

Product Sales: Fight or Flight?

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For better or for worse, the past 25 years have seen a sea change in product sales emanating from small animal veterinary practices. Two large categories – flea/tick and heartworm – have seen the introduction of true blockbuster drugs. Novel pet foods are introduced continuously. Entire new categories of pharmaceuticals have entered the market.

Very unfortunately, during this time period veterinary practices grew increasingly and perhaps dangerously reliant upon product sales. It's instructive to follow the service/product mix over time – that is, the percentage of gross income from service sales and the percentage of gross income from product sales. Whereas that mix might have been 90/10 or 85/15 two decades ago, it is now more commonly in the 65/35 or 70/30 range. While veterinarians have enjoyed the billions of dollars that flowed into their practices, the risk that that cash cow might be slaughtered has become reality. The veterinarian – once and for all – has lost the vice grip that once kept those dollars captive to the veterinary channel. Today, popular pet drugs can be easily and conveniently found on the internet, at pet retailers and mass-market discount stores. Unlike service sales, product sales are relatively easily displaced at the leisure of the pet owning public.

Please don't misunderstand: product sales and service sales are usually not mutually exclusive. No one should deliberately minimize product sales – that's a fool's errand. I've heard of practitioners totally shutting down their on-site pharmacies...throwing in the towel. At the risk of cliché – they've thrown the baby out with the bath water...they've cut off their nose to spite their face. The efficient market will ensure they get their just rewards. In terms of services and products, it's absolutely true that services are necessarily more profitable than products, simply because there is very little or no 'Cost of Goods Sold' attached to service sales. And, practices that are overly reliant upon product sales are in danger – they are in harm's way.

On the other hand, few, if any businesses – of any kind – can withstand the loss of one-third of their total revenue. The incremental profit of product sales (product sales, less cost of goods sold) help every practice cover their fixed overhead expenses (e.g. occupancy costs, salaries and wages, monthly debt-service and lease payments, utilities, etc.). So, 'flight' is not a feasible option in the short-term. Fight is the only option. Many veterinarians find this upsetting and distasteful as they've never had to compete for this business. Nobody said life was fair. Get over it. Yelling, screaming, or rolling over and wetting yourself will not help solve this problem. Shed the emotion – find the logic and be rational. How to react if someone were taking your livelihood, your kids' college education or your retirement? It's time to compete...to fight back! This is America...it's what you're supposed to do! And by the way, is it good medicine that a clear majority of dogs leave your clinic without a single dose of heartworm preventive? Is it good medicine that fewer than 20 percent receive the recommended 12 doses annually? And the stats are far worse when we examine flea/tick control and pet nutrition. Mom was right, when we point a finger at others, we have three pointed back at ourselves!

Veterinary Business 101 – Review the Fundamentals

How is revenue or income produced in your hospital? (Note: For purposes of this discussion, *revenue* and *income* are synonymous with other commonly used terms such as "gross" or "gross income") Hospital revenue is generated when your clients give up something of value – typically money – in order to receive something of perceived equal or greater value – in this case, veterinary services and products.

The greatest opportunity to improve the health of a practice is to grow veterinary income – or the top line. There is typically far less opportunity to improve practice health through cost cutting. You probably cannot slash (cost cut) your way to prosperity. Unusual is the veterinary practice where expenses are wildly out of control. Because growing the top line is the key to higher hospital productivity and income, let's dissect hospital revenue further.

Revenue sources – Two types

For purposes of this discussion, income sources are broadly classified into two categories: (1.) Active income, and (2.) Passive income.

Active income is income that can only be generated with the doctor's direct, full-time involvement.

Examples of veterinary services provided in your practice that require the doctor's direct, full-time involvement include:

- Examining the pet
- Diagnosing
- Prescribing and initiating treatment
- Surgical procedures
- Certain client consultation activities

Passive income is income that can be produced without the doctor's direct, full-time involvement. Practice income generated by the non-veterinary members of the health care team is termed passive. Passive income is critically important to overall practice

profitability and productivity in a typical small animal practice (recognizing, of course, that the practice must first achieve an appropriate level of active income).

Examples of veterinary hospital services that generate passive income include:

- Routine dental cleanings
- Radiographic procedures
- Lab work (fecal tests, heartworm tests, urine tests, CBC's, and biochemical profiles)
- Nail trims
- Treatment of hospitalized pets
- Ear cleaning
- Anal sac expression
- Suture removal
- Bandage changes
- Anesthesia induction
- Boarding
- Grooming
- Pet adoption programs
- Behavioral programs
- Weight management programs

... and the list could go on and on.

It's important to note that although the doctor may have some involvement in the delivery of these services, the veterinarian need not be involved on a direct, full-time basis. The doctor might be in an exam room or the surgical suite (i.e. generating active income) while these services are delivered. For example, assume the doctor orders a radiograph. Members of the veterinary health care team are capable of taking radiographs – which constitutes the bulk of the time and effort involved in that procedure. The veterinarian could then read and interpret the radiographs – a significantly less time consuming activity. Both processes, however, are vital to an accurate diagnosis – that is, good films to read and competent interpretation of those films. In this scenario, each party is assuming an appropriate role. Specifically, members of the veterinary health care team are performing tasks for which they have adequate training and experience (taking the radiograph), whereas the doctor is performing tasks for which he or she is rightly trained (ordering and interpreting the radiograph).

Next, let's turn our attention to veterinary products. Examples of veterinary products that generate passive income include:

- Pet foods (therapeutic and wellness products)
- Heartworm prevention products
- Flea/tick control and prevention products
- Refilling other prescriptions
- Shampoos and other skin and coat products
- Other pet supplies

Look around your facility and you'll clearly see there are myriad veterinary services and products provided in your practice that produce passive income.

Is Passive Income Important?

Passive income is critically important to the success of your practice. Why? Because in a veterinary practice, the veterinarian's time is the constraining factor – or the most limited, finite, and scarce resource. Each and every doctor has only 24 hours each day to generate active income. As a result, there exists a "cap," or physical limitation in terms of how much active income a veterinarian can generate. As other professionals have found, that cap may be quite low. Therefore, dramatic increases in hospital income are a function of how well the practice is positioned to generate passive income.

The principle of having people undertake tasks or activities for which they are adequately trained and experienced is called delegation. Delegation is required in order to generate passive income. That is, if a doctor is unable or unwilling to delegate to others, only active income can be produced. A veterinarian can and should delegate to members of the veterinary health care team everything not specifically required of the doctor. Then, veterinarians can begin to command the level of income they deserve and competitively compensate other members of the health care team.

Recall your last visit to the dentist for routine care. How much time did you spend with the dental hygienist? How much time did you spend with the dentist? Most likely, the great majority of your time was spent with the hygienist. The hygienist probably examined your mouth, cleaned your teeth, applied fluoride, and perhaps took radiographs. Next, the dentist examined your mouth and read the radiographs. Again, each member of the dental health care team assumed an appropriate role – each doing what he or she was specifically trained to do.

Similarly, recall your last visit to the optometrist for routine care. Did you spend more time with the optician or the optometrist? What role was assumed by each?

The economic or financial consequences of delegation are staggering. Imagine how many more patients a dentist or optometrist can see each day by appropriately delegating to members of his or her health care team. If the dentist performed tasks typically assumed by the hygienist, could he or she see even half as many patients? If the optometrist “fitted” each set of eyeglasses, could he or she see even half as many patients? In both cases, the answer is probably no. These professionals have found that by effectively delegating to members of their health care team, they can focus on the more complex – and the more remunerative – tasks and activities.

Although veterinary medicine, dentistry, and optometry have been specifically mentioned, the principle of delegation is relevant to all professional service businesses.

What are the tasks or activities in your practice currently performed by a veterinarian, which could be delegated to members of the veterinary health care team? Consider organizing a team meeting to “brainstorm” lists of things that could (should) be performed by non-veterinary personnel. Veterinarians may be surprised by the confidence, competence, and talent of their support personnel. Also, team members will probably enjoy the opportunity to use their skills and abilities to contribute to pet health care and improve hospital productivity.

What does passive income mean for your hospital? Most importantly, it means better pet care. From a business perspective, however, successfully generating more passive income may result in the following:

- Higher veterinarian income (hospital owners and associate doctors)
- Better compensation for other members of the veterinary health care team – the benefits of paying higher, more competitive salaries include attracting and retaining top employees, less turnover (which leads to stronger and deeper client relationships), less investment in continuously training new-hires, etc.
- More funds available for future use (retirement, college funding, etc.)
- Purchasing state-of-the-art medical equipment
- Purchasing computer hardware or software
- Renovating or remodeling the practice
- Buying or building a new hospital

Effective use of veterinary health care team talent cannot be overemphasized. This is a win/win scenario where good medicine translates into good business. Your team can become a more effective work force and most importantly, pets and their owners reap the benefits of better care.