

The Past may have more influence than the Present on Practice Performance

So, How Are You Doing?

Veterinarians engaging in conversation regarding practice activity most often reference gross revenues compared to an equivalent but previous period. “May was up over last year” or “we are up 10% compared to this time last year” are typical response formats when veterinarians are asked how their practice is doing.

Veterinarians are not naïve in believing that changes in gross revenue relate to equivalent changes in net income. However, if the cost structure of the practice is similar over the periods for which revenue is being compared, the change in net income should be directly proportionate to the change in revenue.

With the exception of relatively new practices or practices that have made significant modifications, veterinary practice revenue grows at a relatively slow rate and the practice cost structure is seldom significantly different from year to year. Thus, for most practices, comparing revenue from year to year is a quick and fair gauge of business activity and practice performance.

OVMA members can compare their business activity to that experienced by Ontario practices by referencing the Veterinary Activity Index published regularly in *Focus* and available on the OVMA web site www.ovma.org.

Practices that are able to gauge their business performance by comparing revenue to a the previous year should reflect on the factors that influence revenue fluctuations.

So, Why Are You Doing Better or Worse?

Economic Conditions

The economy affects every veterinary practice. All veterinary services are not regarded as a necessity. The demand for veterinary services has some degree of elasticity. The capacity for clients to delay or cancel treatment determines the extent to which economic factors will influence the practice.

Unfavourable economic climates, high unemployment, low consumer confidence, and low disposable incomes will adversely affect demand for veterinary services and the associated practice revenue. Clients are likely to regard routine services such as vaccines and preventative care to be of low priority when allocating a shrunken disposable income. Practices with greater dependency on revenue from routine services may experience wider fluctuations in revenue as the economic environment changes.

The Competitive Landscape

Most veterinary practices operate within a competitive environment. In most instances, this competitive environment will have reached a state of equilibrium. However, the equilibrium is upset when a new practice competes for clients within a common trade area.

If a new practice has been established on the basis of sound market studies that have identified a satisfactory and unmet demand for services, the new practice will have a minimal affect on the competitive balance of existing practices. If the new practice has not identified a satisfactory demand for services and is dependent upon obtaining clients from existing practices in a trade area, the competitive balance of existing practices will be upset. In this instance, existing practices will need to hone their business protocols in order to maintain their client base.

Staff Performance

The term staff performance may encompass many staff attributes such as efficiency, productivity, etc. In the context of generating revenue, the two important attributes of staff performance are:

1. The staff's ability, willingness, and success in selling both professional and non-professional services to clients.
2. The effectiveness of the staff in delivering high quality service that generates a perception of value that in turn fosters client satisfaction and loyalty.

In the absence of external influences such as economic and competitive factors, staff performance has the greatest influence on practice revenue. Practice revenue is a function of both the number of transactions and the dollar value of each transaction. Both present and past staff performance will have a significant influence on the number and dollar value of invoices and the resulting practice revenue.

Transaction Numbers

The number of transactions over a given period is a function of both the number of clients and the number of transactions per client.

The number of clients is a reflection of the demand for the services generated by a practice. The demand for services is determined by the value offering of a practice, which in turn, is determined greatly by the service quality of the practice. Certainly the present level of service quality will generate a greater or lesser demand for services. However, veterinary practices depend on the repeat business of clients, typically on an annual basis. The retention of clients is significantly influenced by service quality that they experienced on their visits over previous years. Previous service quality drives client retention and is likely to have a greater influence on the present demand for services than the present level of service quality. The present level of service quality will have a greater influence on next year's demand for services than this year's demand for services.

Companion animal practices experience an average annual client turnover of approximately 25%. Although higher levels of client retention will boost numbers of transactions, every practice must recruit new clients. Typically, the largest source of new clients comes from referrals by existing clients. Service marketing research has shown that service quality drives client satisfaction. Client satisfaction drives client loyalty. Client loyalty drives client referrals. Present service quality will influence the number of client referrals. However, it is the past service quality that has established the reputation of the practice and will have the greatest influence on the number of clients referred. Service marketing research has also shown that customers obtained through referral are more loyal and less price sensitive than customers obtained through other means.

The number of transactions per client can obviously be influenced by present staff efforts to sell services. Satisfied and loyal clients accept service recommendations more readily. Service marketing research has shown that highly satisfied and loyal customers purchase more services from a given supplier. It is consistent and repetitive high quality service that generates the degree of satisfaction and loyalty necessary to stimulate this enhanced buying behaviour. Again, past staff performance that has enhanced client purchase behavior may have a greater influence on present revenues than present staff performance.

Dollar Value of Transactions

The dollar value of each transaction is a function of the price of the services purchased and the number of services purchased.

It is a common strategy for businesses to price services or goods below competitors in order to create more demand. This strategy will generate some increased demand for goods or services that are not distinguishably different amongst competitors. However, the services offered by veterinary practices are significantly different from practice to practice. In the case of veterinary practices, clients seek value and not price.

Value is a function of both price and service quality. Clients are happy to pay higher prices if they perceive that they are obtaining value. Quality service provides value to clients that compensates for higher prices.

For veterinary practices, reducing price to create demand is self-defeating. The only sensible strategy is to provide sufficient value through service quality that generates demand for services at fees equivalent to or greater than competing practices.

Practices that presently, and more importantly, historically have provided high value to clients can charge fees at or above the suggested fee guide published by the OVMA. Practices that fail to generate sufficient value to clients need to increase service quality to enhance client value. Increasing service quality requires significant human resources but minimal financial resources.

Present staff of a practice can influence the dollar value of invoices through efforts to recommend more services to each client. The acceptance of recommendations is a function of not only effort exerted by existing staff but also by levels of client satisfaction, loyalty and trust. Service marketing research has shown that satisfied and loyal customers purchase more services and are less price sensitive than less satisfied customers. Although existing staff can significantly influence this level of client satisfaction, it is likely that previous repeated service encounters have had a greater influence on client satisfaction than the present service experience.

So, How Will You Do Next Year?

Present practice revenue is an indicator of present staff performance but is significantly influenced by past staff performance. However, present practice revenue is a poor gauge of future practice revenues.

Services that are in demand as a result of previous high levels of service quality and services promoted by a motivated staff can result in present high levels of revenue. However, it is possible to experience high revenue presently, despite present low service quality or even by sacrificing present service quality.

Low service quality results in a low value offering to clients that decreases client retention, decreases client referrals, and decreases the level of client satisfaction that drives the desire to purchase and that reduces price sensitivity. Low service quality results in reduced future demand for services and reduced future revenues and profits.

Present revenues is a better gauge of past staff performance than present staff performance. Present staff performance and future revenues may be better gauged by measuring present levels of client satisfaction that have been driven by service quality.

The OVMA has developed a survey which has proven to be successful in measuring client satisfaction. Client satisfaction should be measured and improved upon on a continuous basis. Client satisfaction is the most important driver of future practice revenue and profitability.

Managerial Implications

Client satisfaction is a very important driver of practice revenue and profitability. Present revenue levels are a greater reflection of client satisfaction generated through previous service experiences than the client satisfaction generated through present service experiences. Future revenue will be driven by present service quality and resulting client satisfaction. Client satisfaction needs to be monitored on a regular basis in order to allow early detection of service quality problems and to ensure future practice health.

Reward systems for the staff of veterinary practices are often based on present levels of revenue. Such production-based compensation motivates staff to sell services to clients. However, production-based compensation does not motivate staff to provide high quality service needed to drive client satisfaction and future revenue and profitability. It is equally, or arguably more important, to base staff rewards on client satisfaction levels.