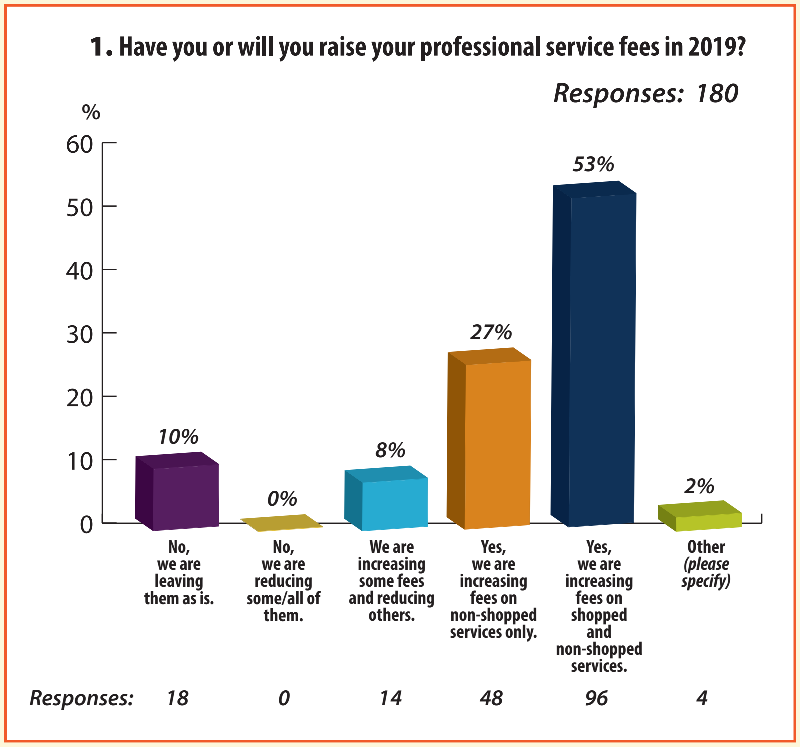
Remember that the above figures represent averages across all the practices in the study; in order to understand what is going on in YOUR practice, you need to look not only at what your revenue growth was during these months (and going forward) but also at the drivers of growth in YOUR practice such as changes in invoices, visits, ATC, fee increases, new clients and client retention. This will give you the information to make intelligent decisions about where to focus your time and efforts to increase growth.

Data review and commentary is provided by Karen E. Felsted, CPA, MS, DVM, CVPM, CVA of PantheraT Veterinary Management Consulting, www.PantheraT.com - March 2019

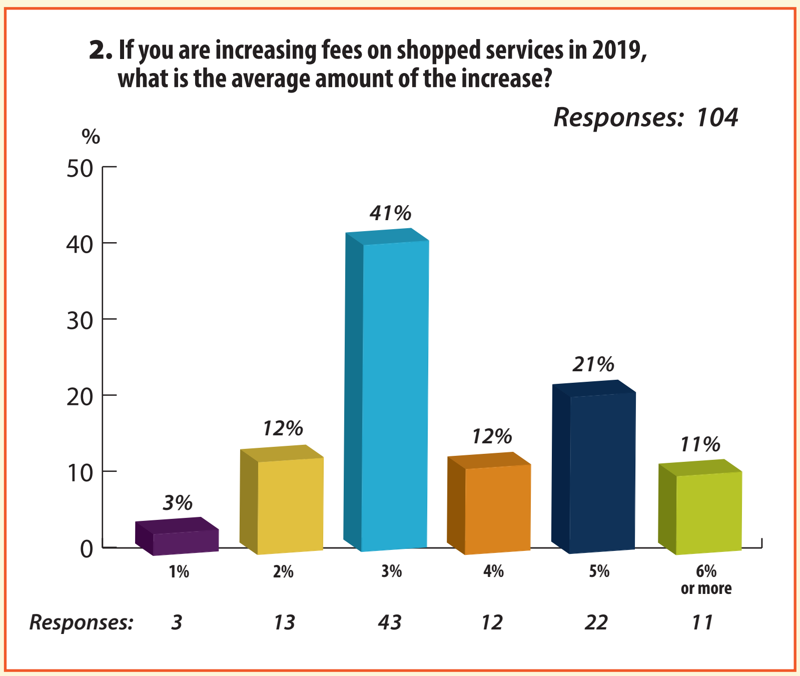
Fee Changes in 2019

by **Karen E. Felsted,** CPA, MS, DVM, CVPM, CVA PantheraT Veterinary Management Consulting

Each year the VHMA asks practices about fee increases for the year; either those planned or already implemented. As with past years, the majority of the 180 practices participating in this survey said yes to the question: ***"Have you or will you raise your professional service fees in 2019?"*** A larger % in 2019 said they would be increasing fees on only non-shopped services compared to 2018.



The next question asked: ***"If you are increasing fees on shopped services in 2019, what is the average amount of the increase?"*** Responses were fairly spread out amongst the categories with about 41% of the hospitals saying the average increase on shopped services would be 3% and a surprising 32% increasing shopped fees by 5% or more. (In comparison, the inflation increase was just 2% in 2018.)



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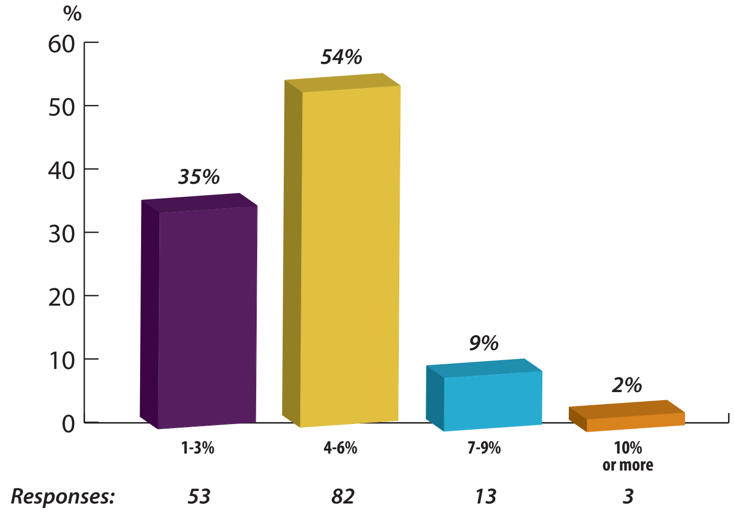
Hospitals planned on increasing the fees on non-shopped services by a greater amount as demonstrated by the answers to the next question: ***"If you are increasing fees on non-shopped services in 2019, what is the average amount of the increase?"*** The majority of hospitals said their non-shopped service increase would be between 4-6% with about 35% of hospitals increasing these fees just 1-3%.

3. If you are increasing fees on non-shopped services in 2019, what is the average amount of the increase?

Responses: 151

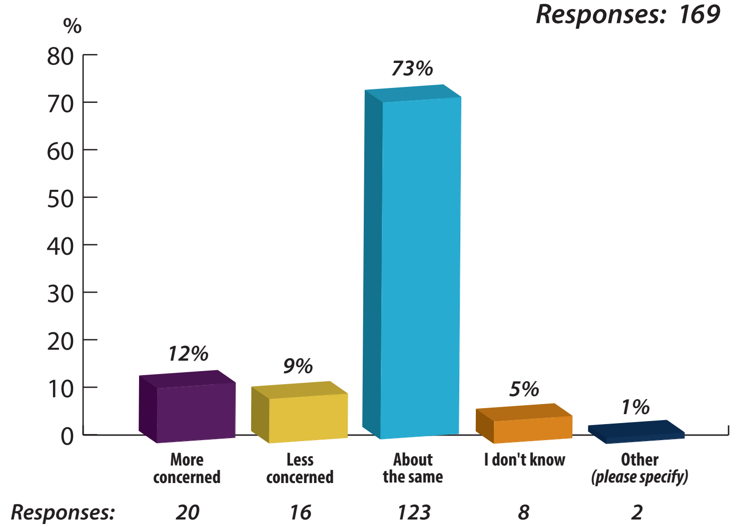


Practices reported that these fee increases didn't seem to be a big issue with clients. The question asked: ***"Are clients in your practice more or less concerned about increases in the cost of veterinary care than they were a year ago?"***

The two other answers highlighted the difference in client attitudes in different practices; one said "Seems like they are always worried!" and the other said "Our clients honestly never notice when our fees increase."

4. Are clients in your practice more or less concerned about increases in the cost of veterinary care than they were a year ago?

Responses: 169



The last two questions were open-ended and asked what factors or strategies were considered in deciding how much to increase either the shopped or non-shopped services in the practice. The most commonly mentioned factors or strategies for <u>shopped</u> services included:

- Overall cost of doing business and anticipated future cost increases
- Increases in practice costs for particular product or service
- What other practices are charging
- Inflation
- Time since the last increase
- Location and area standards
- Demographics of local pet owners
- Fee references such as AAHA, WMP
- Gut instinct

The most commonly mentioned factors or strategies for non-shopped services included all of those used in pricing shopped services as well as:

- Frequency service is utilized by pet owners
- Anticipated downward turn in economy
- Client perception of value

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Setting Fees

Setting fees properly is an important task in a veterinary practice; yet many hospitals don't really know how to do this well. And, to be fair, our profession doesn't really have good quality, comprehensive tools and models to help with this process. The VHMA considers this to be an area in which more research and education needs to be done and kicked off their efforts with a Critical Issues Summit focused on Value Based Pricing in August, 2018. The key speaker at this event was Dr. Utpal Dholakia, a noted professor of marketing at Rice University. From this summit came the first of a series of whitepapers: Value-Based Strategic Pricing for Veterinary Practices: Findings from the VHMA 2018 Critical Issues Summit. This document can be found on the VHMA website: www.VHMA.org. Other whitepapers dealing with specific pricing topics in more detail will be forthcoming.

One of the things that became very clear is that "pricing strategy" comprises just more than answering the question "by what percentage should fees be raised this year?" Pricing is much more than that. Pricing is really a marketing issue and, as can be seen in figure 1, is just one component of the traditional "four P's" of marketing. Pricing can't be determined without looking at the other components as well and they have to work together. For example, if a business offers a low quality product in a bad location but tries to charge a high price for it, consumers won't buy it. Figure 2 demonstrates the overall pricing process including the decision inputs that need to be considered before setting or changing a price and the various factors that should be measured to determine if the new prices or pricing changes have accomplished the goals of the practice.

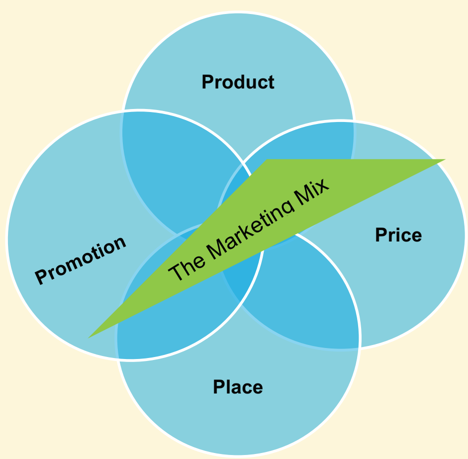

Fig. 1

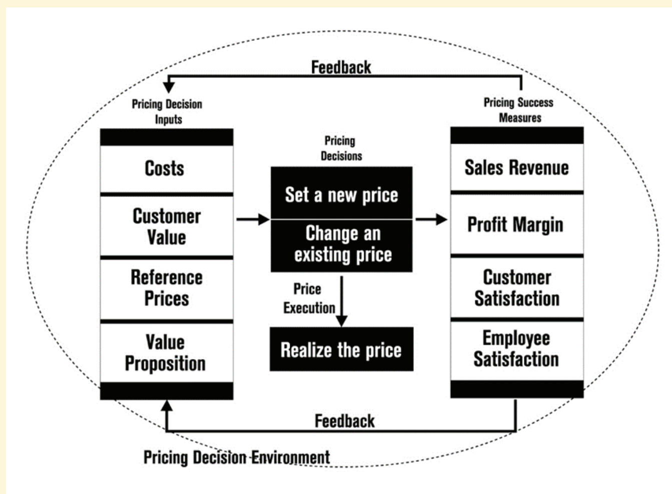

Fig. 2

Dholakia, U. (2017). *How to Price Effectively: A Guide for Managers & Entrepreneurs*.

Dr. Dholakia's focus was on value based pricing. Interestingly, one of the questions asked in a previous Insiders' Insights survey was: "What is the primary approach your practice uses in setting SERVICE prices?" Answers varied widely; the approach selected by the biggest group of respondents was cost-based pricing with 40% of the respondents choosing this answer. Costs are certainly an important factor in setting prices; in the long-run, if a practice charges fees that don't cover its costs, it will go bankrupt. However, cost can't be the only factor in setting prices because, to a large extent, customers don't care what it costs to provide a service. They want to pay a price that correlates with the value they receive. Only about 5% of the respondents to this survey selected value based pricing as their primary approach. We don't know why so few practices chose that method but it is probably because it can be difficult to correlate value to price and we don't have strong data in veterinary

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medicine to indicate what kind of value pet owners are willing to pay more for. This is clearly a strategy practices can use more effectively.

A product or a service offered by a business "is a bundle of features that provides quantifiable functional and hedonic benefits to the customer." A functional benefit of a vaccination would be the protection the pet gets against rabies or another disease. Hedonic benefits are intangible and emotion producing such as the satisfaction the pet owner gets from taking care of their pet and the contribution the pet owner makes to a long and happy life by a family member. An example of the types of benefits related to the services pet owners receive in a typical surgical situation is shown below:

Bundle of features	Functional & hedonic benefits
• Exam & consultation	• Problem properly diagnosed • Owner feels they are getting the best advice & recommendations
• Diagnostics	• Potential underlying issues identified • Owner's anxiety about anesthesia is reduced
• Surgery	• Rusty won't limp any more • Gold standard treatment • Surgery performed by an experienced doctor • Owner feels like they are doing the right thing for their dog
• Hospitalization & nursing care	• Rusty gets appropriate post-op care • Owner feels good that Rusty is being watched over by the experts
• Medications	• Potential infection is properly managed • Pain is kept to a minimum • Owner's concern about pain is reduced
• Rehab	• Rusty's recovery is faster and better • Owner doesn't have to do the PT work
• Follow-up appointments	• Any potential problems with recovery are caught sooner rather than later • Owner knows they have someone to turn to for continued advice

Breaking down a product or service into its functional and hedonic benefits is difficult and time-consuming, especially for a small business. However, this is definitely an area that is worthy of profession wide research and can be done to some extent by individual practices through client surveys, focus groups and conversations with clients.

Hedonic benefits may cost very little in dollars to the practice and customers are often very willing to pay a lot for these benefits. Because the management team doesn't really understand what they are and how important they are to pet owners, they often get ignored; yet emphasizing these benefits in marketing materials and in conversations with pet owners helps support the practice's prices in the consumer's eye.

Consumers almost never make judgements about prices in isolation. They judge a product or service's price in relationship to other prices for the same or similar products or services. These other prices are called "reference prices."

Knowing what other practices are charging is important so your practice has an idea of where it fits into the community, both from a price perspective and from a value perspective. However, this doesn't mean you need to match those prices, either the higher ones or the lower ones. Any evaluation of another business' prices must include an evaluation of the value that business provides as well. For example, if the practice two miles away from you has prices that are 20% higher than your practice's, should you raise your fees? Maybe or maybe not. If they are located in a nicer facility, have more convenient hours and a better client service experience than your practice offers, a price increase will probably not be well received. However, if your practice is equivalent or greater in value, then increasing prices may be worth considering.

Fee references such as the AAHA Veterinary Fee Reference and information found in the Benchmarks 2017: A Study of Well-Managed Practices are essentially a large conglomeration of data regarding what other practices are charging. They are useful books to understand where your practice falls in the mix and to see how certain types of your fees are priced compared to others but they shouldn't be an absolute mandate for what your prices should be because they are not local in nature. As much local research as possible should be done to understand both the prices charged by other practices and the value those practices give to the pet owner in comparison with your practice.

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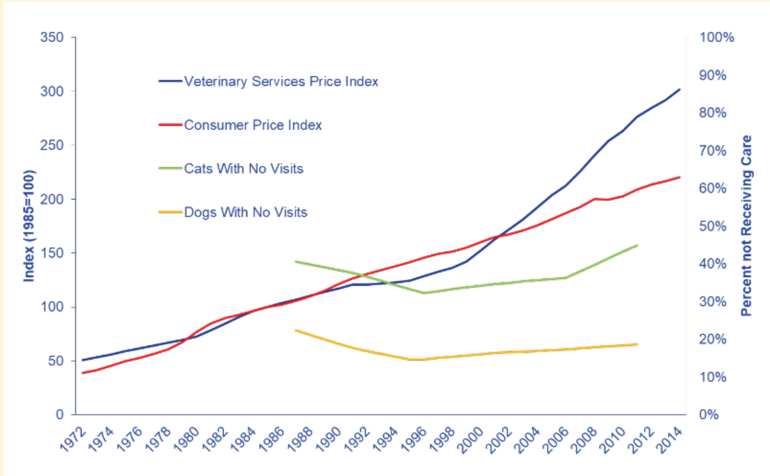
Many practices say that they use inflation as a guide to set fees. And while this is no doubt true for a small number of practices, in reality, the average fee increases made by most practices are well above inflation and have been for many years as shown in this chart prepared by the AVMA:



This analysis ends in 2014 but similar results can be seen in the years following. Inflation from 2014 to 2018 ranged from 0%-3% and yet most practices are raising their fees by greater percentages. Note that the bottom two lines in this chart are the number of cats and dogs who don't get any veterinary care at all; these figures increase as prices go up. In the long-run, regular fee increases over the rate of inflation may be damaging to a practice and to our profession, particularly if no increased value is seen by the pet owner and the pet owner is not in a high income bracket.

A practice certainly doesn't have to limit its fee increases to the rate of inflation but if the increases will be higher, it is important to think through the long term ramifications of those higher increases and whether the practice is offering increased value desired by the pet owner in exchange. The inflation figures used above are those from the Consumer Price Index. It has been suggested that "veterinary inflation" is higher but this isn't always true and understanding the actual price increases for the goods and services your practice buys is an important part of the fee-setting process.

A final important point is that while practices often raise prices to increase profitability, there are other ways of doing this such increasing marketing programs and bringing in more clients, reducing expenses and improving productivity.