Turnover is vanity, profit is sanity: managing the bottom line

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Many practice owners shy away from sharing financial metrics with their team either through ignorance or fear. But everyone in the practice is responsible for the financial success of the practice and everyone needs to know how the practice functions commercially and financially. People need to know how costs are allocated and where the money comes from and how profit is used to develop people and the business.

This talk will show how practices can control and measure costs, determine a realistic veterinary professional fee based on their financial needs and then demonstrate the consequences of giving away or discounting their professional time and missed opportunities for practising good veterinary medicine for the benefit of the client, the patient and the practice.

To maximize profit, managers need to concentrate on three key issues.

- Profit analysis — debt, stock and cost control. These systems invariably tie up cashflow and reduce profit. When not managed they also use up valuable time and emotion in dealing with the consequences. Good accounting systems should run monthly management accounts for all separate business units and costs should be kept with in predefined percentages. Minimizing outstanding debt not only increases cashflow but reduces administration time in invoicing and chasing bad debt. Dedicated stock control is essential in reducing wastage but, more importantly, prevents overstocking and tying up cash
- Pricing strategies for preventative, clinical and drug sales. In practice 'shopped' products and services such as consultations, vaccines, neutering, preventative healthcare (PHC) products and visit fees are more competitive and are often discounted to unprofitable levels. Drug sales are coming under threat from competition, regulation and internet providers driving their profit margins down. As a result, true 'professional' or 'clinical' veterinary fees make up a relatively small percentage of practice income. With the investment in veterinary surgeons, staff and equipment, professional fees, drugs and PHC need to be priced profitably to cover costs and make a profit for the business to thrive
- Veterinary sales performance. The principle cause of poor profitability is veterinary surgeons' failure to charge profitably for their professional time. Reacting to a broad, ill defined, demanding and fickle client base whose demands and motivation are only occasionally aligned with the veterinary surgeons' desire to practise high-quality medicine and surgery and run a proactive and profitable

business means the veterinary practice owner is constantly working reactively and inefficiently. These activities have serious financial, clinical and customer-service implications on the clients, the practice and the staff. Correct invoicing is about setting and sharing standards of care based on the best medicine for the patient and clear information to the client.

Proactive medicine is based on the standards of care that the practice chooses to adopt. It will generate more income (profit) from each client transaction through taking up missed opportunities for professional services and encourage clients to visit veterinary surgeons more frequently (more transactions). If practices took up all the opportunities for professional services that were offered to them, they invoiced the work they did do properly and collected the money they invoiced they would improve their cashflow, income and profits overnight by 50–100%.

KEY LEARNING OBJECTIVES

- Learn a simple system of profit analysis and cost control
- Adopt pricing strategies for preventative, clinical and drug sales
- Learn how to measure and monitor veterinary sales performance

MULTIPLE CHOICE QUESTIONS

1. Which of the following processes in veterinary practices is not aimed to free up cash typically tied up in the business?
 - (A) Managing debt and credit control
 - (B) Managing stock and inventory control
 - (C) Having clear cost control using monthly management accounts per business unit
 - (D) Increasing your pricing every year
2. Which of the following areas of discounting of charges typically reduces revenues and profit in veterinary practices?
 - (A) Missed charges — not putting all your procedures and drugs on the invoice
 - (B) Not charging adequately for professional time in diagnostics and surgery
 - (C) Missing opportunities to offer additional professional services to patients
 - (D) All of the above
3. Which of the following will most immediately and directly affect the profit of the practice?
 - (A) Increasing client numbers through marketing activity
 - (B) Increasing price of current professional fees
 - (C) Selling more routine procedures to current clients
 - (D) Offering new services and products to your current clients