


**UNIVERSITY OF
PENNSYLVANIA**
**VBMA Business management
Certificate Program**
**Revenue and Expense
Streams**

Presented by
Gary I. Glassman, CPA
Gary@Burzenski.com
www.burzenski.com
(203) 468-8133



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**“THE
BUSINESS OF
VETERINARY
MEDICINE”**



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**Why Veterinary
Practices Need to
Make A Profit**




- For capital reinvestment (Equipment)
- To pay down debt
- For expansion (Goods, services, facilities)
- To provide a return on Investment to the risk takers



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Words of Financial Wisdom

Hospital profit (cash flow) builds **VALUE**
NOT the gross revenue



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Understanding Practice Data To Improve Practice Results

What do you need to look at?




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Most Practices are Data Rich and Information Poor




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Today Practice Management needs ...




“Less data and more information”



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“The less data needed, the better the information. And an overload of information, that is, anything much beyond what is truly needed leads to information blackout. It does not enrich, but impoverishes”

Peter F. Drucker




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Practice Financial Data

Two sources:

- **Income**
 - **Veterinary Software**
- **Income & Expense (Financial Statements)**
 - **Accounting software packages**
 - **Quickbooks**
 - **Peachtree Accounting**



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What Do Managers Need?


Key Operating Information
(Practice Pulse Points)




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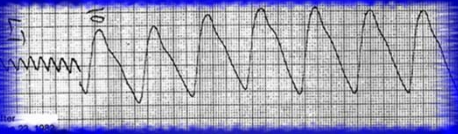
How Often?


MONTHLY



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What Are The Practice Pulse Points?



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Revenue-Overall Hospital


- Monthly sales
- New clients
- Number of invoices
- Average per invoice (ACT)



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Revenue-Overall Hospital

- Active clients
- Accounts receivable aging
- For users with software capabilities:
 - Service sales
 - Inventory sales
 - Medicine sales



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As Part of Service Sales

Also Track:

- Grooming sales
- Boarding sales
- Retail sales



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Develop Doctor Production Report

- Monthly Sales
- Number of invoices generated
- Average client charged (ACT)



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All Information Should Be Benchmarked

- This month/Last month
- This year/Last year




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With this information in hand create a statistical analysis report

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Create it for . . .


- Overall hospital results
- By producer (doctor)



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Comparative Sales


| | JAN | FEB | MAR | TOTAL |
|-----------------------------|-----------|-----------|-----------|-----------|
| TOTAL SALES | | | | |
| 2011 | \$132,379 | \$114,025 | \$163,792 | \$410,196 |
| 2010 | \$113,397 | \$135,883 | \$160,508 | \$409,787 |
| 2009 | \$127,319 | \$113,872 | \$149,336 | \$390,526 |
| 2008 | \$114,332 | \$122,045 | \$133,474 | \$369,851 |
| % INCREASE (DECREASE) 10-11 | 16.74% | -16.09% | 2.05% | 0.10% |
| % INCREASE (DECREASE) 09-10 | -10.93% | 19.33% | 7.48% | 4.93% |
| % INCREASE (DECREASE) 08-09 | 11.36% | -6.70% | 11.88% | 5.59% |



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Comparative Service Sales

| | JAN | FEB | MAR | TOTAL |
|-----------------------------|-----------|-----------|-----------|-----------|
| SERVICE SALES | | | | |
| 2011 | \$100,077 | \$85,000 | \$121,162 | \$306,240 |
| 2010 | \$82,398 | \$104,305 | \$113,972 | \$300,675 |
| 2009 | \$95,349 | \$86,025 | \$106,818 | \$288,192 |
| 2008 | \$84,283 | \$91,623 | \$98,874 | \$274,780 |
| % INCREASE (DECREASE) 10-11 | 21.46% | -18.51% | 6.31% | 1.85% |
| % INCREASE (DECREASE) 09-10 | -13.58% | 21.25% | 6.70% | 4.33% |
| % INCREASE (DECREASE) 08-09 | 13.13% | -6.11% | 8.03% | 4.88% |



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Comparative Inventory/Medicine Sales

| | JAN | FEB | MAR | TOTAL |
|---------------------------------|----------|----------|----------|-----------|
| INVENTORY/MEDICINE SALES | | | | |
| 2011 | \$32,302 | \$29,037 | \$42,630 | \$103,969 |
| 2010 | \$30,999 | \$31,577 | \$46,536 | \$109,112 |
| 2009 | \$31,970 | \$27,847 | \$42,518 | \$102,335 |
| 2008 | \$30,049 | \$30,422 | \$34,600 | \$95,071 |
| % INCREASE (DECREASE) 10-11 | 4.20% | -8.05% | -8.39% | -4.71% |
| % INCREASE (DECREASE) 09-10 | -3.04% | 13.40% | 9.45% | 6.62% |
| % INCREASE (DECREASE) 08-09 | 6.39% | -8.46% | 22.89% | 7.64% |



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New Clients

| | JAN | FEB | MAR | TOTAL |
|-----------------------------|---------|---------|---------|---------|
| NEW CLIENTS | | | | |
| 2011 | 36 | 37 | 37 | 110 |
| 2010 | 39 | 43 | 47 | 129 |
| 2009 | 38 | 49 | 62 | 149 |
| 2008 | 47 | 35 | 56 | 138 |
| % INCREASE (DECREASE) 10-11 | -7.69% | -13.95% | -21.28% | -14.73% |
| % INCREASE (DECREASE) 09-10 | 2.63% | -12.24% | -24.19% | -13.42% |
| % INCREASE (DECREASE) 08-09 | -19.15% | 40.00% | 10.71% | 7.97% |



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Number of Invoices

| | JAN | FEB | MAR | TOTAL |
|-----------------------------|--------|--------|--------|--------|
| NUMBER OF INVOICES | | | | |
| 2011 | 1,265 | 1,181 | 1,463 | 3,909 |
| 2010 | 1,164 | 1,235 | 1,466 | 3,865 |
| 2009 | 1,249 | 1,183 | 1,377 | 3,809 |
| 2008 | 1,309 | 1,260 | 1,370 | 3,939 |
| % INCREASE (DECREASE) 10-11 | 8.68% | -4.37% | -0.20% | 1.14% |
| % INCREASE (DECREASE) 09-10 | -6.81% | 4.40% | 6.46% | 1.47% |
| % INCREASE (DECREASE) 08-09 | -4.58% | -6.11% | 0.51% | -3.30% |



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Average Per Invoice

| AVERAGE PER INVOICE | JAN | FEB | MAR | TOTAL |
|-----------------------------|----------|----------|----------|----------|
| 2011 | \$104.65 | \$96.55 | \$111.96 | \$104.94 |
| 2010 | \$97.42 | \$110.03 | \$109.49 | \$106.03 |
| 2009 | \$101.94 | \$96.26 | \$108.45 | \$102.53 |
| 2008 | \$87.34 | \$96.86 | \$97.43 | \$93.89 |
| % INCREASE (DECREASE) 10-11 | 7.42% | -12.25% | 2.26% | -1.03% |
| % INCREASE (DECREASE) 09-10 | -4.43% | 14.31% | 0.96% | 3.41% |
| % INCREASE (DECREASE) 08-09 | 16.71% | -0.62% | 11.32% | 9.19% |



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Daily Sales Information

| AVERAGE SALES PER DAY | JAN | FEB | MAR |
|-----------------------|------------|------------|------------|
| 2011 | \$5,883.52 | \$5,182.94 | \$6,551.70 |

| DAILY REVENUE TO BREAK-EVEN | JAN | FEB | MAR |
|-----------------------------|------------|------------|------------|
| 2011 | \$5,684.51 | \$5,684.51 | \$5,684.51 |



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A Doctor Report

| TOTAL SALES | JAN | FEB | MAR | TOTAL |
|-----------------------------|----------|----------|----------|----------|
| 2011 | \$14,571 | \$17,857 | \$22,576 | \$55,004 |
| 2010 | \$19,694 | \$25,254 | \$30,059 | \$75,776 |
| 2009 | \$26,693 | \$27,933 | \$31,620 | \$86,246 |
| 2008 | \$18,008 | \$24,126 | \$34,462 | \$76,595 |
| % INCREASE (DECREASE) 10-11 | -25.90% | -29.29% | -26.64% | -27.41% |
| % INCREASE (DECREASE) 09-10 | -23.47% | -9.59% | -2.41% | -11.11% |
| % INCREASE (DECREASE) 08-09 | 42.67% | 15.76% | -8.24% | 11.29% |

| NUMBER OF INVOICES | JAN | FEB | MAR | TOTAL |
|-----------------------------|---------|---------|---------|---------|
| 2011 | 108 | 151 | 147 | 406 |
| 2010 | 179 | 204 | 228 | 611 |
| 2009 | 231 | 253 | 253 | 737 |
| 2008 | 179 | 220 | 274 | 673 |
| % INCREASE (DECREASE) 10-11 | -39.69% | -25.98% | -35.53% | -33.55% |
| % INCREASE (DECREASE) 09-10 | -22.51% | -19.37% | -9.88% | -17.10% |
| % INCREASE (DECREASE) 08-09 | 29.05% | 15.00% | -7.66% | 9.51% |

| AVERAGE PER INVOICE | JAN | FEB | MAR | TOTAL |
|-----------------------------|----------|----------|----------|----------|
| 2011 | \$134.92 | \$118.26 | \$153.58 | \$135.48 |
| 2010 | \$109.85 | \$123.79 | \$135.35 | \$124.02 |
| 2009 | \$111.22 | \$110.41 | \$124.96 | \$115.67 |
| 2008 | \$100.60 | \$109.66 | \$125.77 | \$113.61 |
| % INCREASE (DECREASE) 10-11 | 22.82% | -4.47% | 13.47% | 9.24% |
| % INCREASE (DECREASE) 09-10 | -1.23% | 12.12% | 8.26% | 7.22% |
| % INCREASE (DECREASE) 08-09 | 10.56% | 0.69% | -0.63% | 1.63% |




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Doctor Production-March


| | DR ONE | DR TWO | DR THREE | DR FOUR | TOTAL |
|----------------------------|----------|----------|----------|----------|-----------|
| TOTAL SALES | | | | | |
| 2011 | \$56,968 | \$22,576 | \$39,330 | \$10,885 | \$129,759 |
| 2010 | \$44,841 | \$30,859 | \$41,646 | \$0 | \$117,347 |
| 2009 | \$33,244 | \$31,620 | \$45,858 | \$0 | \$110,722 |
| 2008 | \$0 | \$34,462 | \$32,442 | \$32,467 | \$99,370 |
| NUMBER OF INVOICES | | | | | |
| 2011 | 323 | 147 | 230 | 76 | 776 |
| 2010 | 250 | 228 | 279 | 0 | 757 |
| 2009 | 210 | 253 | 273 | 0 | 736 |
| 2008 | 0 | 274 | 228 | 228 | 730 |
| AVERAGE PER INVOICE | | | | | |
| 2011 | \$176.37 | \$153.58 | \$171.00 | \$143.22 | \$167.21 |
| 2010 | \$179.37 | \$135.35 | \$149.27 | \$0.00 | \$155.02 |
| 2009 | \$158.30 | \$124.98 | \$167.98 | \$0.00 | \$150.44 |
| 2008 | \$0.00 | \$125.77 | \$142.29 | \$142.40 | \$136.12 |



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Doctor Production YTD through March

| | DR ONE | DR TWO | DR THREE | DR FOUR | TOTAL |
|----------------------------|-----------|----------|-----------|-----------|-----------|
| TOTAL SALES | | | | | |
| 2011 | \$115,688 | \$55,004 | \$109,578 | \$39,546 | \$319,815 |
| 2010 | \$119,371 | \$75,776 | \$116,194 | \$0 | \$311,341 |
| 2009 | \$33,244 | \$85,246 | \$125,831 | \$18,536 | \$262,857 |
| 2008 | \$0 | \$76,595 | \$96,317 | \$108,639 | \$281,551 |
| NUMBER OF INVOICES | | | | | |
| 2011 | 728 | 406 | 690 | 273 | 2,097 |
| 2010 | 746 | 611 | 758 | 0 | 2,115 |
| 2009 | 210 | 737 | 774 | 135 | 1,856 |
| 2008 | 0 | 673 | 673 | 813 | 2,159 |
| AVERAGE PER INVOICE | | | | | |
| 2011 | \$158.91 | \$135.48 | \$158.81 | \$144.86 | \$152.51 |
| 2010 | \$160.01 | \$124.02 | \$153.29 | \$0.00 | \$147.21 |
| 2009 | \$158.30 | \$115.67 | \$162.57 | \$137.31 | \$141.63 |
| 2008 | \$0.00 | \$113.81 | \$143.12 | \$133.63 | \$130.41 |



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All Information Should Be Compared with Industry Standards





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**Industry Standards
Small Animal**
Per full time equivalent DVM
for overall hospital invoices

- Monthly sales **\$58,800- \$66,700**
- Number of invoices **420 – 460/mth**
- ACT **\$140-\$145**



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**Industry Standards
Small Animal**
Per full time equivalent DVM
for DVM professional invoices

- Monthly sales **\$38,750 - \$46,400**
- Number of Invoices **250 – 290/mth**
- ACT **\$155 – \$160**




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**Industry Standards
Small Animal**

Average number of **20 – 25/mth**
new clients per doctor **240 – 300/yr**


Average number of **1,200 – 1,400**
active clients per doctor



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Industry Standards Equine Practices

| | |
|---|--------------|
| Active number of patients per doctor | 1,150 |
| Number of active clients per doctor | 415 |
| Number of new clients per year per doctor | 100 |



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Industry Standards Equine Practices


| | |
|-------------------------------------|--------------------------|
| Average professional doctor invoice | \$225-\$245 |
| Number of invoices per month | 180 - 200 |
| Monthly sales | \$40,500-\$49,000 |



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Industry Standards Equine Practices

| | |
|-----------------------------------|-----------------|
| Average farm call (one way) | 15 miles |
| Average miles per doctor per year | 32,000 |
| Percent of doctors time in field | 67% |




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Building on Volume

- Builds long term growth

AND

- Builds value for a hospital




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Building on the Average Invoice

- Builds short term growth

AND


- Builds little value for a hospital



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How do you increase the average invoice?


- Charge for what you do
- Institute controls to make sure all charges are billed
- Review pricing structures and product markups



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How do you increase the average invoice?

- Review discount policies
- Excel at client education to market existing and new services
- Develop hospital standards of care



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Industry Trends to Consider Additional Services

Medical


INVEST IN NEW EQUIPMENT

Today's hospital budget is 1% to 2% of gross revenue



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Develop a Detailed Income Analysis Within the Practice Financial Statement



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Why do people pay for the practice's services (what are fees based on?)

- The veterinarian's expertise (education, skills: knowledge developed through investment in college degree and continuing education)
- The buyers perception of value
- The need to pay the practices expenses plus a reasonable profit



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Look for Strengths and Weaknesses Within the Income Stream



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Items to consider

Clinic Services

- Are fees for exams and vaccines separated and charged appropriately?
- Office visit
 - \$45 - \$55





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Items to consider

Clinic Services

- Are sick pets visits charged when a medical issue arises but started as a wellness exam?





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Items to consider

Clinic Services

- Do medical exams which are extended for eye, neurological, or orthopedic reasons become extended exams and charged as such?



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Items to consider

Pharmacy

- Revisit mark-up on drug and medical supplies
- Average mark up 100% - 150% of cost



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Items to consider

Pharmacy

- Revisit hospital dispensing fees

Does the hospital have:

- A counted and label fee?
 - \$8- \$12 fee
- A separate label fee for items sold in full bottles or tubes
 - \$5 - \$6 fee






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Items to consider

Pharmacy

- Does the hospital have a set minimum prescription price?
 - \$14 - \$18



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Items to consider

Hospital Services

- Are surgeries & anesthesia procedures timed and billed accordingly?

| | |
|-----------------------|-------------------|
| • Soft tissue surgery | \$7- \$8/minute |
| • Orthopedic surgery | \$8 - \$10/minute |

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Items to consider

Hospital Services

- Do hospitalization fees incorporate time spent by the nursing staff and the DVM?



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Items to consider

Hospital Services

- Are hospitalization fees considered for days cases as well as overnight cases?



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Items to consider

Diagnostics

- Do X-ray prices include an interpretation fee?
- Does the hospital charge for different size films or additional views?
- Does the hospital add on clinic expenses when outside ultrasound specialists come in to do procedures?



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Items to consider

Lab Services

- Revisit mark-up's on outside services. Are prices current with outside lab practice schedule?
- Do In house lab practices reflect the cost of the test, equipment & related payroll cost to run and interpret test results? Are invalid test considered a part of the cost of service?



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Items to consider

Lab Services

- Standards of care – Medical protocol
- Develop standards for
 - Senior Screenings
 - Mandate pre-anesthetic testing



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Items to consider

Over the counter Sales

- Revisit mark-up on all items
 - Average mark-up is 100% on cost
- Example

\$100 cost => \$200 sales price



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Items to consider

The impact of give a-ways/ fee overrides and discounts

Fact – The practice has incurred all expenses to provide the service or provide the product – the only thing missing is the revenue

Fact – It takes \$5 of new revenue to replace \$1 of give a-way, fee override or discount



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How should give a-way, fee overrides and discounts be addressed?


- Limit discount to only preset discounts
- Fee overrides and manual discounts should be prohibited
- Print a daily fee exception report from the veterinary software




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How should give a-way, fee overrides and discounts be addressed?


- Provide each doctor with a preset charity account
- Understand that for the most part, clients are not aware of the discounts given to them – they relate to your fear of charging
- Discounts should only apply to services and not product



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Current Trends Revenue Areas of Most Hospitals

- Professional Services 21%
- Vaccinations and Deworming 9%
- Surgery 4%
- Anesthesia 4%
- Lab and Diagnostic Services 18%
- Hospitalization 4%
- Radiology 4%
- Dentistry 2%
- Product Sales 27%
- Other 2%




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Hospitals Should Develop Passive Income Areas of the Practice by Utilizing the Veterinary Care Support Team. . .



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Look to Those Services That Don't Require Direct Full Time Involvement of the Doctor



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Passive Income Services
Examples of Such Services

- ✓Dental Cleanings
- ✓Radiograph Procedures
- ✓Lab Work
- ✓Nail Trims
- ✓Ear Cleanings
- ✓Bandage Changes
- ✓Anesthesia Induction
- ✓Boarding
- ✓Grooming



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Myth Regarding Product Sales

Low mark ups on these items do nothing to enhance the bottom line.
This is not true when fixed cost are so significant.

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To enhance revenue with product sales, you must increase the volume of their sales

Low markup → Higher volume = More profitability

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Do not drive product sales out the door. . .

Fulfill the Client's need for immediate gratification.



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Enhance product sales through. . .

- Client education
- Service
- Convenience



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FOR MAINTENANCE PRODUCTS

Offer convenience


- Set up reminders for these items
 - Post cards
 - Call
- Anticipate their purchases
 - Consider delivery services
 - Mail shipments



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With fixed costs covered, these products sales enhances the practice bottom line.

How much of the doctors time was utilized?



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Expenses


Veterinary practices are a fixed cost business

Most expenses are not controllable




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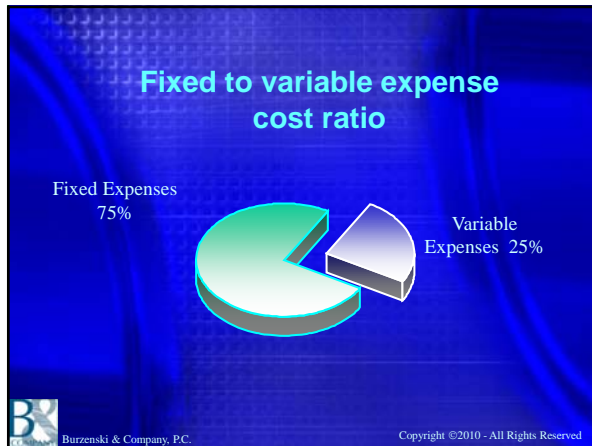
FACT



You cannot improve the overall profitability of a veterinary hospital by cutting expenses



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How product sales can impact a hospital's bottom line

| | | |
|------------------------|-----------|----------------------|
| Practice gross revenue | \$600,000 | |
| Product sales | \$162,000 | 27% of sales |
| Profit margin | \$ 81,000 | 50% of product sales |

| | With products | Without products |
|------------------------|----------------|------------------|
| Practice gross revenue | \$600,000 100% | \$438,000 100% |
| Variable costs | \$138,000 23% | \$57,000 13% |
| Fixed costs | \$300,000 50% | \$300,000 68.5% |
| Net profit | \$162,000 27% | 81,000 18.5% |

Difference in bottom line: \$81,000

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Expense Pulse Points

- Drugs and supply costs
- Salary and wages
- Occupancy costs

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Industry Averages
Small Animal
 Percent to Gross Revenue


Drug and supply costs – 14% to 16%

Salaries and wages -

| | |
|----------------|-----------|
| Receptionist | 6% to 8% |
| Technicians | 9% to 10% |
| Kennel | 2.5% |
| Administrative | 3% to 4% |
| Associate DVM | 11% |

Occupancy costs -

| | |
|------------------------|----------|
| Rent or mortgage | 5% to 8% |
| Utilities | 1.2% |
| Repair and maintenance | .8% |



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Industry Averages
Equine Practices
 Percent to Gross Revenue

Drug and supply costs – 24% to 27%


Lab expense 2.4%

Salary and wages

| | |
|----------------|-----|
| Non veterinary | 10% |
|----------------|-----|


Rent or mortgage 4%

Vehicle expenses 2.1%



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**Define Your Own
 Personal Success**



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"The recipe for personal success: Find a need that beats your drum. Create a plan, then make a dent. Trust that your rewards will come. And credit them as heaven sent."


Peter F. Drucker



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"No student ever attains very eminent success by simply doing what is required of him: it is the amount and excellence of what is over and above the required, that determines the greatness of ultimate distinction."

Charles Kendall Adams



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YOUR QUESTIONS

Gary I. Glassman, CPA
Gary@Burzenski.com
www.burzenski.com
(203) 468-8133



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