The Insiders’ Insight Benchmark Report is published by the Veterinary Hospital Managers Association (VHMA) on a monthly basis. The report tracks several key economic indicators to determine how participating VHMA member practices are performing, as well as results from VHMA surveys on issues impacting the profession. There are 536 VHMA member practices who contributed to this month’s key economic indicator data. Data is representative of companion animal practices only.

December, 2020 vs. December, 2019

Revenue Growth

Companion animal practice revenue for the 536 VHMA practices included in this month’s study increased with December, 2020 growth of 8.2% compared to December, 2019. Note, however, that part of this growth was likely driven by the extra workday in December, 2020 compared to 2019. (“Workdays” are defined as Mon-Sat less standard holidays. In December, the holidays were Christmas Eve, Christmas Day and New Year’s Eve.) The median growth in December revenue (15.2%) was quite a bit higher than the 8.2% average which means there are some significant lower-growth practices pulling down the average. The range of revenue change is from negative 72.6% to a positive 527.5%. Canine revenue increased by 10.3% and feline revenue increased by 0.5%. Total growth in 2020 was 4.5%, just a little above the 4.2% growth seen for 2019.

Patient Visits

Total unique patient visits for the same period, December, 2020, compared to December, 2019 increased by 2.4% with canine visits up by 2.0% and feline visits up by 3.8%. As noted above, December of 2020 had one more workday than in December of 2019 which likely accounts for some of this growth. The median growth was 4.1% and the range was a negative 66.7% to a positive 325.4% growth. Jan-Feb visit growth for 2020 started out well at 2.3%; however, the continued monthly declines have dropped total 2020 visit growth to -3.8% compared to -0.7% in 2019. (Note that the term “visits” is defined as unique purchases of either products or services for an individual pet.)

New Client Growth

For the eighth month in a row, new client numbers in December, 2020 compared to December, 2019 actually increased by 9% with some of this growth driven by the extra workday in December, 2020. Total 2020 new client growth is 1.2% compared to an 11.9% decline in 2019. The decline in new client numbers has been a discouraging trend for the last four years; it will be interesting to see if this turnaround continues to hold as we move into 2021.
Fee Changes in 2021

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Each year the VHMA asks practices about planned or anticipated fee increases for the year. Practices are continuing to grapple with the pandemic and there is a lot of economic and political uncertainty in the US; therefore, we first asked:

“Are clients in your practice more or less concerned about increases in the cost of veterinary care than they were a year ago?”

Most practices aren’t feeling an increase in price concern now compared to pre-pandemic times although 14% do report this. Three of the four “other” responses indicated the practice had just increased its fees and they don’t know what their clients’ reaction will be. The fourth “other” response said “I think every person has concerns about cost. There is only so much money so it is a matter of showing value for the service provided.”

Client feedback certainly influences practice decisions in changing fees and this lack of increased concern about cost no doubt has played a role in what practices are planning to do in 2021.

As with past years, the majority of the practices participating in this survey said yes to the question: “Have you or will you raise your professional service fees in 2021?”

As can be seen to the left, most of the respondents (64%) said they would be increasing fees on both shopped and non-shopped services. More practices in 2021 (compared to 2020) are not increasing their fees at all on both shopped and non-shopped services although this is still a small percentage of the total. Most of the “other” responses said the practice was undecided at this point about fee increases.
The next question asked:

“If you are increasing fees on shopped services in 2021, what is the average amount of the increase?”

About 35% of the responding practices are increasing shopped services by 3% and another 46% are increasing their shopped services by 4% or more. For most of the practices included in this service, shopped veterinary fees increased more than the rate of inflation for 2020 (1.4%).

Hospitals planned on increasing the fees on non-shopped services by a greater amount as demonstrated by the answers to the next question:

“If you are increasing fees on non-shopped services in 2021, what is the average amount of the increase?”

About 14% of the responding practices are increasing non-shopped services by 7% or more; 47% by 4-6% and the rest by 1-3%. Again, it should be noted that most of these practices increased overall non-shopped fees by more than the rate of inflation for 2020 (1.4%).

The last two questions were open-ended and asked what factors or strategies were considered in deciding how much to increase either the shopped or non-shopped services in the practice.

The most commonly mentioned factors or strategies for shopped services are listed below and are very similar to those mentioned in the last couple of years:

- How long since the last price increase
- What competitors are doing
- Increased demand
- Cost of living in local area
- Fee survey guides
- Trends in economy
- Appointment fill rates and waiting lists
- Increased cost of supplies/labor
- Minimum wage increases
- Used Profit Solver—only went up slightly on exams and vaccines; did not increase spays/neuters

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The most commonly mentioned factors or strategies for non-shopped services included all of those used in pricing shopped services as well as:

- Frequency service is utilized by pet owners
- Time it takes to perform the service
- Inflation

Again, these were similar to those mentioned in 2019 and 2020.

All of the factors listed above are reasonable to include in the price-setting thought process. However, one critically important issue wasn’t mentioned at all and that was client value. Are ongoing fee increases sustainable without an increase in client value?

**Flaws in Setting Fees**

Setting fees properly is an important task in a veterinary practice and it’s not an easy one. Discussed below are some of the common flaws seen in fee setting.

**Not assessing the impact of prior fee increases on your practice**

If your practice is genuinely profitable, has real growth in transactions, visits, and new clients as well as high levels of compliance with practice recommendations, then the practice's clients obviously believe the value offered by the practice is in line with what they are asked to pay. However, if you aren't very profitable, don't have good compliance and don’t see strong growth, then there are some challenges with how the practice is being operated. Prices may not be the problem but you can’t assume they aren’t until you do some research and figure out what needs to be changed in order to turn the practice around. Over the years clients have become increasingly less loyal to just one practice and they have many options; not to just go to another traditional veterinary hospital in the neighborhood but to go to a low-cost clinic, a pop-up vaccine clinic at a local pet store or buy their products elsewhere.

Please note that 2020 was a very strange year and you can’t count on what you’ve seen happen in the practice last year as indicative of what will happen in the future. Unfortunately, we just don’t know what is next and this makes planning hard. Don't ignore your 2020 growth but don't assume this is the new normal. Clients will remember the level of service they got at your practice when things calm down, it’s easier to find care and they have more options.

**Increasing fees at a rate higher than inflation or the increase in household income**

Some practices say that they use inflation as a guide to set fees. And while this is no doubt true for a small number of practices, in reality, the average fee increases made by most practices are well above inflation and the average increase in household income and have been for many years.

Your practice certainly doesn’t have to limit its fee increases to the rate of inflation but if the increases continue to be higher, it is important to think through the long-term ramifications of those higher increases. Typically, this will mean veterinary medicine becomes an increasingly higher proportion of a client’s household budget and, for many clients, this isn’t sustainable, particularly if the client is not perceiving any increase in value in exchange.

**Overestimating the increase in practice costs**

Practices often overestimate the amount by which their costs have increased in any given year and by what amount they need to increase fees to cover those costs. Many practice owners or managers would tell you that the average cost of their medications has gone up 5% or 8% or more and yet information from Animalytix indicated this figure was closer to 1.6% in 2019 (don’t have 2020 data yet.) Animalytix LLC is a large animal health industry clearinghouse for sales and market share data related to the products sold to veterinary hospitals. The 1.6% figure quoted above is an average; certainly, some products increased more than that but others increased less. And of course, product purchases represent less than 20% of all expenses so the fee increase to pet owners to cover this 1.6% increase in costs is about .25%. Of course, this isn’t the only cost increase seen in a practice but the fee increases practices pass on to consumers often are significantly higher than that needed to cover increased operating costs.

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Again, your practice certainly doesn't have to limit its fee increases to the level of cost increases seen in your practice but if the increases will be higher, it is important to understand the long-term ramifications of those higher increases.

**Relying too much on what other practices are charging**

Knowing what other practices are charging is important so your practice has an idea of where it fits into the community, both from a price perspective and from a value perspective. However, this doesn't mean you can or should match those prices, either the higher ones or the lower ones. Any evaluation of another business' prices must include an evaluation of the value that business provides as well. For example, if the practice two miles away from you has prices that are 20% higher than your practice's, should you raise your fees? Maybe or maybe not. If they are located in a nicer facility, have more convenient hours and a better client service experience than your practice offers, a price increase will probably not be well received. However, if your practice is equivalent or greater in value, then increasing prices may be worth considering.

Fee references such as the AAHA Veterinary Fee Reference and information found in the *Benchmarks: A Study of Well-Managed Practices*® are essentially a large conglomeration of data regarding what other practices are charging. They are useful books to understand where your practice falls in the mix and to see how certain types of your fees are priced compared to others but they shouldn't be an absolute mandate for what your prices should be.

Setting prices is hard and, as a profession, we are still at the bottom of the learning curve when it comes to the use of more sophisticated techniques. VHMA has genuinely been a leader in helping move the needle on this. In your copious free time, be sure and download their pricing Best Practices series and other pricing materials from the website [https://www.vhma.org/resources/value-basedstrategicpricing](https://www.vhma.org/resources/value-basedstrategicpricing).

And finally, don't forget that profitability can be increased through other means such as increasing marketing programs and bringing in more clients, reducing expenses and improving productivity. These are harder to do than just punch in fee increases into your PIMS but will likely be more sustainable and add more long-term value to the practice.

*Happy new year and let’s all hope 2021 will be an improvement over 2020!*