

Simmons & Associates  
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**Business as an essential component of Veterinary Medicine**

If one thinks of veterinary medicine as the science of maintaining animal health and preventing and alleviating animal diseases, it by definition, requires a professional who provides services to a client. The client can be an individual pet owner, a large food animal producer, or a developing country seeking to eradicate a public health concern. Regardless, each client places an economic value on the services provided. The job of the veterinarian is to understand the economic value of the services exchanged and to charge accordingly.

In March 2004, AVMA-Pfizer conducted a study to identify business practices, that when implemented, would increase veterinarians income. Eight business practices were leading predictors of higher personal income, including business orientation, frequency of financial data review, employee development, negotiation skill, client loyalty, leadership, client retention, and new-client development.<sup>1</sup> The difference in mean annual income between veterinarians who ranked in the upper third and the lower third of the surveyed group in implementing these business practices is dramatic. The annual income difference for those with business orientation versus those without a business orientation is \$47,070<sup>2</sup>, more than the mean annual starting salary of 2004 veterinary medical college graduates.<sup>3</sup>

Each veterinarian delivers services in exchange for compensation. In order to deliver maximum value and optimize profit, one must understand the customer and the served market. By aligning the services offered with the services needed, both the service provider and client are satisfied. This is the key to an excellent and profitable veterinary practice.

For example, if an individual veterinarian practices in a cost conscious companion animal market, one might want to have short exam times with a higher technician to doctor staff ratio than a practice that is providing in-depth veterinarian client interaction and animal wellness consulting. Each veterinarian should take time to research the demographics of his/her customers and the amount of income available for animal care.

Veterinary Medicine, as a profession, is experiencing change to its delivery system (from local to corporate entities), its provider mix (from men to women), and its profitability (real income loss for individual veterinarians from 1985-1995).<sup>4</sup> By understanding the economics driving these trends, the veterinarian can help evaluate clinical offerings or target specific client groups to meet his or her financial objectives. An unprofitable veterinary medical practice will struggle to apply the latest treatment techniques, to hire or retain the best employees, and to make the necessary investment in equipment and facilities. By running veterinary medicine as a profitable business, profits are generated to stay current with new techniques, to develop methods for improving medical care, and to recruit and reward personnel.

As I prepare to take the Veterinarian's Oath in June 2006, I accept my obligation to continually improve my professional knowledge and competence. To fulfill this obligation, I must lead a

veterinary practice with proven business principles, an understanding of my customer's needs, and a strategic plan that includes regular review and measurement of business performance.

1. *Executive Summary of the AVMA-Pfizer business practices study, JAVMA, Vol. 226, No. 2, January 15, 2005, pp. 213.*
2. *Executive Summary of the AVMA-Pfizer business practices study, JAVMA, Vol. 226, No. 2, January 15, 2005, pp. 215.*
3. *AVMA annual survey, Spring 2004, JAVMA Vol. 224, No. 11, December 1, 2004, P. 1677. Mean Starting Salary = \$42,978.*
4. *Brakke Study (1995), KPMG Mega Study (1998).*

### **How Business Aspects affect Medical Aspects**

Placing a business or economic value on veterinary medical services occurs with each veterinarian-client transaction.

For example, a client who has an elderly pet who needs chemotherapy to prolong its life places a value on the pet's life that exceeds the \$3000 the service will cost. Conversely, a financially strapped couple whose dog was hit by a car, may not have the monetary means to provide the most advanced medical care for their pet and opt for a humane euthanasia. These examples are readily apparent in the companion animal market, but they occur daily in all aspects of veterinary medicine.

Business factors also affect food animal medicine for most transactions. Such as the dairy farmer who decides to dry off a heifer and send her to market instead of treating mastitis due to her age, production, and breeding history. The same dairy farmer might decide to invest and treat another heifer's mastitis since she has a history of healthy calves and many years of good milk production ahead of her. Production animals need to produce offspring or a market product (beef, milk, pork, eggs) to justify a farmer's investment in medical care.

The previous examples demonstrate how business cost benefit analysis impacts a veterinarian's medical choices in delivering sick care to individual animals. Business aspects also alter the medical choices made for animal preventive care and herd care protocols. In turkey meat production, the consumer price of turkey meat does not allow for each individual turkey to be examined by a veterinarian. However, in order to maximize the bird's size for the food market, it is cost effective to develop and deliver a large scale treatment program. The veterinarian designs nutrition plans, feed supplementation, and housing arrangements. On a macroeconomic scale, another herd health example is the decision to vaccinate for Foot and Mouth disease. England chose to eradicate FMD by slaughter in 2001 when faced with an outbreak in order to maintain their disease free status for meat export. Argentina chose to vaccinate and restrict animal movement when they were faced with a FMD outbreak the same year. Argentina economically was willing to sacrifice their meat export business in order to preserve more animals for their domestic meat market.

Business aspects impact the level of veterinary medicine dedicated to human public health. Since 9/11/2001, the United States' public concern and interest in biological warfare has increased. Since many biological weapons use agents from animal diseases (Anthrax, Plague, Tularemia), the demand for veterinary medical research has increased. The zoonotic potential of animal diseases (Avian Influenza, SARS) greatly increases the interest and funding in veterinary medical research as the risk of human transmittal becomes more of a possibility and justifies the additional cost.

These cost benefit analyses happen both formally and informally. Business and medical criteria are involved in every veterinary medical clinical decision from an individual companion animal to an entire country's herd eradication strategy.

### **Associates and Owners demonstrating Good Business Skills**

A new associate veterinarian can demonstrate good business skills by efficiently managing her time. Be it to learn a new technique from a senior clinician or spend extra time with a new client to encourage the next visit and increase client retention, a new associate should always be thinking about ways to maximize her time while satisfying clients and meeting their expectations.

An associate can also bring new knowledge and experience to a practice which may enhance profitability. One example may be an associate's skill with ultrasound. The associate may be able to demonstrate the use of ultrasound technology to the entire practice and therefore increase the use of this profitable service, especially if the equipment is already owned by the practice.

In terms of continual improvement, each new associate should review their transactions on a monthly basis. By reviewing the number of clients, average dollars per transaction, type of services rendered, and comparing these to other veterinarians in the practice and to national averages, the associate will have a good indication as to her performance. An associate with a low average transaction figure may need to spend more time communicating with clients or promoting wellness screens. Understanding the business financials allows one to examine strengths and weaknesses and to determine specific improvement targets.

A veterinary medical practice owner not only needs to practice good business skills for each individual client transaction but must also look at the business as a whole. A successful owner must evaluate the practice on a monthly basis: evaluating revenue, cost, profitability by business line, and profitability by practitioner. An owner can then make decisions as to what transactions to emphasize and which ones to terminate or increase price. An owner also needs to evaluate each employee on an annual basis including a review of each employee's role. A practice can enhance its profitability by taking time to align job responsibilities with those that allow the veterinarian to utilize her best skill set and provide the highest value service to the clients.

A key indicator of a practice owner with good business skills is one who has a history of annual owner return on revenue of 20% with 5% of gross revenue reinvested into the practice. Investment in the practice should be diversified between technology, physical plant, education, employee improvement and salaries, and payout to investors. Most practice owners do not have the time to be a successful practice manager and full-time veterinarian. A practice owner who has designated an individual as the practice manager and given them significant authority is a key indicator that they understand the importance of running a successful full-time business. Together new associates and business owners need to measure performance while demonstrating teamwork and encouraging change. By demonstrating the ability to change one's behavior and consider new practice methods, a veterinarian can provide the vision and environment to keep all employees improving the practice and their clinical skills.