



Key Performance Indicators: The Clinical Signs of the Health of Your Practice

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INTRODUCTION

As veterinarians, we are diligent about measuring and monitoring our patients' vital signs. While well trained in assessing our patient's well-being, we are not as attentive to the indicators of our practice's health such as:

- What are the “clinical signs” of a healthy practice?
- How often should you evaluate these crucial metrics?
- How do you know if they are within normal limits or if they indicate a less than favorable prognosis?

What are the “clinical signs” of a healthy practice?

There are certain measures of performance that practice owners and managers should be tracking. These can be obtained in two different ways: either through the practice management software (PMS) program or through independent data mining programs, such as VetSuccess¹. My personal preference is to combine both methods to obtain a more comprehensive snapshot of practice performance. Minimally, the following financial metrics should be routinely evaluated:

"There are certain measures of performance that practice owners... should be tracking."

Gross Revenue: Hospital Revenue as Well as Each Doctor's Production

- Increased patient visits
- Increased Average Client Transaction (achieved by increasing fees or less missed charges)
- Improved adherence by clients to recommendations

Average Client Transaction (ACT)

This data is available on the PMS report and represents the total revenue divided by the number of invoices generated.

- This calculation factors in all transactions including those generated by doctors during examinations and surgery, as well as those invoices for over-the-counter sales such as pet diets, shampoos and other products.

- Be aware that if an invoice is generated for a no-charge item, such as suture removal, it will adversely impact this figure as it increases the number of transactions without increasing the income generated from those transactions.

Invoices Per Patient

- Studies done by VetSuccess² in 2020 found that Invoices Per Patient had a greater effect on revenue earned per patient over a year time frame than Average Client Transaction.
- Visits (Invoices Per Patient) account for about two thirds of Revenue Per Patient, whereas ACT accounts for about the remaining one third.
- Traditionally, higher Average Client Transactions (ACT) are viewed positively. New findings in this study suggest that ACT of \$300.00 and higher has a negative effect on the number of Invoices Per Patient. When the ACT exceeds \$300.00, there are less visits by that pet, suggesting price sensitivity by the client. The overall annual revenue per patient is higher when ACT is less than \$300.00 per transaction, due to the increased frequency of Invoices Per Patient.

"Invoices Per Patient had a greater effect on revenue earned per patient...than Average Client Transaction."

Average Medical Transaction Per Doctor

Most PMS will calculate this based on each doctor's medical transactions divided by the number of invoices credited to that doctor.

- This is a useful metric to follow to compare the doctors' individual financial performance year over year as well as to one another. It should be pointed out that *financial performance is only one measure of an effective associate or partner; it is important to assess all benefits that the veterinarian provides to the hospital in performance evaluations.*
- If used to compare doctors, the following factors should be considered:
 - 1. Do the doctors work roughly the same number of hours in surgery and in appointments?** Surgical invoices tend to be higher than most invoices generated in office visits. If you have one doctor that performs surgery more heavily than the other doctors, it is expected that higher transaction amounts and lower numbers of invoices will result in a higher average medical transactions figure.
 - 2. Are Preventive Care Plans offered in the hospital and are they promoted evenly throughout the doctor team?** If payments for services are spread out monthly this will lower the individual transaction charge. Therefore, if one doctor has a higher adherence rate to preventive care plans than the other doctors, it will lower the average medical transaction for that doctor.
- If there are large discrepancies in either the year over year performance

or between doctors with similar schedules then additional factors should be examined, such as the opportunity for additional coaching or training of the underperforming doctor as well as an evaluation of how appointments are being scheduled. Is one doctor being preferentially booked with the more difficult, and therefore likely more diagnostically involved, cases?

" ...assess all benefits that the veterinarian provides to the hospital in performance evaluations."

Active Clients

An active client is defined as a client that has received services from your hospital in the preceding 12 months.

- Most PMS systems will calculate the number of active clients, although the time frame might vary from services received in the past 12 months to even up to 18 months. Verify the time frame with your PMS provider to understand what you are actually measuring.
- Decreasing numbers of clients are problematic for hospitals as follows:
 - 1.** Lower numbers of active clients will mean decreased caseloads and contraction of business, making it difficult to maintain current hospital staffing. Expansion will be virtually impossible.

2. This metric is one that is heavily evaluated when an owner is contemplating a practice sale. Lower active clients negatively impact practice value.
3. The primary referral source for new clients is word-of-mouth, according to a 2009 study³. In this study, participants cited that “60% of people looking for a new veterinary hospital trust word of mouth referrals over anything else.” Practices with less active clients will have less opportunity for these referrals, further lowering the growth potential of the hospital.

New Clients

A new client is identified by PMS reports as purchasing product or services from your hospital for the first time in the designated time frame. Attracting new clients is critical to hospital success, as they:

- Compensate for clients that have left your hospital. In a 2014 AAHA study, 60% of clients reported looking for a new veterinarian in the past five years! Without new clients, veterinary hospitals will not be able to maintain their current client base.
- They become active clients, adding to the growth and value of your hospital. Additionally, they serve as great promoters of your practice through word-of-mouth referrals, ensuring continued growth.

“ Attracting new clients is critical to hospital success.”

Number of Transactions (Invoices)

This calculation is available on the PMS reports and indicates how many transactions, or invoices are generated during a specific time frame. This number is in part an indication of efficiency.

- Is the appointment schedule under-utilized? If so, a frank discussion about whose role it is to “fill” the schedule should occur, in addition to methods to increase appointment scheduling such as forward booking and making overdue reminder phone calls. Additional marketing efforts might be needed.
- If the appointment schedule is overbooked, are there missed opportunities for growth? Adding a part time or relief veterinarian would allow for increased appointment capacity and provide better services to clients whose pets need your services. This in turn creates a better hospital-client bond.

Number of Transactions (Invoices) Per Active Client

This calculation is one that often needs to be performed manually and is determined by dividing the number of transactions (invoices) by the number of active clients. This is a particularly important metric in that it helps to measure how many times an active client visits your hospital during the time frame measured, which is usually annually for this metric. While having many active clients is desirable, what really matters is how many times they seek your services.

- If you have a large number of clients that seek veterinary services or purchase products once yearly they do not contribute to the overall growth of the practice.

- By increasing the number of times a client visits your hospital animal health care team members have more opportunities to bond with the client and provide a higher level of care to your patients.
- Methods to increase this value include more complete medical recommendations, increased client adherence to the recommendations and forward booking of appointments⁴.

" While having many active clients is desirable, what really matters is how many times they seek your services. "

Percentage of Revenue From Unique Profit Centers

This data can be extrapolated from PMS systems. It is presented in a chart format in VetSuccess reports. Percentage of income from profit centers usually reflect the culture and philosophy of the practice.

For example, does your hospital heavily promote preventive care services? If so, it will be evident in looking at income from examinations, diagnostics, and dentistry. If you have doctors on your team that perform advanced surgical procedures, it will be reflected in the anesthesia, surgery, and possibly diagnostic profit centers. It is important to understand which profit centers generate income for the following reasons:

- Are there changes over time in the profit center categories? If so:
 1. Has there been a conscious change in hospital focus?
 2. Are clients less willing to adhere to recommendations? Evaluate communication and client education, as well as team training.
 3. Has there been a change in service offerings, such as a doctor that is passionate about dentistry or the departure of a doctor that performed advanced surgery?
- Are your marketing efforts aligned with revenue from profit centers? For example, if preventive care plans are important to your hospital, what percentage of the revenue derives from the plans and how do you promote them?
- How do you measure the outcomes of either increased hospital focus or marketing efforts? Evaluating changes in profit centers is one method to track changes.

Percentage of Expense From Unique Expense Categories

It is important to understand that productivity does not correlate with profitability. It is essential that leadership teams manage the expense side of the

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equation. Typically, the largest expenses in a veterinary hospital are payroll and cost of goods sold (COGS). Aggressively managing these expense categories, in addition to others, will help improve the profitability of hospitals. Well-managed hospitals can reinvest in current or upgraded facilities, equipment, medications, and staff necessary to provide the best patient care and provide for the financial security of the practice, its owners, and the staff.

How often should you evaluate these crucial metrics?

I recommend that, at a minimum, practices evaluate the above metrics monthly as well as on an annual basis. There are some metrics that might be “spot checked” throughout the month, such as gross revenue, ACT, number of transactions, number of clients seen, and number of new clients obtained. This spot checking can provide for early detection of emerging trends and allows for corrective actions as needed.

How do you know if your results are within normal limits or if they indicate a less than favorable prognosis?

Compare your hospital’s profit centers, team productivity and expense centers to industry benchmarks. One excellent resource is the AAHA Financial and Productivity Pulsepoints book. Published every two years, this publication not only provides current benchmarks, but explains how they are derived and includes suggestions for improved performance.

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Wendy Hauser, DVM is AVP, Veterinary Relations, Crum & Forster Pet Insurance Group. In 2015, she established Peak Veterinary Consulting, after working as an industry Technical Services Veterinarian. With a DVM from OK State, she has practiced for 30 years as an associate, owner and relief veterinarian. She is highly engaged in AAHA leadership and currently serves as the AAHA Delegate to the AVMA House of Delegates. The co-author of “The Veterinarian’s Guide to Healthy Pet Plans”, she enjoys consulting and presenting workshops on hospital culture, leadership, client relations and operations.

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⁴Forward Booking Appointments: Is Your Practice Benefitting? <https://vet.aspcapetinsurance.com/digital-library/>

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