Revenue Growth

Companion animal practice revenue for the 598 VHMA practices included in this month's study showed growth of 4.2% from February, 2017 to February, 2018; both months had the same number of work days in them. Canine revenue growth was 5.1% and feline revenue growth was flat (0%). Year to date growth for 2018 is 4.9%; just a little lower than 2017 growth of 5.1%. This growth continues to be stronger than the overall growth seen in the U.S. economy.

Patient Visits

Total unique patient visits for the same period, February, 2018 compared to February, 2017 declined by just 0.1% with canine visits up by 0.8% and feline visits down by a disappointing 3.6%. Year to date growth for 2018 is just 0.4% compared to total 2017 growth of 1.3%. (Note that the term "visits" is defined as unique purchases of either products or services for an individual pet.)

New Client Growth

New client numbers in February, 2018 compared to February, 2017 declined by 13%. This continues to be a discouraging trend as these numbers have declined almost every month of the last three years.
Each year the VHMA asks practices about fee increases for the year; either those planned or already implemented. As with past years, the vast majority of the 261 practices participating in this survey said yes to the question: “Have you or will you raise your professional service fees in 2018?” A larger % in 2018 said they would be increasing fees on both shopped and non-shopped services compared to 2017.

The next question asked: “If you are increasing fees on shopped services in 2018, what is the average amount of the increase?” Responses were fairly spread out amongst the categories with most of the hospitals saying the average increase on shopped services would be 3%, followed closely by 5% and 2%.
Fee Changes in 2018

Most 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 2018, what is the average amount of the increase?” The majority of hospitals said their non-shopped service increase would be between 4-6% with many other hospitals increasing these fees just 1-3%.

Practices reported that these fee increases didn’t seem to be a big issue with clients. The question asked: “Are clients in your practice more or less concerned about increases in the cost of veterinary care than they were a year ago?”

The last two questions asked what factors or strategies were considered in deciding how much to increase either the shopped or non-shopped services in the practice. Responses were similar for both types of fees and the main factors taken into account for each were:

- Inflation
- Overall cost of doing business
- Increases in practice costs
- What other practices are charging
- Fee references such as AAHA, WMP

Compared to 2017, practices appear to be feeling even more comfortable with the economy and their clients’ willingness to spend money on veterinary care as evidenced by their level of fee increases and the types of fee increases the practice made or is planning to make. But are these types of increases sustainable? Should practices be concerned about the long-term impact? What factors should practices be thinking about when making decisions about fee increases?

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Setting fees properly is an important task in a veterinary practice; yet many hospitals don’t know how to do this well. And, to be fair, our profession doesn’t have good quality, comprehensive tools and models to help with this process. As noted previously the most common factors considered by practices in currently setting fees are:

- Inflation
- Overall cost of doing business
- Increases in practice costs
- What other practices are charging
- Fee references such as AAHA, WMP

All of these are useful tools and resources but none of them are the absolute right answer to what fees should be in a particular practice. The following discussion is not meant to be a definitive guide to setting prices but, instead, an introduction to some ideas that may not have been considered in the practice’s price setting process.

**Inflation**

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 have been for many years as shown in this chart prepared by the AVMA:

![Inflation Chart](chart.png)

This analysis ends in 2014 but similar results can be seen in the years following. Inflation from 2014 to 2017 ranged from 0%-3% and yet most practices are raising their fees by greater percentages. Note that the bottom two lines in this chart are the number of cats and dogs who don’t get any veterinary care at all; these figures increase as prices go up. In the long-run, regular fee increases over the rate of inflation may be damaging to a practice and to our profession, particularly if no increased value is seen by the pet owner and the pet owner is not in a high income bracket.

Your practice certainly doesn’t have to limit its fee increases to the rate of inflation but if the increases will be higher, it is important to think through the long term ramifications of those higher increases and whether the practice is offering increased value desired by the pet owner in exchange. The inflation figures used above are those from the Consumer Price Index (CPI). It has been suggested that “veterinary inflation” is higher but this isn’t always true and understanding the actual price increases for the goods and services your practice buys is an important part of the fee-setting process. Remember, too, that inflation is a change in price for the goods and services the practice currently purchases. Buying a more expensive piece of equipment with more functionality is not inflation; that is an investment that the practice ultimately hopes to reap additional rewards from.

**Overall cost of doing business/Increases in practice costs**

In the long-run, if a practice charges fees that don’t cover its costs, it will go bankrupt. However, cost can’t be the only factor in setting prices because, to a large extent, customers don’t care what it costs to provide a service. They want to pay a price that correlates with the value they receive. A practice therefore needs to operate its business in a manner that allows it to price goods and services in a way that correlates with value and also covers 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 indicates this figure was
closer to 1.5% in 2017. (Animalytix, LLC is a large animal health industry clearinghouse for sales and market share data related to the products sold to veterinary hospitals.) The 1.5% figure quoted above is an average; certainly some products increased more than that but others increased less. The fee increase to pet owners to cover this 1.5% increase in costs is about \( \frac{1}{4} \% \). Of course, this isn’t the only cost increase seen in a practice and your practice’s cost increase for medications may be more than 1.5% but the fee increases practices pass on to consumers often are significantly higher than that needed to cover increased operating costs.

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.

**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 need to 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 2017: 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.

**Research and pricing strategies in the veterinary field**

Very little veterinary price strategy research has been done, although some organizations are currently in the process of looking at the price sensitivity of consumers in the market for veterinary services and at more sophisticated pricing methodologies. This information, when it becomes available, may help practices better understand the factors influencing pet owner veterinary purchases and how to more effectively use pricing as a marketing tool.

**Until then, what should your practice do?**

Should you re-think your current fee strategy? Not if:

- Your practice is truly profitable
- Your practice has real growth in:
  - Transactions
  - Visits
  - New clients

If the above is true, it is likely that your current fee strategy works for your practice and your client base, at least at the current time. It is important to re-evaluate your profitability and transaction/visit/new client growth at least annually.

What strategies should you consider if your practice isn’t profitable or growing? You may not have a problem with your pricing if you aren’t profitable or aren’t growing but need to at least consider that possibility. Some ideas to consider include:

- Smaller, more limited fee increases
- Better communication of value
- Increased client education regarding payment options
- More strategic price changes
  - Current markups for laboratory or products aren't a mandate; think through what you are trying to accomplish and set the fees accordingly—a lower increase may result in greater sales
  - Don’t forget to look at the overall cost of a typical visit and not just the cost of individual services; individual services may look reasonably priced but add up to an amount that turns clients away
  - Price reductions on individual items—occasionally a practice will have 1-2 prices that are just out of whack and doctors and
team members won’t promote the service—if you have these, consider reducing the price to a level that will increase sales of that product or service

Don’t ignore well-designed, well-monitored discount programs as a strategy to increase revenue

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.