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Better Management is Better Medicine®

Setting Fees with an Eye on the Economy – 2005

If you're not charging the right fees, you could feel the pinch when you want to invest in new medical technology or give your doctors and staff members a raise. Without the right fee-setting strategy, you could find that some fees get too high, while others don't reflect the value you offer. And, how do the current economic challenges impact your pricing decisions?

As you examine your fee structure, remember price is rarely an issue for clients unless you don't meet their expectations for service. (They *do* want a convenient location, ample parking, a clean facility, friendly and professional healthcare team members who recognize them and their pets, and doctors who stay on schedule). So don't get distracted by thinking about what you think clients will pay. Your fee structure should reflect the quality of client service and the level of patient care in your practice.

Three fee-setting strategies

The key to setting fees that reflect the value and service you provide is to apply different strategies to products and services depending on the factors that affect them. These factors include the competition in your community, your costs, and the value your clients place on the services and products you provide. These three pricing strategies help you adjust for those factors (see Figure 1).

- 1. Competitive.** Use a competitive pricing strategy for price-sensitive services such as vaccinations and elective surgeries. Compare your practice and its fees to other practices in your radius. Consider the number of doctors, practice hours, level of medicine, type and condition of the facility, community reputation, specialized services, and so on. Perform a market research asking your staff members to call surrounding practices to gather this information.
- 2. Cost-based.** Use a cost-based pricing strategy to price inventory items. The average markup on most products ranges between 150 percent and 175 percent. Markups range between 50 percent and 90 percent for higher-cost medications; practices typically markup heartworm and flea control products 100 percent.

Drugs that remain on the shelf for three or more months require a 225 percent to 275 percent markup to cover the additional carrying costs. Dispensing fees and minimum prescription fees will vary depending on community economics. Tip: If you receive a discount on a bulk purchase, keep the discount instead of passing it on to clients.

- 3. Value-based.** For doctor-provided services and services that affect the client's perception of value, use value-based pricing. An easy way to do this: look at the relationship between the exam fee and other value-based fees.



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Your value-based fees can be higher than any other practice in your community, as long as you offer a good value for the price. If you don't, clients will look elsewhere. Use Benchmarks 2009 - A Study of Well-Managed Practices[®] results and the 75th percentile column of the AAHA Fee Reference as a guide for pricing value-based services.

Are you on track?

While these three pricing strategies will help you set appropriate fees, you also need to decide which fees need adjusting. If you aren't already using the pricing strategies listed above, the answer may be all of them. Still, you'll want to consider several issues.

First, is your average doctor transaction (ADT) healthy? Ideally, your practice's ADT will represent 3.2 to 3.4 times the exam fee. So in a practice with a \$45 exam fee, the ADT should range between \$144 and \$153. If your ADT falls below the desired range, ask yourself:

- Are your price-sensitive fees in line with the quality of care your practice provides? How do they compare to other practices in your community? Conduct a community survey for vaccination and elective procedure prices as a starting point to see how you compare.
- Have you set inventory markups, dispensing fees, and minimum prescription fees at an appropriate level?
- Are fees for doctor-provided services and services that affect clients' perception of value in line with the practice's exam fee?
- Are you charging for all services? We often see \$10 to \$15 of missed charges on 10 percent to 20 percent of outpatient cases. On hospital cases, we commonly see \$40 to \$60 in missed charges on 25 percent to 30 percent of cases. These oversights show up in your ADT. Plus, you won't maintain the client's perception of value if you discount or give away professional services.

Your income allows you to continue to maintain high quality of care because it facilitates doctor and team education, technology, appropriate staffing, and compensation. Don't cut off your source of improvement.

- Do you have a good mix of services and products? Ideally, medical services represent 85 percent of medical revenue, and medical products represent 15 percent of medical revenue.



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Practices with a service and product mix that's more heavily weighted towards product sales have a higher-risk revenue stream, because there's more competition for product sales from other veterinarians and Internet pharmacies. And often a higher percentage of product sales causes the ADT to drop.

If you find that your mix is off and you need to strengthen the service side, look for opportunities to improve your client education and enhance patient care. Make sure clients understand what's involved in providing the best health care for their pet. Do they know why you recommend wellness exams, dental exams and cleaning, or baseline blood work as pets age? Select your key messages and consciously and continuously reinforce them with your clients.

Client-perceived value is even more essential in an economic downturn. Do everything in your power to make sure you don't put obstacles in the path of the clients you value. And, continue to look for ways to improve every day so clients continue to return to your practice.

To obtain additional information:

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