



Better Alternatives to Across-the-Board Fee Changes

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With the rising popularity of dollar stores and thrift shops, it may seem consumers are only concerned about price. Is that also the case for pet owners coming through the doors in America’s veterinary practices? A new study tried to find out.

To develop The Nationwide and Purdue University Veterinary Price Index, economists at the Krannert School of Management set out to better understand the pricing of veterinary services from 2009 to 2013. They analyzed millions of veterinary transactions drawing from pet-health insurance claims provided by Nationwide. The analysis revealed that veterinary fees are rising at a slower rate than consumer prices overall and that fees have shown a slight decrease over the study period.

These results paint a gloomy picture for pricing power in the profession. Yet some practices – perhaps yours - have increased fees. A comparison from Benchmarks 2013 and 2015 reveals price increases of varying degrees.

Service	2015 Fee	2013 Fee	% Increase
Complete physical exam	\$52	\$50	4.0%
Senior exam	\$53	\$52	1.8%
Medical progress exam	\$42	\$40	4.8%
CBC with chemistry panel	\$136	\$122	10.3%
Canine heartworm antigen test	\$39	\$37	5.4%
Urinalysis	\$46	\$44	4.5%
4 cm skin tumor removal	\$155	\$149	4.0%
Anterior cruciate repair	\$726	\$630	15.2%
Six radiographs, digital	\$87	\$85	2.4%

How are some high-flying practices increasing fees in a time of consumer price sensitivity? They deliver the value that justifies higher prices. If this sounds like old news, ask yourself, “Am I really doing everything I can to improve my client’s understanding of the level of service I offer?” It isn’t enough to communicate it in the exam room. Clear, consistent value messages need to be communicated by staff, by doctors, by your website, your practice’s appearance and

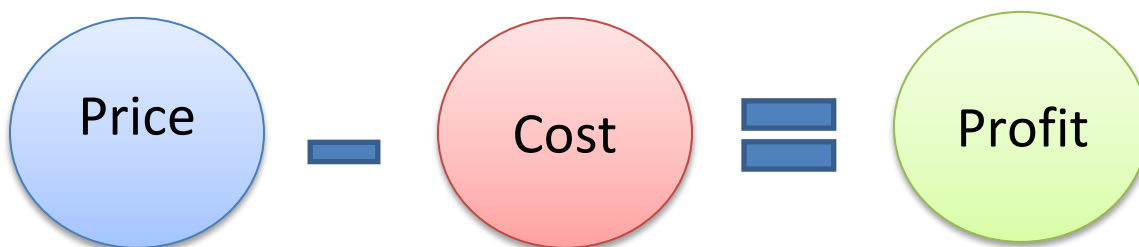
your involvement in the community. The value you offer needs to be reflected in everything you do.

1. **Understand the cost of providing a service and a product.** Knowing the true cost of something helps with pricing decisions. Products are easy, right? It's the cost of the inventory item. But wait - don't forget about labor to prepare and place the order, to unpack and check the shipment and stock the hospital shelves, as well as the overall cost of housing the inventory. Some sources put the true cost of an inventory item as high as the invoice amount plus 40%.

Calculating the cost of services presents an even greater challenge. You must factor in labor, the cost of all necessary materials and supplies, facility and equipment costs, and administrative overhead. This exercise might seem like a lot of work for little benefit, yet it provides a huge "reality check" for you and your team on the expense side of the pricing equation. Do your fees truly cover your costs, or are you in the red? Traditional thinking related to setting fees looks like this:



A fee increase is the easy solution to offset rising costs and maintain a reasonable profit. Yet this strategy might not be feasible if your community is economically-challenged or your fees are the highest for the area. Business in the new normal requires a different pricing approach. A new, healthier model for pricing might be a LEAN strategy. Start with the price the clients will accept and manage your costs to maintain the desired profit margin:



Minnetonka Animal Hospital in Minnetonka, MN has used LEAN strategies for years to minimize waste. Owner, Dr. Kaaren Howe, is eco-conscious and passionate about protecting finite resources. "By making LEAN changes, we have eliminated waste and are less stressed, more efficient, and more productive. An added bonus - our inventory and

staff costs are 4% lower!” Follow Dr. Howe’s lead and reduce waste to manage costs as part of your pricing strategy.

2. **Make strategic fee changes.** Instead of annual, across-the-board increases, review quarterly and determine which fees to increase, which fees to leave alone, and in some rare cases, which fees you’ll reduce. Monitor the quality of your patient care and client service to ensure both continue to reflect your fee structure (and vice versa). Teach and mentor your staff to boost everyone’s comfort and confidence with talking about money and communicating your value.

➤ **Price shopped products and services.** A market-based approach is best for price-sensitive services such as vaccinations and elective surgeries. Conduct a Community Survey to gather market data. How do you stack up compared to others? The range of fees in the market place and your target client demographic will guide your pricing decisions. If your goal is to offer the most affordable price in your community, then set your fees at the low end. If you’re targeting a demographic that will pay more for demonstrably better service, then set your fees at the mid-to-high end. You can have the highest fee in the community as long as your quality and reputation supports your pricing. Consider the level of medicine and customer service you offer compared to others. Contrast your number of doctors, practice hours, and the quality of your facility. Do clients believe the value you deliver is greater than the price you charge?

➤ **Price inventory items based on cost.** The median markup on medication dispensed through the in-house pharmacy is 150%, and through the on-line pharmacy it’s 100%. The median markup on heartworm, flea and tick items is 95% in-house and 80% on-line. Markups on drugs for chronic conditions are 100% in-house and 85% on-line. Apply the markup to the cost, including shipping and sales tax, and add a handling/dispensing fee of \$6 to \$12. Example:

In-house pharmacy cost	\$10
Markup – 150%	\$15
Handling fee	<u>\$10</u>
Final price to client	\$35

If you make bulk purchases to get a better price, keep the savings versus passing it on to the client.

➤ **Employ variable pricing in special situations.** There may be times when you want to influence client behavior, reward a client or patient demographic, or increase business during certain times of the day or days of the week with modified pricing. Examples of variable pricing include a discount on dentistry during National Pet Dental Health Month, a discount for senior citizens, Preventive Wellness Plans at a lesser cost than the ala carte price, concessions for humane or rescue organizations, and price concessions during a block of time that is traditionally slow in the practice. Variable pricing can be

an effective tool, but carefully consider all the factors and keep your discount under 15%.

- **Price non-shopped services based on value.** A client can see the tangible benefits of your services in a happy, healthy pet. Continue to look for opportunities to influence clients' perception of value. What's important to them and keeps them coming back? What's a turn-off? If you don't know, ask them. Does your practice facility and level of client service match your price? People think and hear with their eyes, so make sure your image and value match. Consumers want reliable, predictable, familiar service. Be consistent, so clients know what to expect every time.
 - **Reduce a fee if there's no other solution.** For any service or product you hesitate to offer (or don't charge for) because you think it's over-priced, consider lowering the fee. Take this approach only after you've exhausted all other efforts to change the practice's internal perception of the value of this item. Talk with your staff to explore why the item is priced at this level, and calculate the true cost of providing it. If you still believe the item is over-priced, then lower it. Reducing the fee might help make your team more comfortable offering the service every time it's appropriate. Plus, charging something is better than nothing.
3. **Get your team on the value bus.** If the doctors and staff don't see the value of your services, it's time for some refresher CE. The entire team must be knowledgeable about your medical protocols and what's involved in providing patient care. Receptionists should observe outpatient appointments, dental procedures, and surgical procedures, so they truly understand the quality of care provided start to finish. Every technician and assistant should spend time at the front desk to gain a better appreciation of all that's involved in delivering stellar customer service. Calculate and share the true cost of your most-common services and products. Ask your highly-skilled communicators to teach less-confident co-workers how to be a more effective patient advocates. For team members who still fail to see the value of your medical care in spite of your robust education and mentorship program, free up their future for something else and get them off your bus.
 4. **Offer a variety of payment options.** Start with cash, check, or credit card. Then consider other options that might be a good fit in your practice. Promote pet insurance for future medical needs. Offer third-party options like CareCredit. Consider pre-arranged auto-deductions from clients' bank account. Revisit Preventive Care Plans that offer budget-friendly payments. Seek staff input about the payment options clients ask for. Based on your staff's feedback, ask your practice manager to research the information needed to make a decision about whether that payment option will work for your hospital.

Use these recommendations and the worksheet that follows to analyze your pricing and determine if you're on track or have opportunities to improve.

Comparing your value-based fees

Compare your value-based fees with Well-Managed Practices® using this worksheet. Enter your exam fee in the spaces provided and apply the following factors to determine your new fee. *Source: Benchmarks 2015 – A Study of Well-Managed Practices® by Wutchiett Tumblin and Associates and Veterinary Economics*

	Percent of exam fee	Your exam fee	New fee
PROFESSIONAL SERVICES			
Complete physical exam (\$50; 20 minutes)			
Medical progress exam	79.8%	\$ _____ x 0.798	\$ _____
Extended exam	125.7%	\$ _____ x 1.257	\$ _____
Hospitalized patient exam	71.8%	\$ _____ x 0.718	\$ _____
DIAGNOSTIC SERVICES			
Blood pressure evaluation	71.8%	\$ _____ x 0.718	\$ _____
ECG; 4 lead in-house	138.0%	\$ _____ x 1.380	\$ _____
Tonometry	72.0%	\$ _____ x 0.720	\$ _____
DIAGNOSTIC IMAGING (includes image and interpretation)			
Abdominal ultrasound	478.8%	\$ _____ x 4.788	\$ _____
Digital Radiograph (two views, 8x10)	288.3%	\$ _____ x 2.883	\$ _____
Digital Radiograph add'l (one view, 8x10)	115.7%	\$ _____ x 1.157	\$ _____
LAB WORK (includes lab, interpret. & collection)			
BUN	59.8%	\$ _____ x 0.598	\$ _____
CBC with chemistry panel (Alb, Alkp, Alt, Amy, Ca, Chol, Crea, Glu, Phos, TBil, TP, BUN, electrolytes, [Na, Cl, K])	239.4%	\$ _____ x 2.394	\$ _____
Cytology (fine needle aspirate)	109.7%	\$ _____ x 1.097	\$ _____
Feline leukemia, FIV, heartworm antibody test	116.7%	\$ _____ x 1.167	\$ _____
<i>Giardia</i> ELISA	107.7%	\$ _____ x 1.077	\$ _____
Canine Heartworm 3DX test (Heartworm, Lyme, <i>Ehrlichia canis</i>)	73.8%	\$ _____ x 0.738	\$ _____
Immunity titer test	229.4%	\$ _____ x 2.294	\$ _____
Thyroid panel (T ₄ , T ₃ , free T ₄ , T ₄ , autoantibody, T ₃ autoantibody, CTSH, thyroglobulin autoantibody)	325.2%	\$ _____ x 3.252	\$ _____
NONELECTIVE PROCEDURES			
Doctor surgical services soft tissue (per hour)	780.0%	\$ _____ x 7.800	\$ _____
Laser (additional fee)	104.1%	\$ _____ x 1.041	\$ _____
Endoscopy, upper GI	698.2%	\$ _____ x 6.982	\$ _____
Laparoscopy	724.6%	\$ _____ x 7.246	\$ _____
ANESTHESIA (incl. intubation)			
Anesthetic monitoring (electronic)	55.9%	\$ _____ x 0.559	\$ _____
Gas anesthetic, sevoflurane (30 min, 60-lb canine)	209.5%	\$ _____ x 2.095	\$ _____
Gas anesthetic, isoflurane (30 min, 60-lb canine)	207.5%	\$ _____ x 2.075	\$ _____
HOSPITALIZATION – LEVEL II (with IV)			
Overnight, excl. exam & inpatient services			
10-lb. feline	142.6%	\$ _____ x 1.426	\$ _____
60-lb canine	149.6%	\$ _____ x 1.496	\$ _____