



## WUTCHIETT TUMBLIN AND ASSOCIATES

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Better Management is Better Medicine<sup>SM</sup>

### Ten Myths about Fees – 2007

One of my favorite childhood pastimes was sitting around a campfire with family and friends. Often we'd take turns telling ghost stories and urban legends - the man with a hook for a hand, the killer in the back seat, the babysitter, etc. - to see who could scare the other the most. The flickering firelight and nearby wooded area lent a perfect backdrop for the stories, and our efforts resulted in more than a few sleepless nights.

When it comes to fees, urban legends are alive and well. Practice owners listen to the tales and may suffer a few sleepless nights of their own when designing their fee structure. Following are ten common misconceptions regarding fees. Have you heard this one...?

1. **Clients want the lowest priced veterinary care.** There is an implicit relationship between price and value. We expect to pay more for gourmet food than for fast food and for a luxury car than for an economy model. At the same time, value is a matter of opinion, not fact. Pricing your services appropriately requires an understanding of what your clients value. Clients value quality, compassion and honesty, courtesy and respect, sincerity, and timeliness. If you deliver in these areas, price is rarely an issue.
2. **If I raise fees, I'll lose clients.** Consumers are willing to spend money. They're just selective about where they spend it. Clients expect value for the dollars they spend. They want the best for their pets and know that high-quality health care comes with a price. Instead of worrying about the fallout if you increase fees, focus on providing the level of patient care and client service that justifies your fees and keeps clients coming back.
3. **An across-the-board increase on all products and services is the best way to set fees.** Clients attach different values to different services and products. For example, they're price-sensitive about services such as vaccinations and elective surgeries, and willing to pay more for the doctors' time and knowledge services (examinations, laboratory, diagnostic imaging, etc.). Therefore, you must consider these differences when modifying your fees.
  - *Use a competitive pricing strategy for price-sensitive services.* Consider how your practice compares to others in the area relative to the number of doctors, practice hours, level of medicine, type and condition of facility, reputation in the community, specialized services, and so on. Then consider the fees other practices in your community charge for price-sensitive services.



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- *Use a cost-based pricing strategy to price inventory items.* Add an average markup of 150 percent to the standard cost of medicine, including sales tax and shipping, along with a dispensing fee of \$9 to \$12. Then compare this total fee for the item to your minimum fee and bill the client the higher of the two. Dispensing fees and minimum prescription fees will vary depending on community economics. For example, a product cost of \$20, plus a 150 percent markup (\$30), plus a dispensing fee of \$9, equals a selling price of \$59.
  - *Use a value-based pricing strategy for the doctors' time and knowledge and for services that affect clients' perception of value.* Clients consider the level of medical and client care offered. They also look for a convenient location, ample parking, cleanliness, professional team members who recognize them and their pets, and doctors who stay on schedule. Anticipate your clients' needs and give them what they're looking for – before they've even thought to ask for it – to enhance their perception of value.
4. **Be cautious raising fees in a rural community.** Some practitioners in rural areas of the country tell me their ability to raise fees – even cost of living increases – is limited because of economics or because they're one of the few (or perhaps only) practice in town. "Practices in large cities can raise their fees because they have more of a client population to draw from and don't need to worry about losing clients," one rural practitioner explained during a CE meeting.
  5. **Be cautious raising fees in a suburban/urban community.** Some practitioners in suburban and urban areas of the country tell me their ability to raise fees – even cost of living increases – is limited because clients have lots of options for veterinary care. "Practices in rural communities have more leeway in raising fees because they may be one of the few (or perhaps only) practice in town and don't need to worry about losing clients," a suburban practitioner explained –30 seconds later at the same CE meeting.
  6. **Never discount any services or products.** Ideally, you will charge full value for all care provided. However, discounting is acceptable on a select (and managed) basis if you're trying to influence where, when, or how clients purchase services or products, or because you view the care provided as an opportunity to "give back". For example:

*Bundled healthcare plans.* You've recently developed a senior patient standard of care that includes six-month exams, diagnostic testing (CBC with chemistry panel, thyroid panel, heartworm test, and urinalysis), fecal parasite evaluation, and chest radiographs. To encourage client compliance with the wellness recommendations, you offer a bundled plan priced lower than the "ala carte" fees. This works fine so long as the discount stays in the 10 percent to 15 percent range.



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*Ovariohysterectomy and neuter procedures.* These services are price-sensitive in many communities and commonly offered at a reduced rate when compared to non-elective surgical procedures.

*Humane society or pet shelters, rescue organizations, indigent pets.* Most (if not all) practices provide care in one or more of these areas as a way to give back to the profession, which is a testament to the concern and compassion that veterinarians and their team members have for others. The key is to decide the dollar value of the discounted care you can afford to give each year – set a budget – and then track and monitor how much you're giving.

7. **Combine services and charge one fee versus itemizing each component of care.** “If we itemize every service and product, clients will feel like we're nickel and diming them,” is a comment I often hear. There's no right or wrong answer regarding the amount of detail to provide, and the detail will vary practice to practice depending on how much information your clients want. Balance is the key – give clients enough detail so they understand (and appreciate!) the quality of care their pet received, but don't overwhelm them with too much information. And be sure that the fee for combined services is high enough to cover everything it's intended to cover. *Tip: Always charge separately for your examination to highlight the value of the doctor's time.*
8. **If I charge for medical progress exams, clients won't comply with the recommendation to return.** You want to see patients for those important progress exams, but may feel clients won't return if they're charged for the exam. From a client's perspective, this service has value – we don't have the medical knowledge to identify if our pet is truly better, and we want the piece of mind that the doctor's exam provides. *Key fact: giving away one \$33 medical progress exam per day for one year equals a loss of about \$10,000 of profit.*
9. **Charge the same exam fee regardless of how much time the doctor spends with the client.** Your examination is the most valuable service you provide, and the fee must be commensurate with the amount of time spent. For example, in *Benchmarks 2007* an inpatient exam or medical progress exam equates to 10 to 15 minutes of time with a median fee of \$33. A physical exam equates to 20 minutes of time with a median fee of \$44. An extended exam equates to 30 minutes of time with a median fee of \$56. *Tip: When clients call and ask the cost of the exam fee, simply quote it as a range and explain the fee depends on the amount of time necessary to address their pet's healthcare needs.*
10. **Charge a reduced rate (or for some but not all) when giving multiple injections or for multiple days of hospitalization.** If all of the injections or days in the hospital are medically necessary, the fifth injection or day has just as much value as the first. An added bonus - when you charge for all you do, there's less pressure to raise your fees.



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Don't let these urban legends prevent you from being paid fairly for all you do. Take a deep breath, plunge into those scary woods, and use these guidelines and Benchmarks 2007 to craft a fee schedule that works for you, your clients, and your community.

### **To obtain additional information:**

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