How Technicians Can Increase the Profitability of Practices and Why Profit is Important

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Why Profit is Important

The viability and value of a practice is markedly impacted by its profitability. Veterinarians are empathetic, kind and giving human beings. Often, they do not keep their own well-being as a priority and feel that making a profit on others' misfortune is wrong. It may be hard for veterinarians to overcome their aversion to charging appropriately, so it is important to remind them that their family and employees are depending on them to be successful. Horses are a luxury item, not a basic life requirement, as much as we love them.

The value of a practice lies in its profitability. It is highly dependent on the owners' decisions about pricing, inventory management, discounting and expense management. Many veterinary business owners look proudly at the amount of gross revenue their practice produces, and neglect to look at their profitability. Similar businesses in the same industry in the same location can have very different valuations because they can have very different profitability. As self-employed entrepreneurs, practice owners often depend heavily on the business value to fund their retirement. Because so many veterinarians have little awareness of their practice's profitability, they are often surprised at the time of retirement that their practice is worth much less than they expected. Low profit = low value. Many professional services businesses (engineers, accountants, dentists, etc.) have profit margins of 20% or more. Veterinarians should aspire to this level of return as well.

Revenue – Expenses = Net operating profit

All loan payments (both principal and interest), equipment bought outright with cash, raises for employees, and discounts come from net operating profit. Even a practice with a robust 20% in profit can end up with little return to owners after these other costs.

Increasing Profitability

There are only three ways to make more money in a veterinary business:

- Work more - Increase the number of hours worked
- Charge/Earn more - Increase the fees charged or the revenue earned for the hours you work by capturing all charges and/or spending more time performing the more profitable services
- Spend less - Decrease the expenses incurred while doing the work

When examining practice financial reports, owners sometimes find that expenses appear to be excessive as a percentage of the total revenue when compared to external benchmarks or even to previous practice performance. The natural reaction is to immediately want to cut costs. But because many costs are relatively fixed, and most of the practice's variable expenses are crucial to earning revenue, it is often the revenue that must increase in order for the percentage of expenses to decrease. While paring unnecessary or excessive expenses is appropriate, remember that you must spend money to make money.

After minimizing unnecessary expenses, the most effective way to increase profit is to increase revenue wholeness. Revenue wholeness is defined as capturing all the fees and value that are provided when services are rendered, or products are sold. Practice owners sometimes lose sight of the fact that managing

and maximizing revenue provides the best opportunity to increase profitability. Veterinary technicians are in a perfect position to ensure that all charges are captured for work done.
Revenue wholeness is the single most important driver of healthy revenue, healthy expense percentages, and healthy profit. The importance of capturing all the potential value of your practice's activities is illustrated below. When revenue potential leaks away through failure to charge for all services or products, or through discounting, the effect can be catastrophic.

		$2,000,000 Full Potential	$1,900,000 (-5%)	$1,800,000 (-10%)	$1,700,000 (-15%)	$1,600,000 (-20%)
Category	**Expense $**	**Expense %**	**Expense %**	**Expense %**	**Expense %**	**Expense %**
COPS	$500,000	25%	26.3%	27.8%	29.4%	31.3%
Staff	$430,000	21.5%	22.6%	24%	25.3%	26.9%
Doctors *	$520,000	26% $520,000	26% $494,000	26% $468,000	26% $442,000	26% $416,000
Facility/Equip	$200,000	10%	10.5%	11.1%	11.8%	12.5%
Administration	$110,000	5.5%	5.8%	6.1%	6.5%	6.9%
TOTAL	**$1,760,000**	**88%**	**91.2%**	**95%**	**99%**	**103.6%**
	PROFIT:	**12% $240,000**	**8.8% 167,200**	**5% $90,000**	**1% 17,000**	**(-3.6%) (-$57,600)**

**Doctors' compensation is based on production and will remain at 26% (this includes benefits).*

One of the most effective ways to capture all the revenue for work that is performed is to have multiple eyes on each invoice. Technicians can either write the invoices and then have the doctor review them, or vice-versa. Especially in practices where payment is made at the time of service, it is important to double- and triple-check the invoice for accuracy. Dispensed items, sedation, and bandaging are typical areas for losses. Another opportunity for detecting lost charges is when technicians restock the practice vehicle. If items needing restocking have not been noted on the invoices, corrections can quickly be issued within a few days to capture the lost revenue.

Invoice auditing can be used to uncover the percentage of revenues in a practice that are being missed. Invoice auditing is simply a review of what was charged compared with what was actually done at the appointment. This strategy will uncover missed revenue opportunities and allow you and your team to see where closer attention is needed. Simply by making everyone aware of how easily charges are missed, you will affect the outcome.

The invoice auditing process starts with a review of a group of invoices. An invoice group may be chosen based on particular criteria. For instance:

- A particular area of the practice (e.g. surgical cases, outpatient cases, farm call cases)
- A particular person/group of people involved (e.g. Doctor A, Technician B, interns)
- All on a particular block of time or day of the week (e.g. weekends)

Compare the invoice items with what is in the medical record and note any discrepancies in fees not charged, and/or discounts that were given that do not meet the criteria of the practice's planned discount strategies. This will show the difference in the invoice as it should have been charged from the actual in both dollars and as a percent of the total. Typically, reviewing 20-30 invoices will provide a picture of what percentage of the full potential revenue is being missed. You will also determine what types of

revenue are most commonly missed, such as dispensed medications or second doses of sedation. This exercise reveals low-hanging fruit and can instantaneously increase your practice's revenue.

A further step that can be taken to address revenue wholeness involves medical records auditing. Medical records auditing is the process of reviewing presenting complaints and course of medical actions offered and accepted. It is always a good idea for veterinarians working in the same practice to have similar diagnostic and treatment plans for common clinical presentations. Client confidence and trust is enhanced when a practice has congruity in their operating procedures. Doctors may discover services that others in the practice routinely offer in certain circumstances that clients value highly – they can then begin offering these same things and increase client satisfaction while increasing revenue. To do medical records auditing, the same criteria as outlined above, along with a particular diagnostic code or presenting complaint can be utilized. The results of medical records auditing should provide good collaborative fuel for robust discussion among the veterinary team. While equine veterinarians value independent decision-making, collaboration to form broad standards of care will strengthen the practice brand measurably. All team members should be providing patient and client care in alignment with the mission, values and vision of the practice. Medical records auditing is a snapshot of this performance.

Often lost revenue comes from discounting. Discounting can be planned or unplanned. Planned discounting is a marketing strategy to drive revenue. However, unplanned discounting can cause a serious erosion of profit. It is very hard to control veterinarians' urge to offer a discount in the face of emotional situations where they feel compassion and the desire to help clients and patients they care about. Typically, doctors give discounts when clients are not even expecting one. Sometimes the immediate reaction to a complaint is to offer a discount, when compassionate listening and validation may be all the client really needs. Remember that a veterinary practice will not remain viable if it does not make a profit. The staff and clients depend on the practice's profitability for their future needs. As an important work partner to a veterinarian, you must support their empathy, while encouraging them to charge appropriately and discount minimally.

Planning for compassionate discounting may take the form of a named fund that clients can donate to, or a certain dollar figure that each veterinarian may use for discounting each year. Because veterinarians typically come to their career through love for animals, having some mechanism for providing compassionate care is essential for feeding their soul. Other planned discounting can drive business and cash flow during slow seasons. For example, a practice may waive farm calls for routine dental services performed during winter months.

Where is your practice failing to capture all of the revenue that it produces? How much revenue do you think your practice is failing to capture? Utilizing your knowledge and professionalism, you can be a gamechanger in the success of your practice and your veterinarians.