



Setting Your Prices

Knowing your costs is the place to begin

by Carolyn C. Shadle, PhD, and John L. Meyer, PhD

HOW ARE PRICES SET AT YOUR PRACTICE? Maybe you inherited your fee schedule when you came into the practice. Perhaps your prices are set by researching other practices in the area. Maybe you adjust prices based on how your clients perceive the value of your service or what you think “the market” is willing to pay. If yours is the only practice in town offering a certain service, that might affect your pricing. Perhaps some of your fees are set intentionally low so as to be “loss leaders.”

Regardless of your method, some practices end up setting fees with what Jim Wilson, DVM, JD, calls a “weak pencil,” meaning that the pencil grows weak when it comes time to itemize each service and product provided, resulting in “missed charges” or discounts.

When it comes to pricing, consultant Eric Jungemann puts veterinary practices into four categories:

- Those that want to create a relationship. They assume that people will shop around. They utilize loss leaders in order to bring clients in, hoping to establish a relationship and then sell them on their quality service. An example is VetExpress in Colonial Heights and Henrico, Va., which announces on its website: “\$1 for new client exam. Give us a try! You’ll want us to become your veterinary partner for life!”
- Those that want to charge fair prices with no gimmicks or games. They don’t offer discounts.
- Those that have rolled their prices into preventive care plans, with a recurring payment charged to the client’s credit card.

- Those that pay no attention to the business side. (They may, Jungemann says, be new to running a business.)

Although being a veterinarian is about a lot more than financial management and profitability, today's successful practice understands the importance of using sophisticated tools to set prices that will be fair but also allow the practice to be profitable.

John Grote, DVM, has been practicing veterinary medicine since 1970 and has seen prices with wide disparity. He recalls a story broken by *Time Magazine* about the discrepancy in human medicine surgical fees in different hospitals and notes that the same has been true in the veterinary practice. He thinks that lots of practices set prices "by the seat of their pants." But things are changing. Help is available.

Reference materials

Many practices turn to any of several books that are available for price-setting guidance. Three of the top references are described below.



Start by looking at "turnkey" costs. What are the fixed costs of turning the key to enter the practice every day?

1. *Benchmarks: A Study of Well-Managed Practices*

This resource has been around since 1986, published by Wutchiett Tumblin and Associates (WTA), veterinary management and valuation specialists. As the professionals at WTA interacted with veterinary practices across the United States, it became obvious that the key to a successful practice started with good management. Therefore, their annual study focuses on practices that are deemed to be well managed.

By exploring how these top-notch performers set fees, bring in revenue, manage expenses, and generate profits, other practices can have the information they need to emulate the success of these well-managed practices.

Each year, WTA specialists study and compile veterinary benchmarks and trends from what they identify as the top 100 well-managed practices across the country, scrutinizing each practice's financial data and strategies in the areas of fees, earnings, expenses, and technology.

Denise Tumblin says that they survey 200 fees. By identifying a given practice's exam fee, they use a ratio and determine other fees. The result is a useful resource to help you know what your competition is charging.

2. *Veterinary Fee Reference*

AAHA's *Veterinary Fee Reference*, now in its 9th edition, is a reference to help practices set fees that are correct and competitive for their market.

It includes fees for more than 450 services and nearly 700 tables with data on discounts, vaccination protocols, and time scheduled for procedures, as well as ideas for how a practice can best use the information to price services correctly for a specific market, practice philosophy, and size.

This reference presents the average fee—as well as median, 25th, and 75th percentiles—to illustrate variability and give a clear picture of how you compare with other practices serving clients of similar income and demographics in comparable areas. Practitioners can find out if their fees are too high or too low and how to set the price for a new service in their market.

Also useful is information about the average percentage mark-up for outside laboratory tests, the average

percentage increase for specific profit centers, and information on how often fees should be reviewed and updated.

Members of the Canadian Veterinary Medical Association have access to the CVMA fee guides for the different provinces, which provide similar information.

3. Nationwide|Purdue Veterinary Price Index

This resource published its inaugural report in January 2015. It provides an initial, high-level view of pricing for veterinary services. Future releases of the Nationwide | Purdue Veterinary Price Index will not only track national trends in pricing quarterly but also drill down into data from millions of claims from Nationwide policyholders to examine other trends in veterinary pricing. This national pricing index will be released quarterly at *NationwideDVM.com*, with links shared through social media.

Continuing education courses

In addition to using reference books, some veterinarians have turned to continuing education opportunities to gain valuable price-setting information.

AAHA offers the Veterinary Management Institute, in collaboration with the College of Business at Colorado State University. Courses are offered during three in-person sessions (spring, summer, and fall) and online sessions between the in-person sessions. While the program covers a multitude of veterinary leadership issues, one important module is related to financial management.

For those looking for an exclusively online learning opportunity, Joel Parker, DVM, who owns Veterinary Practice Solutions in Vancouver, Canada, offers a 2-day workshop delivered in webinar format entitled “Online Practice Profit Builder Workshop.” Participants gain tips and tools to locate how they are losing profit and what to do to fix it.

James F. Wilson, DVM, JD, offers concrete pricing advice through his online courses. Of course, you can’t list every component of a service’s cost on an invoice, he says, but the ancillary and overhead costs must be recovered. You must know what those costs are. Too often, he says, a surgery charge covers only the doctor’s time. Forgotten is the pre-anesthetic drug, the monitoring, the IV catheter, the

fluid, the operating room expense, surgical packs, gown, mask, towels, suture material, recovery care, etc.

Activity-based costing

Echoing Wilson’s remarks, Wendy Hauser, DVM, AAHA vice president for 2015–2016 and founder of Peak Veterinary Consulting in Parker, Colo., says you must know your costs before setting prices. Because each hospital is unique, she believes a study of the hospital’s unique costs is more relevant than looking at what other hospitals charge.

This means that practices must do the hard work of what is known as “activity-based costing,” which is reminiscent of the “time and motion” studies done in the 19th century by Frederick Taylor, who recorded the time required for a given task, and Frank Gilbreth, who analyzed the work process.

Hauser suggests starting by looking at “turnkey” costs. What are the fixed costs of turning the key to enter the practice every day? This means knowing the cost of such items as rent, mortgage, taxes, insurance, and labor. She adds in everything except inventory and doctor’s costs.

In *The Veterinarians’ Guide to Healthy Pet Plans*, which she co-authored with Debbie Boone, CCS, CVPM, Hauser outlines how you can use this data to calculate the cost per minute of a given service, like blood work. This is far more precise than merely taking the blood work panel cost and tripling it, which is what many practices do. The analysis of prices then turns to a focus on a metric called “annual revenue per patient.”

Lindsay Peltier, LVT, is the hospital administrator at AAHA-accredited Centerville Animal Hospital in Chesapeake, Va. She is one veterinarian who attempted to determine all of her costs. She says, “We developed a program in Excel that allowed us to calculate to the penny what a service costs our practice and then to assign a profit margin that allows for growth....”

“If a client asked for a discount, we typically responded with something along the lines of ‘Mrs. Client, our prices are based on what it actually costs to provide this service, and the discount you are asking for would put us in a position where we would receive less than the cost to our practice to perform Fluffy’s electrocardiogram. We do, however, have some other options we can discuss...’”

“When clients ask for a discount, we know that they are venting their frustration.... By knowing the real costs, [our staff members] can speak with confidence. Our program in Excel prepared them for the conversation.”

When Julie Breher, DVM, purchased the La Jolla Veterinary Hospital in La Jolla, Calif., she wanted this kind of detailed information, so she hired consultant Terry Roberts, DVM, of LAJ, Inc. to assist her. Hospital staff began by getting inventory costs under control, with Roberts providing the staff with equations that assisted them in making appropriate updates efficiently.

With Roberts help, Breher and her staff set about analyzing services. They calculated by the minute what procedures cost, taking into consideration all costs, including rent, water bills, salaries, and supplies. Sometimes Breher compared her prices to recommended fees in AAHA's Veterinary Fee Reference or published veterinary salaries. With that information, she then felt confident in providing a treatment plan with a fair price.

A new service that can assist practices gathering this kind of information is Profit Solver, based on software developed by Fee Technology. Profit Solver and Fee Technology work in partnership with Zoetis, which markets this service. They bring technology to activity-based costing.

Profit Solver lists about 80–90 different services offered by 90 percent of practices; the software also enables your clinic to insert your own data. At the end of the analysis, Profit Solver provides your practice with a Price Adjustment Worksheet and works with your staff in a Price Strategy Session. There, Profit Solver considers which services are competitive (like your exam fee, vaccines, routine labs, spay, or heartworm prevention) in your practice's area and which are not, though some items will admittedly be loss leaders, meant to bring in recurring business.

The intent is to provide you with information to make better pricing decisions, identify profit leaks, and know what is profitable and what is not. The outcome is a more accurate and informed list of costs. Once a practice knows the exact profit or loss in each fee charged, it can make informed decisions to adjust costs with known data. To date, Profit Solver has helped about 1,000 of the 23,000 practices in the United States.

One of those practices is AAHA-accredited Dublin Animal Hospital of Colorado Springs, Colo., owned by Marcus Roeder, MBA, CVPM, who also serves as a professional pricing strategist for Profit Solver. As opposed to across-the-board pricing increases, Roeder finds this activity-based costing method to be more rational. He worked with the Dublin staff for 2–3 months, getting “deep into the weeds,” he said.

At times, Dublin staff found the data overwhelming, but they learned a lot. In the process, Roeder got buy-in from the staff, and now, instead of traditionally emphasizing the cost of inventory, the staff sees that the biggest cost of the practice is its people. Knowing and appreciating what everything really costs, the staff is no longer inclined to want to discount services.

AAHA-accredited Sacramento Animal Hospital, in Sacramento, Calif., also has used Profit Solver. Prior to using the service, the hospital staff had relied on a straight percentage markup by individual category. After analyzing 74 services, they understood which services were profitable and which were not, and where markups were appropriate. They made 21 price adjustments, and realized a new annual profit of \$100,362.

External consultation

Depending on the skills and experience of your internal staff, you may find it useful to go outside for consultation. Boone, owner of 2ManageVets in Gibsonville, N.C., works with practices using a blend of fees suggested by *Benchmarks: A Study of Well-Managed Practices*, the *Veterinary Fee Reference*, and the fee survey from the Veterinary Hospital Managers Association, along with overhead and competitive data.

Louise Dunn, DVM, of Snowgoose Veterinary Management Consulting in Pfafftown, N.C., directs practices to discussion boards where sharing among veterinary professionals is encouraged. She also suggests you look at what pet insurance companies pay for reimbursement. This will give you ideas about what is being charged across the country.

Hauser recommends you work with a certified public accountant who specializes in the veterinary industry. Roeder recommends a consultant who is a CVPM. *VetPartners.org* is a useful place to find a consultant.

Pharmaceuticals and other products

When establishing costs, veterinarians need to take into account the manufacturers' costs of products and medicines, whether they are for in-house use or dispensing. Practices have many sources available to them, such as AAHA MarketLink (aahamarketlink.com), which offers services for AAHA members through a partnership with MWI, Patterson Veterinary (pattersonvet.com), Henry Schein (henryschein.com), and MWI Animal Health (mwivet.com). Each can assist with pricing.

Activity-based costing takes into account the cost of each of the commodities. When providing the items for dispensing, the practice must consider pricing for the client.

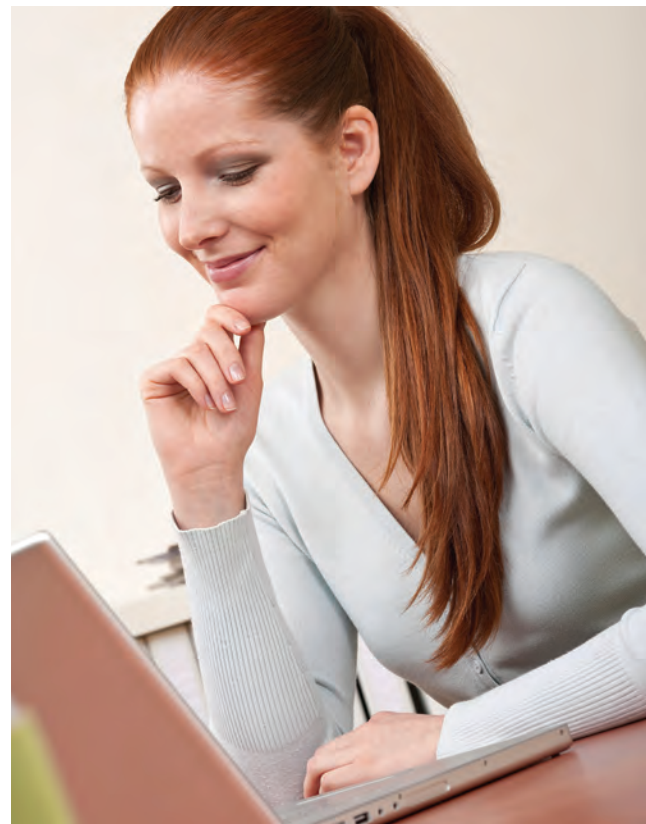
How to be fair and competitive when dispensing products is a major problem for practices that find their clients shopping for their pharmaceuticals and food items online or at discount houses. Some veterinarians refuse to worry, saying their practice is not a dispensary, and any income from that stream is just icing on the cake. Others want to offer a convenience to their clients and need to know how to price their items in order to meet their costs.

John Ferrero, co-owner and practice manager at Healthy Paws Animal Hospital in Crystal Lake, Ill., said, "When we built our business case for our new animal hospital, we decided we would price according to the market, including online pharmacies. We informed our clients that we price-check against the online pharmacies [every 6 months]."

Nan Boss, DVM, owner of Best Friends Veterinary Center in Grafton, Wis., reviews and adjusts her prices with the help of one of her distributor reps, who does an annual fee survey of his territory. Also, one of her technicians keeps a big spreadsheet for heartworm and flea medicines, comparing their prices with online pricing.

Many practices have formed a partnership with distributors or third-party vendors in order to offer products from a reputable distributor through its own website portal. Pam Stevenson, CVPM, director of Veterinary Results Management in Durham, N.C., directs practices to any of four such sources:

- MWI Animal Health AnimalRx Pharmacy, mwivet.com/AnimalRx.aspx
- VetSource (via Patterson Veterinary), vetsource.com



The veterinary field will be, like most businesses, market-driven, with Generation Y and Millennial clients making more buying decisions.

- Vets First Choice, vetsfirstchoice.com
- MyVetDirect and Henry Schein Animal Health, myvetdirect.com

When looking for a partner, practices look to see which carry the diet and pharmaceutical items needed for their clients, what sort of advertising they provide, whether or not they are a distributor, and if their software aligns with the practice's management system.

Ben Spinks, MBA, CVPM, hospital administrator at AAHA-accredited Tipp City Veterinary Hospital in Tipp City, Ohio, has arranged a partnership for his hospital with Vets First Choice (VFC). He went this direction as a convenience for his clients but has realized that it also has greatly improved compliance.

Because VFC offers auto-shipment and reminders, clients are less likely to postpone or avoid the medicines they need. It has also proven to be a convenience for his staff. There is less inventory to manage, and staff have easy access to information since VFC interacts with the hospital's practice management software.

As for pricing, VFC takes a percentage, but Spinks finds that the cost is more than made up by the increase in overall sales. He now offers consultations to other practices through Branchworth Consulting.

Philosophies and new strategies

In addition to having data revealing what things actually cost and knowing your competition and your clients, practices also need to consider how they feel about various pricing strategies.

For example, you may want to think about discounting. However, Vickie Byard, CVT, VTS (Dentistry), president of PetED Veterinary Education and Training, cautions against discounting. In response to the frequent practice of discounting dental services during February, she says it suggests to clients they could have had the services done cheaper the rest of the year. Besides, it is not in the best interest of patients to delay treatment needed in October until they can get it with a discount in February.

Most practices have grappled with the issue of discounts. Writing in *Trends* last September, Roeder said, “Discounting actually undermines the value of our services and diminishes the credibility of our pricing strategy.” Some veterinary practices agree and never use discounts, claiming that they cheapen the profession.

Others think discounts have their place. “Don’t get mad—get data,” says Elsie M. Lacher, CPA, of Strategic

Veterinary Consulting in Asheville, N.C. When you have the data, it is easier to figure out if discounts are achieving their intended purpose.

Looking into the future, Jason Canapp, MBA, a veterinary business advisor, points out that pricing will be impacted by the fact that clients have increased access to information and options. The veterinary field will be, like most businesses, market-driven, with Generation Y and Millennial clients making more buying decisions. He thinks that treatment plans, shopping options, and wellness plans must be in the veterinary future. All of these will require knowing how much things cost.

Canapp further points out that entrepreneurs are seeing private practices ripe for the taking. Consolidation by corporations is a trend, such as seen with BluePearl and VetCorps, which are buying specialty and undervalued practices.

To stay afloat, practices must move their pricing from an art to a science. The use of technology will also play an important part in future pricing. It will help practices deliver more care, more efficiently, so fees can become less costly. Technology will also enable practices to compute and analyze costs as well as adjust and update fees more easily.

Knowing your costs is the place to begin—remembering that each practice is unique. ✧

Additional Resources

Financial & Productivity Pulsepoints, eighth edition, 2014, published by AAHA Press

MWI’s Practice Optimizer
aahamarketlink.com/SOLUTIONS.aspx

The Art of Veterinary Practice Management, 2014, by Mark Opperman, CVPM, et al.

Veterinary Hospital Managers Association website,
vhma.org

Veterinary Information Network website, vin.com



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