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How to Get 16% ROI on Your Practice

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As a practice owner, you're well-versed in the risks and rewards of owning a business. You may even have days when it feels like the risks and hassles outweigh the rewards by a large margin. Owners of Well-Managed Practices tell us their biggest challenges are maintaining efficiency, productivity and profitability. If you're nodding your head in agreement, read on.

It's a fact: Downward pressure on profit continues. Well-Managed Practices now have an average owner return (ROI) of 12 percent. That's what's left for the owner after all operating expenses are paid, including variable expenses, fixed expenses, staff compensation, facility costs, associate and owner doctor compensation and owner management compensation.

That's low. Declines in profitability impact your ability to pay the bills, offer competitive wages and benefits, buy new equipment and protect the investment value of your veterinary practice. It's time to improve profit. Aim for an ROI 2 to 4 percent higher than last year. Aim for a 16 to 20 percent ROI within the next three to four years. See **Figure 1 – How to Get to 16% ROI.**

Seem impossible? Suspend your disbelief just for a moment and stick with me. Instead of, "We can't do . . ." or "That will never work because . . .," open your mind and explore the possibility of, "What if we could do . . ." or "How can we make a change in . . .?" A profitability turn-around takes planning, focused attention and changes to your processes to boost efficiency and productivity. Some of the required changes may be painful. You'll possibly encounter resistance along the way. Persevere and encourage your staff to hang in there because the results will benefit everyone.

Watching what you spend may come naturally in your practice. You work with a practice budget, compare your numbers to the WellMP benchmarks, and adjust your spending when necessary. If so, kudos to you and your staff! But if you're not quite where you'd like to be when it comes to taking charge of your expenses, now's the time to put your expenses on a diet.

Rather than adopting the "starvation" approach to accumulate the extra cash, start with these **Five Easy Slim Downs** and these benchmarks to help you pinpoint where your spending is a little heavy. Then get started with your practice slim down to save that extra $10,000 to $20,000 and boost your ROI to 16% or above.

1. **Pare down your drug inventory.** If your shelves are looking a bit bloated, it's time to eliminate the excess. Veterinarians have many wonderful drugs to choose from to treat patients. But carrying every wonderful medication that's available ties up a lot of cash and creates confusion for the staff and for clients. Doctors – unite! Create a list of the medications that you believe in the most. Conduct a scientific comparison of the duplicate products you have on your shelf. Consider the pros and cons, safety, and efficacy of each. Make your case scientifically and medically and come to a consensus among the doctors about what's your best and second choice. Then eliminate any other redundant items from your shelves.

   Tip: Stock $10,000 to $16,000 of drugs and medical supplies per full-time equivalent doctor, or about one month's supply. This includes heartworm, flea and tick products and excludes diets.

Tip: Spend 8% to 9% of revenue on drugs and medical supplies. Spend 4% to 6% of revenue on heartworm, flea and tick products.

Tip: Move infrequently-used medications to your on-line store.

2. **Evaluate your labor cost.** What one or more things could you do differently to increase efficiency and productivity in your hospital? It's not unusual for different practices to have the same level of staff support, but significantly different levels of doctor production. I'm currently working with two practices, each with a 4 to 1 staff-to-doctor ratio; one generates about \$440,000 of medical revenue per FTE doctor and the other generates \$670,000 per FTE doctor. What accounts for the \$230,000 difference? Explore the following opportunities to rev up your practice's productivity.

   ✓ Do more with less. Bump your pay scale to attract more skilled and efficient employees. We've all experienced the employee who seems to get twice as much done in half the time as two other employees combined. You might find that an employee who merits \$18 an hour could easily complete the work of two, less productive \$12 an hour employees. The result: an annual savings of \$10,000 to \$12,000 depending on the benefit package.

   ✓ Streamline your processes. It's easy to get into the routine of "that's the way we've always done it." Take a fresh look at your protocols – are you doing things the easiest, most efficient way, or could you streamline the process? Are staff members duplicating efforts? Eliminate the redundancies. Are you taking extra time to track information that no one is using? Then stop.

   Tip: Hold a contest for your staff. Ask each staff member to submit one or two ideas to improve efficiency throughout the hospital (reception, exam rooms, treatment, surgery, boarding, etc.). Give awards for the top four ideas (first, second, and third place, and honorable mention). Be sure your awards are meaningful and compelling. For example, first prize gets a paid day off; second prize gets a gift certificate for a local spa; third prize a gift certificate for a favorite local restaurant; and honorable mention gets tickets to the movie of their choice. Or, you could let the winners choose which award they would like out of your offerings.

   ✓ Get organized. Clutter and untidy work stations add to the chaos of busy days. Spend a day eliminating the mess. Move frequently used items to more accessible parts of the hospital to eliminate wasted steps. Move rarely used items to storage. Get rid of items in storage that you haven't used for a year or more. Adopt the creed: reduce, reuse, recycle. The hospital will look better, and the doctors and staff will feel better and be more productive!

   ✓ Convert under-utilized space to a medical purpose. Some hospitals have idle or under-used space that's begging for use as a medical area. For example, convert a food storage space to another exam room. Convert an under-utilized retail space to a patient discharge room. Convert an under-utilized storage space adjacent to treatment to a dental suite or a procedures room.

   Tip: Hold a contest for your staff to solicit their ideas about under-utilized areas of the hospital that could be converted to medical use. Give awards for the top ideas (see suggested prizes above).

3. **Bump up your use of technology.** Update and/or replace hardware to reduce wasted time waiting for the computer to process or recovering from a crash because the system can't handle the hospital's current needs. Update your software to the latest version. Replace your software if the company hasn't provided updates for years or their support is poor.

Convert to electronic medical records to eliminate wasted time searching for lost or misplaced records. Technology saves time and reduces frustration when used well.

Tip: Hire a trainer from your practice management software company to spend a day with your staff teaching them more about your software's capability. Staff members know the basics. But they may not be aware of all the shortcuts that help streamline their work, or the options that help enhance client service and patient care. The return you'll receive will be much greater than the cost of the training. **Example**: One veterinary practice estimated that the knowledge they gained from the training saved three staff members an hour a day, which amounted to an annual labor savings of about $15,000.

4. **Revisit your administrative costs.** It's easy for fixed overhead spending to creep up without realizing it. Don't let the word "fixed" change your mind about giving these expenses another look.

   - ✓ Use e-mail for reminders, newsletters, educational materials, and other client correspondence instead of the U.S. postal service. Postage adds up and clients may actually prefer to receive information via e-mail.
   - ✓ Take stock of your office supplies. Organize your inventory in one central location so everyone knows what you have on hand before requesting and ordering more. Change reorder points to minimize the amount of inventory you have on the shelf before placing a new order.
   - ✓ Evaluate employee health insurance. Talk with your insurance agent about health insurance policies with higher deductibles and co-pays. Sometimes the premium savings is greater than the difference in the deductible, so you can offer to pay part or all of the difference in the deductible and still lower the practice's cost. Ask your agent to research other policies with lower premiums and similar coverage options. Consider having employees cover part of their health care.
   - ✓ Assess your Workers' Compensation Insurance rates. Coverage managed by a private insurance company, if an option in your area, might offer better rates than a fund managed by your state.
   - ✓ Conduct an energy audit in your practice. A professional energy audit gives you a clear picture of where your practice is losing energy and what you can do to save money. Possible resources to conduct the audit include your state or local government energy or weatherization office or your electric or gas utility company. Per www.energy.gov, you can save 5% to 30% on your energy bill by making the recommended upgrades. Visit www.greenyour.com for an energy audit checklist.
   - ✓ Investigate the possibility of refinancing your debt. If you've got any high-rate loans, act now to see what your options are for getting into a more favorable rate.

5. **Think twice before investing in equipment.** Do the math to determine if the equipment purchases you're planning will pay for themselves in a reasonable timeframe. Investing in equipment helps you enhance patient care and client service, and grow your practice. But fabulous equipment rarely used, is a poor investment. Take the time to evaluate how often you'll use the equipment and the revenue potential before taking the plunge.

Figure 1 – How to Get to 16% ROI

Gross Revenue	**100%**
Variable Expenses	**23%**
Fixed Expenses	**8%**
Staff Compensation	**22%**
Facility Expenses	**8%**
Total operating expenses	**(61%)**
Amount Available for Associates and Owner	**39%**
Doctor Compensation	**20%**
Owner Management Compensation	**3%**
Total Doctor Compensation	**(23%)**
Owner Return on Investment	**16%**
Reinvestment – Equipment	**3%**
Remaining Amount Available to Owner	**13%**

Compare Your Expenses to These Benchmarks

Variable Expenses (as a percentage of total revenue)	
Drugs and medical supplies (includes radiology, surgery and hospital supplies but excludes food, shampoos, etc.)	9.9%
Heartworm, flea, and tick products	4.3%
Laboratory	4.1%
Diets (therapeutic and retail)	3.0%
Over-the-counter retail products (e.g. toys, collars, shampoo)	0.4%
Credit card fees	1.6%
Bad debt, collection fees	0.1%
Cremation, care of remains	0.6%
Sales and use tax	0.7%
Medical waste disposal/radiation badge monitoring	0.1%
Practice vehicle expense	0.1%
On-line pharmacy-drug cost	0.1%
On-line store-food cost	0.1%
Total	**25.1%**

Fixed Expenses (as a percentage of total revenue)

Accounting services	0.3%
Advertising and promotion	0.8%
Bank charges (monthly maintenance fees)	0.1%
Business consulting services	0.4%
Business gifts and flowers	0.1%
Business meetings	0.1%
Charitable contributions	0.1%
Continuing education, meetings, and travel	0.6%
Entertainment	0.1%
Equipment repairs, maintenance, and support contracts	0.5%
Franchise tax and other taxes	0.1%
Health insurance	1.8%
Laundry and uniforms	0.1%
Legal	0.1%
Liability insurance	0.1%
Licenses and permits	0.2%
Miscellaneous	0.2%
Office and computer supplies	0.9%
Payroll service costs, retirement plan administration fees	0.2%
Personal property tax	0.2%
Postage, freight, and delivery	0.2%
Printing	0.1%
Professional dues and subscriptions	0.3%
Technical (IT) support contracts	0.4%
Telephone, answering service, internet connection	0.5%
Workers' compensation insurance	0.6%
Total	**9.1%**

Non-doctor Staff Compensation (Gross W2 wages as a percentage of total revenue)

Wages	21.6%
Payroll taxes	2.5%
Retirement contributions	0.6%
Total	**24.7%**

Facility Expenses (as a percentage of total revenue)

Annual rent or mortgage payments (excluding property taxes, insurance & utilities)	5.1%
Utilities (gas, water, electric)	0.9%
Janitorial, housekeeping, and garbage	0.4%
Facility repairs, maintenance, lawn care, and security monitoring	0.8%
Property insurance	0.3%
Real estate taxes	0.5%
Total	**8.0%**

Reinvestment

Medical equipment	0.8%
Computer equipment	0.4%
Facility improvements	0.8%
Total	**2.0%**