The Insider's Insight Benchmark Report is a publication provided by the Veterinary Hospital Managers Association (VHMA). The report tracks key economic indicators to determine how VHMA member practices are performing, as well as results from VHMA surveys on issues impacting the profession. There are approximately 600 VHMA member practices who contribute to the data for the key economic indicators. Data is representative of companion animal practices only.
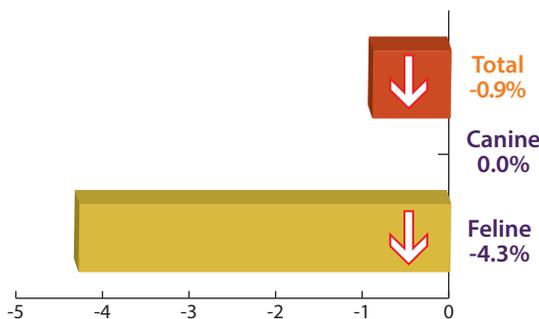
March, 2018 vs. March, 2017

Revenue Growth
March, 2018 compared to March, 2017

VHMA 1.5%
Canine 2.0%
Feline -0.9%
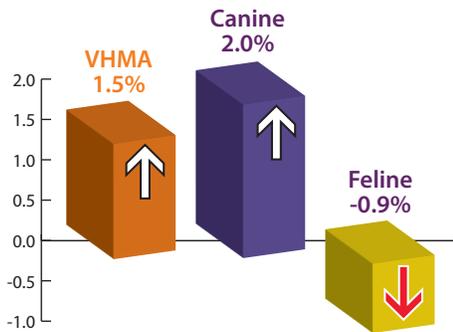
Revenue Growth

Companion animal practice revenue for the 612 VHMA practices included in this month's study showed growth of just 1.5% from March, 2017 to March, 2018; both months had the same number of work days in them. Canine revenue growth was 2.0% and feline revenue growth declined by 0.9%. Year to date growth for 2018 is 3.6%; this is lower than 2017 growth of 5.1%.
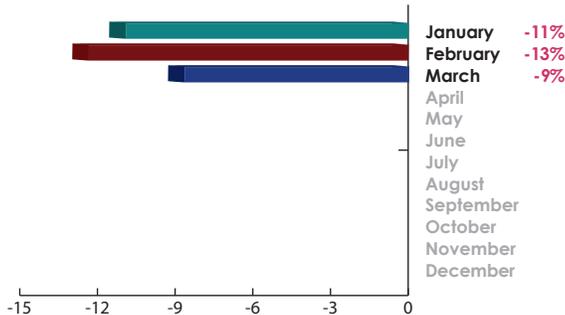
Patient Visits
March, 2018 compared to March, 2017

Total -0.9%
Canine 0.0%
Feline -4.3%

Patient Visits

Total unique patient visits for the same period, March, 2018 compared to March, 2017 declined by 0.9%. Canine visits were flat and feline visits down by a disappointing 4.3%. Year to date growth for 2018 has declined by 0.9% compared to total 2017 growth of 1.3%. (Note that the term "visits" is defined as unique purchases of either products or services for an individual pet.)

New Client Growth
March, 2018 compared to March, 2017

Month	
January	-11%
February	-13%
March	-9%
April	
May	
June	
July	
August	
September	
October	
November	
December	

New Client Growth

New client numbers in March, 2018 compared to March, 2017 declined by 9%. This continues to be a discouraging trend as these numbers have declined almost every month of the last three years.

Remember that the above figures represent averages across all the practices in the study; in order to understand what is going on in YOUR practice, you need to look not only at what your revenue growth was during these months (and going forward) but also at the drivers of growth in YOUR practice such as changes in invoices, visits, ATC, fee increases, new clients and client retention. This will give you the information to make intelligent decisions about where to focus your time and efforts to increase growth.

Data Analysis

This month's survey questions cover analysis of the P&L, aka the profit and loss statement or the income statement and KPI (key performance indicator) data available from the PIMS (practice management information system.)

The first few questions are about the P&L. Ideally a practice will receive (or produce) a full set of financial statements to be used in management analysis. While this set includes three reports—the income statement, the balance sheet and the statement of cash flows, in reality, the P&L is the most frequently used report in small businesses and may be the only report the practice receives.

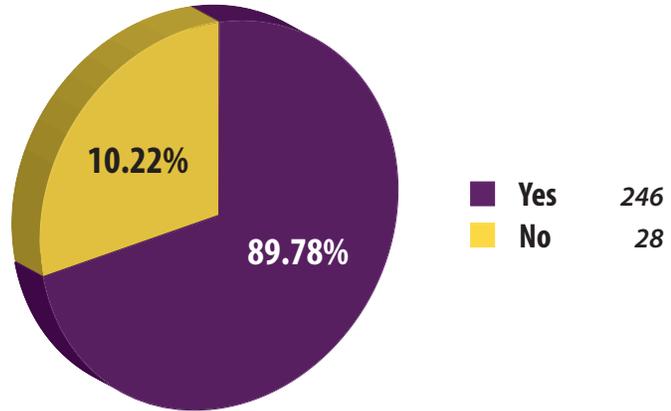The first question in this survey asked **"Do you have access to the Profit and Loss Statement?"**

As shown above about 90% of the respondents said yes. Access to the information is obviously the first step to analysis!

1. **Do you have access to the Profit and Loss Statement?**

Responses: 274

| | Yes | 246 |
| | No | 28 |

10.22%

89.78%

The next question asked: **"How often do you analyze a practice Profit and Loss Statement?"**

The majority of the respondents analyze their P&L on a monthly basis. In most practices, monthly analysis is the best choice. More frequent analysis of some elements of the P&L (such as revenue) can be helpful but this won't be true of all line items. Less frequent analysis (for example, quarterly) may be ok for a very stable, mature practice in which revenue and expenses don't change much but isn't usually recommended for most practices. The value of more frequent review is to detect problems at an early stage.
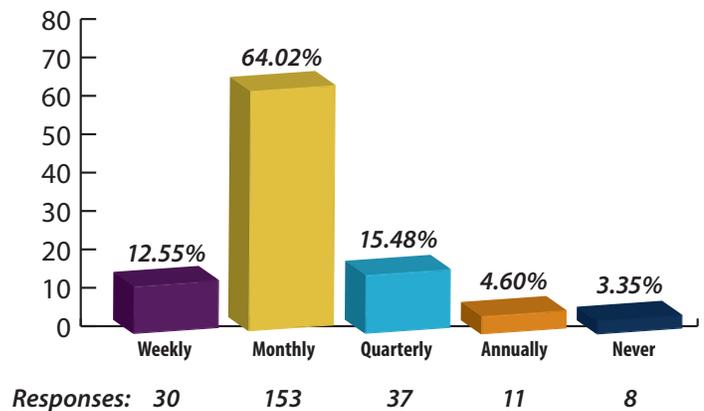
2. **How often do you analyze a practice Profit and Loss Statement?**

Responses: 239

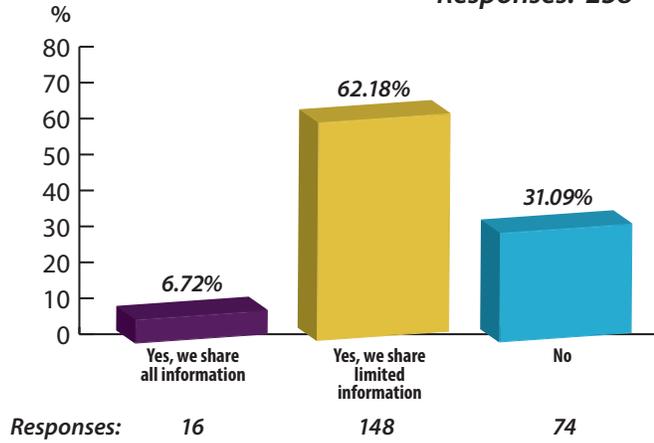|	Weekly	Monthly	Quarterly	Annually	Never
	12.55%	64.02%	15.48%	4.60%	3.35%
Responses:	30	153	37	11	8

Data Analysis

The next question asked: *"Do you share any information from the Profit and Loss Statement with your staff?"*

Most of the respondents share some limited information with staff members. There is a lot of variability in how business owners and managers feel and act about sharing P&L information, both in veterinary medicine and in other businesses and professions. Publicly held companies are required to share the P&L with essentially anyone who wants it but many smaller businesses do not do so. Some business experts advocate sharing all the information and others vote for a more limited amount. There are several key points to consider in making this decision:

■ How will sharing this information help the practice? For example, if the management team expects the inventory manager to keep the costs of drugs and medical supplies within a certain range, the inventory manager obviously has to know how they are doing on a regular basis in order to make future ordering decisions.

■ Who needs the information? Continuing on from the above example, does anyone else need this information?

3. Do you share any information from the Profit and Loss Statement with your staff?

Responses: 238

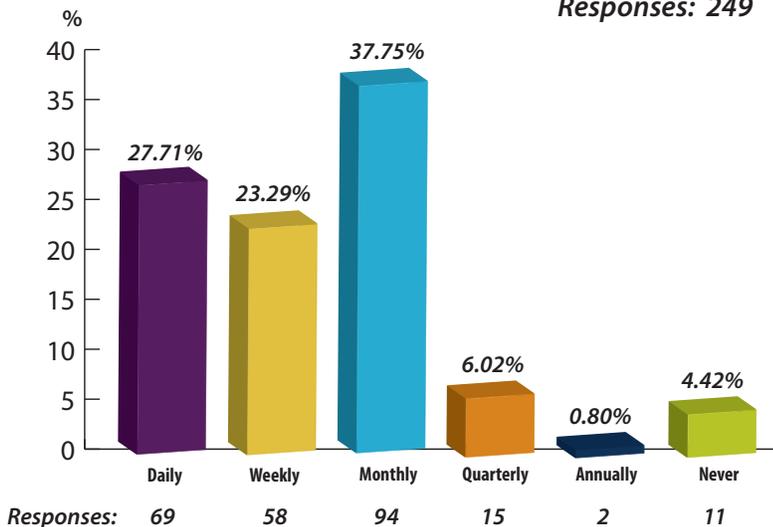| Responses:	Yes, we share all information	Yes, we share limited information	No
	16	148	74

Bar values: 6.72%, 62.18%, 31.09%

Perhaps yes; while the inventory manager is in charge of ordering, the rest of the staff has a big influence on usage and waste and how much has to be ordered.

■ How can private information be kept private? Sharing payroll information in large companies isn't generally a problem because there are so many employees that no individual salaries will be apparent; this isn't always true in a small business.

4. How often do you extract and report data, using practice information management software data?

Responses: 249

Responses:	Daily	Weekly	Monthly	Quarterly	Annually	Never
	69	58	94	15	2	11

Bar values: 27.71%, 23.29%, 37.75%, 6.02%, 0.80%, 4.42%

The next series of questions covers PIMS key performance indicator data. The first question asks: *"How often do you extract and report data, using practice information management software data?"*

There is a wide variation in how frequently respondents pull PIMS data and the frequency likely corresponds with the particular information being analyzed. Overall, however, 90% of the respondents are reviewing at least some data on a monthly basis.
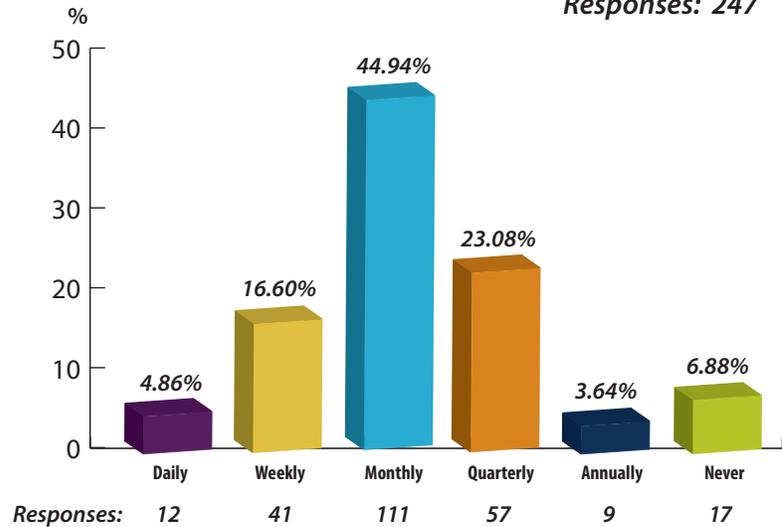
Data Analysis

Of course, extracting the data isn't enough and the next question asked: *"How often do you analyze trends, using practice information management software data, and make recommendations or execute management initiatives to improve practice operations based on your findings?"*

About 65% of the respondents analyze trends or make changes on a daily-weekly-monthly basis. Another 23% do so quarterly. Several people who entered comments in the "other" section said it depended on whether or not needs and/or opportunities arose or that these actions were taken as part of their formal strategic planning process.
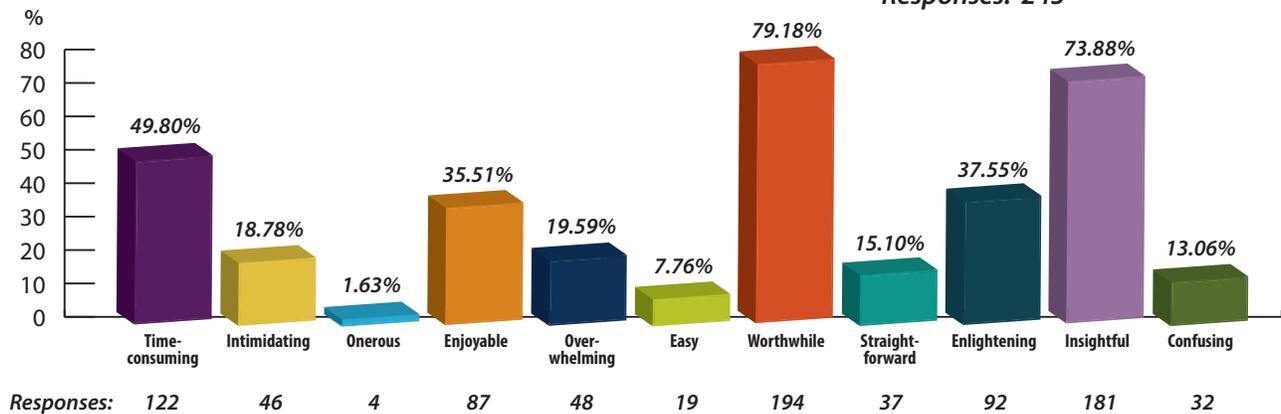
5. How often do you analyze trends, using practice information management software data, and make recommendations or execute management initiatives to improve practice operations based on your findings?

Responses: 247

	Daily	Weekly	Monthly	Quarterly	Annually	Never
%	4.86%	16.60%	44.94%	23.08%	3.64%	6.88%
Responses:	12	41	111	57	9	17

6. How do you feel about data analysis? (*check all that apply*)

Responses: 245

	Time-consuming	Intimidating	Onerous	Enjoyable	Over-whelming	Easy	Worthwhile	Straight-forward	Enlightening	Insightful	Confusing
%	49.80%	18.78%	1.63%	35.51%	19.59%	7.76%	79.18%	15.10%	37.55%	73.88%	13.06%
Responses:	122	46	4	87	48	19	194	37	92	181	32

The last set of questions were about the data analysis process. The first question in this group asked *"How do you feel about data analysis? Check all that apply."*

About half of the respondents found the data analysis process to be "time-consuming" but, in spite of this, 75% or more of the respondents had positive things to say about it—"worthwhile" and "insightful." Comments in the "other" section ranged from a positive assessment of the process to challenges in dealing with data. One manager notes that "It really gives me great opportunities to sparkle

as a manager." Another noted essentially the opposite: "Scary—as in, sometimes I'm afraid to know how things are going!"

Over 200 people responded to the question *"What three data points are most important to you in managing your practice?"* and the responses varied a lot. While most of the answers were metrics that are typically considered critical to running a practice, no one listed exactly the same three metrics. The most common metrics listed included as "top 3" were:

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Data Analysis

- Revenue
  - Dollar amount & growth (daily, weekly, monthly)
  - Revenue by category (exams, laboratory, surgery, etc.)
- Transactions (invoices)
- Expenses
  - Payroll
  - Drugs & medical supplies
  - Dietary products
- New clients
- Average transaction charge
- Compliance figures

The final question asked **"What obstacles stand in the way of your data analysis and planning?"** The single most frequently listed obstacle was time. Others listed by many respondents included:

- Inaccurate P&Ls
- Inaccuracies in or difficulties using QuickBooks or the PIMS
- Personal lack of knowledge about what to look for, comparative benchmarks, etc.

Overview — Data Analysis

In the same way that the TPR gives an initial look at a pet's basic health status, periodic financial and operational reports give the practice owner and manager a look at the practice's financial health status. Now more than ever, a business must understand and regularly measure the metrics that define financial success. Both internal trending and external comparison to published benchmarks are critical to future growth and prosperity. Several types of metrics should be assessed regularly: revenue, expenses, profits and a broad group of operational benchmarks measuring doctor and staff productivity and client activity. Practices need this data to make decisions about revenue growth, expense management, profitability, marketing program analysis, efficiency, productivity and other issues. One of the oldest clichés is that you can't manage what you can't measure. Counting the paperclips on a regular basis would be ridiculous but in this lecture, we will discuss the critical metrics every practice must review each month. Knowing your profit margin isn't enough, you also must understand what drives the profitability and how to review the success (or not) of programs implemented in the practice.

Starting Out

The first question to be asked before launching into data gathering and analysis is: Why do we think we need data? What are we going to do with it? Practices generally turn to data to either get an overall understanding of how well the practice is doing operationally and financially or to solve a particular problem they perceive in the practice. There are many practice problems for which data can be useful in understanding and solving but some of the most significant ones include:

- Flat or declining revenue
- Poor profitability or cash flow
- Doctor production that is too low
- Staff or other costs that are too high

As noted above, one of the primary reasons the management team of a practice looks at data is to gain an overall understanding (a baseline) of how well the practice is doing operationally and financially. This gives the management team the best chance of selecting the areas where change will have the most impact on growth in revenue or profits. What data should be gathered for this initial review?

Data that will be typically helpful in getting this baseline snapshot of the practice's financial and operational performance includes:

- Revenue growth/decline (%) in this year/quarter/month compared to the same period in prior years
- Revenue per full-time-equivalent doctor (a measure of overall doctor efficiency)
- Transactions per full-time equivalent doctor (a measure of overall doctor efficiency)
- Medical (doctor) revenue per full-time-equivalent doctor (a measure of individual doctor efficiency)
- Medical transactions (doctor) per full-time equivalent doctor (a measure of individual doctor efficiency)
- Average transaction charge for the practice as a whole and for medical (doctor) revenue

Overview — Data Analysis

- Revenue/transactions/ATC for individual doctors (a measure of individual doctor performance)
- Revenue by category (dentistry, vaccinations, product sales, etc.)
- New clients
- Active clients
- Lost clients/client retention
- A/R aging
- Expenses, particularly drugs and medical supplies, laboratory costs, doctor compensation, staff compensation, benefits, facility costs
- Staff and doctor hours per transaction
- Overtime hours
- Revenue and transactions by species
- Revenue per FTE staff person
- Revenue per hour of operation, revenue per exam room
- Operating profit margin

Most of this data will come from the PIMS (Practice Information Management System) used in the practice. The expense information will come from the profit and loss statement and/or tax return. Staff and doctor hours worked information will come from the payroll system. The operating profit margin is calculated using data from the tax return, profit and loss statement, PIMS and other sources.

Data quality is based on good quality system design and checks and balances that need to be in place to insure ongoing integrity. Some of the questions that need to be asked include:

- Is all revenue captured in the system?
- How much does the practice lose in missed charges and random discounts?
- Is revenue accurately entered for each doctor?
- Are services included in the correct service category?
- What is the definition of a new client in the practice's PIMS?
- Are the accounts used to categorize expenses appropriate for a veterinary clinic?
- Are expenses entered accurately into the practice accounting system?

- Are bank accounts reconciled regularly and reconciling items followed up promptly?
- Does the person doing the profit calculation have the appropriate knowledge to do it correctly?

The most useful baseline analysis includes comparison of the metrics over time in the practice—this year, last year, two years ago as well as a comparison to other typical practices based on published studies in the veterinary field. This kind of analysis is excellent for determining where a practice is doing well and what areas need further investigation or improvement. The practice should first start with the question: Is the practice truly profitable? And then: If not, why not? The rest of the data can then be used to determine the answers to this second question. Is it due to high inventory costs? Lack of productivity by doctors or staff? Poor revenue growth? Declining new clients? The analysis is also useful to determine where further investigation should be made and to measure progress as the practice makes changes to improve its operations and financial position.

The Next Step

Once the big picture analysis has been done, the practice should drill down further into areas that may need improvement. For example, let's say that the practice owner or manger analyzes the revenue of the practice at the doctor level and finds that the average revenue per doctor is lower than that seen in most practices and that there is a great deal of variation in productivity amongst doctors. Improved doctor productivity becomes a goal of the practice. What additional data should be gathered?

- Number of hours worked each week by the doctors—revenue variability may be a function simply of the time spent in the practice
- Number of appointments, surgeries, dentals done by each doctor during this time frame
- Support staff help utilized by each doctor—some doctors may be able to produce more because they have access to and use more support staff
- Number of key procedures (CBCs, chemistry panels, x-rays) performed by each doctor in relation to the number of transactions they generate—revenue may vary because of different approaches to cases which should be more consistent
- Measurement of client compliance with key recommendations by doctors and staff
- Dollar amount of discounts and missed charges per doctor

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Overview — Data Analysis

As the data gets more detailed, a wider variety of sources may be necessary to obtain it. Occasionally practices will have doctors clock in and out the same way non-doctor team members do. If this is true, the practice may have good quality "hours worked" information for doctors although the in-clinic hours may need to be adjusted for any substantial amounts of work done at home (record writing, client callbacks, case research) or for trips back to the clinic outside of normal hours. If the practice doesn't have this information, it will have be created. Support staff utilization is a more subjective measure that is generally gained by observation. Key procedure information can be obtained from the PIMS. Measure of client compliance with key recommendations isn't available in all practices but is an important piece of data. When available, it can usually be found via medical record audit or in the PIMS if service codes are used to track when recommendations are made, accepted or declined. Discount and missed charge information comes from a medical record audit.

A number of questions should be asked at this point as well to ascertain data quality:

- Is revenue accurately assigned to the right doctor when charges are entered?
- Is the sample used for the medical record audit representative of the entire year?
- Are the doctor work hour estimates of good quality?
- Is the discount information broken out between approved marketing discounts and random discounts?

The findings from the above analysis will drive what the practice does. For example, after controlling for hours worked, if one doctor is doing fewer dentals than another, it may be because the doctor doesn't do a good job of discussing dental needs with the client either because they are rushed in the exam room or because their communication skills aren't as strong as they should be. If it's the first reason, checklists or a consistent exam room technician may help. If it's the second reason, communication training is the answer. Doctor productivity may also suffer because the practice simply doesn't have enough patients coming in the door; in this case, improved marketing may need to be the focus.

General Guidelines For Effective Data Gathering And Use

In order to compare one practice to another, it is necessary to set up the revenue and expense categories in both the practice management and accounting systems in a fashion similar to those commonly used in veterinary medicine and used in the published studies the practice will be compared to. An excellent veterinary chart of accounts is available from AAHA/VMG.

Record information in the same categories or perform calculations in the same way each time they are done in order for the numbers to be comparable over time. In order to achieve this comparability, it is important to carefully set up the categories and define the calculations when the accounting system and PIMS are set up. Some aspects of the system will need to be changed periodically; the practice must keep in mind the impact on comparability when it's time to do this.

Comparison of raw numbers is useful to a point in financial analysis but, in general, it is necessary to do some kind of ratio analysis or use a common basis of comparison to get the best results. The most common ratio used in veterinary financial analysis is that of expressing types of revenue or expenses as a percentage of total gross revenue. This kind of ratio analysis is critical to accurate comparison over time or between practices of different sizes. Another frequently used common basis for comparison is the calculation of doctors on a full-time-equivalent basis. This makes it possible to compare information from one practice to practices that have different numbers of doctors or to compare the figures in your own practice from year to year as you add doctors.

Most practices use a cash basis of accounting for internal purposes. This means that when the bill is paid, the expense gets recorded in the financial statements. Fluctuations in when bills are paid (whether deliberate or accidental) can have a significant impact on analysis. For example, let's assume a practice normally spends about $30,000/month on drugs & medical supplies expense. When comparing monthly expenditures for the last month, the owner notices:

	Apr	May
Drugs & medical supplies expense	$30,000	$25,000

At first, it looks like the practice's efforts to better control inventory are paying off. However, it turns out that the decrease occurred because the bookkeeper went on vacation during the last week of May and didn't pay the rest of that month's bills until June. June's expense was $35,000. The timing of the bill paying must always be considered in expense analysis. A review of the outstanding accounts payable will help. The practice should consider using some of the accrual accounting

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Overview — Data Analysis

features available in most accounting software or doing the five or six journal entries necessary to convert cash to accrual every quarter or every year. It is important that the people doing the bookkeeping and the financial analysis have enough real accounting knowledge to understand the implications of cash vs. accrual accounting.

There are several resources available to use in comparing your practice data to the industry as a whole including AAHA's Financial & Productivity Pulse-points and Benchmarks: A Study of Well-Managed Practices. Members of VMG groups can also compare their data to the VMG database. While these are all good resources, it is important to understand where the data came from and whether it is suitable for your purposes.

The methodology section of the reports explains how the data was collected and how many practices responded and this helps with understanding how comparative the data is. It is also important to understand how certain

calculations were performed in order to know if that metric is comparable to your practice. Another question to consider is whether or not the data is meant to represent an average practice or "best practices"?

No study will be perfectly comparable to a particular practice. This doesn't mean the study is useless. It is still possible to get very valuable information to help operate the business more effectively. It simply means using these comparisons with a grain of salt and as one tool in running the business, not as the final word about how well the practice is doing.

Finally and most importantly, identifying trends or problem areas is not enough. It is critical that the management team investigate the changes or potential problem areas and determine if action is needed to correct an issue, then implement the changes and track the results.