Scorecards - The Foundation of Open Book Management

Ross Clark, DVM
Woodland West PetCare Centers
Tulsa, OK

Open book management will benefit all of your practice stake holders: pets, clients, team members and clients. For example, you can increase client satisfaction and improve pet health by tracking how many pet owners comply with your recommendations for pain relief, blood testing for senior pets or pre-anesthetic blood testing? Open book management can help you gather this valuable data and make sure you are having great client communication and therefore compliance while weekly meetings will automatically train your staff to be cognizant and follow up on compliance in their interaction with clients.

As many as one half of the pets visiting the practice for a non-medical procedure need some type of medical care. Team members who know this statistic and are trained to look for medical problems, can confidently and successfully recommend procedures to the client that are required to keep pets healthy and happy.

For example, a general practitioner may find it valuable to track missed charges, compliance with recommendations for dental care or phone shoppers that book appointments. Likewise, a specialty practice might track its top referring veterinarians or the top income-producing services. Whatever indicators you decide to track, the key to your success lies in your ability to involve your practice team. In his book "The Greatest Management Principal in the World", Dr. Michael Leuboff says:

- # One, Things that get rewarded get done
- # Two, Things that get measured get done

Remember, open book management is a team sport. Get your team members to help identify the components that help raise the bar of the key practice areas: patient care, client experience and the business. For example, tracking pre-anesthetic testing or breed- and age-specific conditions can help improve patient care, while tracking client wait time will encourage your team to be more client-sensitive.

I believe that tracking DVM and Staff hours per transaction is the very best way to increase the efficiency of your hospital. In the future just raising prices to cover up your inefficiencies may not be sustainable.

By having your team identify these key indicators, you'll automatically have their buy-in, which will ensure that everyone in your practice is tracking these important metrics. It's a win-win. The key is to start somewhere and add a metric each week.

Tracking client satisfaction

Continually measuring client satisfaction can make the difference between success and failure of your practice. The good news is there are several different methods for tracking client satisfaction.

In Good to Great, Jim Collins discusses measuring superior performance, distinctive impact and lasting endurance. Loyalty expert Fred Reichheld elaborates on a second method in The Ultimate Question. In this book, Reichheld shows companies how to raise profits and generate business growth by asking customers: "Would you recommend us to a friend or colleague?" The answer to this ultimate question manifests itself in the form of a Net Promoter Score, or NPS.

According to Reichheld, customers fall into three categories based on their answer to the ultimate question:

- Promoters are enthusiastically loyal, keep returning to a business and urge friends to do the same.
- Passives are satisfied but can be easily wooed by the competition.
- Detractors are unhappy customers trapped in a bad relationship.

Using the NPS, Reichheld demonstrates how long-term growth can be achieved by making customers love doing business with you, which will encourage them to tell other people about the positive experience. However, to be truly customer-centric, companies must use the NPS as a basis to drive all levels (from team members to owners) to focus on how to improve the entire customer experience.

To determine your NPS, calculate the percentage of Promoters who make up your client base and then subtract the percentage of Detractors. Not sure who your promoters are? Think about those clients who consider you the "best vet in town" and eagerly pass out your business cards at the local dog park. And, well, you know who the detractors are.

According to Reichheld, many businesses see their promoters barely outnumber their detractors and have a poor NPS. As a result, they can't deliver profitable, sustainable growth, no matter how aggressively they spend to acquire new business. However, you can avoid falling into this category by making sure you ask the question through a method that will ensure you receive reliable and actionable data so that you can improve your NPS.

One methodology is to post client surveys on your Website, another is to keep a log of the day's calls from prospective clients and find out where they learned of your practice. And a third is to call clients who visited the practice the previous day and inquire about their experiences. At Woodland West we have an automated system through E-Pet Records that automatically sends an easy list of questions about the quality of their visit via E-mail after random visits. Our survey has adjustable guidelines to protect against surveying clients too often. Vet Street also has a surveying tool. Whichever method you choose, Reichheld says it must be "simple and trustworthy" to provide accurate results.

For the best results in tracking client satisfaction, you should be asking: Who referred you? Why do you return to this practice? The answers will help you determine your bonding rate. Do not get too excited if your surveys are almost all very positive. After all we are interviewing clients that have come to our practice. It does not account for clients that got too many busy signals, were put on hold and never heard from your staff again as well as those that don't come in because they don't hear or see much about your practice.

Financial scorecards - Tracking and improving hospital financial performance

The EBITDs scorecard

The most basic principal of business or personal financial management is that you have income coming into the hospital, and expenses, which is money that goes out of the hospital. What is left is what some call net profit and modifications of net profit called OCF, Operating Cash Flow or (EBITDA) Earnings Before Interest, Taxes, Depreciation and Amortization. In other words, profit is the money left over after all expenses and EBITDA is the money left after all expenses except interest, taxes, depreciation and amortization.

If you calculate the cash taken in minus the expenses, this leaves our operation cash flow. From any OCF (EBITDA) above 20% of net revenue, we share 50% with all staff including owner and associate DVM's based on individual compensation. Someone that makes $1,000.00 per month will receive ½ half as much bonus as someone that makes $2,000.00 per month. The second 50% goes to the practice owners as additional return on investment to investors in our company, usually owner DVMs and sometimes senior staff members who may have phantom stock or even real stock in some practices. I must emphasize that EBITDA is not all profit. Owners must still pay interest, taxes, replace the depreciated equipment, repair buildings and save for expansion. New practitioners of Open Book Management may choose to share only 25% of EBITDA over 20% until you are more comfortable with the concept.

We strive to keep EBITDA above 20 percent so staff can receive a bonus. Good Open Book Management works hard to keep non-DVM labor cost to 20 percent, or below including benefits, and DVM labor cost to below 20 percent, including benefits, you will keep total compensation at or below 40 percent. If you can control direct expenses and indirect expenses and keep them at 18 percent each, then you have an EBITDA of 24 percent and a winning practice. Most practice owners share part of the EBITDA above 20 percent in some way. This is the reward to staff for being productive, cost conscious and efficient. Staff members are more likely to be satisfied with their salary when there are clear industry wide goals and standards to control labor cost which may result in a bonus.

Let's take a deeper look at practice finances and what makes up the OBM scorecard. There are three major categories of expenses: compensation, direct expenses (variable) and indirect expenses (fixed).

Compensation includes all expenses associated with labor such as salaries, continuing education, training, worker's compensation insurance and health insurance. This is the largest expense for any hospital and includes both DVM compensation and non-DVM compensation.

Compensation should be less than 40 percent of net revenue, roughly 18 percent or less for DVMs and 22 percent or less for non-DVM staffing. (This assumes that you have some boarding, grooming or product sales that are not paid to DVMs.)

There are four forms of DVM compensation: salary only, base salary or production whichever is greater plus team bonus, production only, and production only plus potential team bonus.

Although DVMs can be compensated in several ways, I have found that base salary or production whichever is greater plus bonus is far superior to the salary-based form of compensation in almost every aspect of the employer/employee relationship.

With production-based salary, veterinarians are compensated 20 percent of their medical revenue. So if they have medical revenue of $40,000 in a given month and they are compensated 20 percent of their medical revenue, they would receive a gross pay of $8,000. Twenty percent compensation of medical revenue is typical of new graduates, depending on how many assistants they have; however, there is some justification to pay 18 percent for first six months to help address the additional help and mentoring they require. Specialists, on the other hand, earn anywhere from 25-26 percent of gross production. Some board specialists who don't have a lot of assistants may receive around 30 percent compensation.

There are six factors other than production that measure fair associate compensation. One is the method of calculation, are you compensating the full 20% or zero for food sales? (10% is usual, and then only when tied to an exam or office call) Capitol investment (if your hospital has a CT scan, then 10% is appropriate for CT's; same with flea, tick and other super parasite preventatives (10%). Marketing cost, mix of services (outside lab versus inside lab) and non-revenue activity have a bearing on DVM compensation. A DVM that does lots of community services speaks to schools and other activities that bring in clients, then an additional ½% compensation might be in order. An employed DVM in a satellite clinic with only 1 assistant, no x-ray machine, and limited marketing may actually need to receive more than 20% of production, perhaps in the form of a base salary, because they have so few tools to work with.

Direct expenses (also variable expense) are expenses in which the dollars spent will vary in direct proportion to how busy we are. For instance, when we are busier, we spend more on drugs and supplies. Some call this ‘cost of goods’. Direct expense items include drugs/supplies, inside and outside laboratory cost, dead animal pickup, and diets, both RX and premium. Direct expenses must be less than 20 percent unless your hospital is more of a retail model then direct cost can soar to as much as 25 percent. However, labor cost must then drop to 35 percent to maintain EBITDA margins. If your hospital is more of a service model, labor cost could be acceptable at 45 percent if direct costs are maintained at 15 percent. Specialists and Emergency Clinics often are higher in labor costs and lower in direct costs.

Drugs/supplies, inside and outside lab and super products are usually the second largest expense behind labor. Super products are products such a Trifexis, Advantage, Interceptor and Frontline, which are expensive but have a lower profit margin than other medications. The use of super products varies by geographical location. For example, Florida uses more flea products than Colorado.

In order to control direct expense it is important to understand inventory control. Ideally, we order just enough products to last us for a month, so we can use it or sell it before we have to pay for it. If the inventory is overstocked, we have an expense without revenue which translates into lower EBITDA (Earning Before Interest, Taxes, Depreciation and Amortization). Also, if items are stolen or wasted, we have an expense without revenue – once again resulting in lower EBITDA and net income.

Indirect expenses (fixed) are expenses which stay about the same regardless of how busy we are. Rent, for example, stays the same whether we are busy or slow. Rent will be higher after building a new clinic. Sometimes as much as 15% of revenue the first few months after you move in. When clinics reach maximum efficiency, rent can be as low as 3%. So does accounting and legal fees, advertising, utilities, computer lease maintenance and repair, office expenses (supplies, dues, licenses, books, uniforms and postage), and property tax. We expect to keep these expenses under 20 percent as well. Although the expenses here are called fixed, we still have considerable control. Office supplies should be kept at 1% or less. Some possible reasons that office supply expenses are excessive would include pilferage of pens, pencils, paper and excessive copying of term papers and other personal items. We find many clinics have invested far too much into a copy machine. This is one place where a clinic is much better served to buy an economical copier at a discount office supply for a low one-time cost rather than lease an expensive copier for almost never ending monthly lease or payments. The claims that more expensive models save on ink cost are bogus in our experience.

We receive revenue or income by selling our services and products. This is not the same as cash. We can have great revenue but have severe “cash flow” problems if clients don’t pay their bills in a timely fashion, or we fail to control expenses.

There are only two ways to increase revenue; increase the number of transactions (more client visits = more transactions), and/or increase the number of dollars for each transaction.

One major way to increase the number of transactions is to offer a more comprehensive menu of services. At our hospitals we offer reproductive service (freezing and storing semen), grooming, boarding, pet training, laser surgery, care to birds and exotics, and expanded hours, as well as emergency services. In other words, we constantly offer new and improved services that clients want.

Growth is the life blood of any practice. Every year, many clients do not return to a practice due to moving (about 12 percent of families move each year), pet deaths, client death or any number of other reasons. If at least ten percent of transactions are not new clients, the client base is usually shrinking. Increased number of transactions (not increased Average Transaction Charge or Revenue)) is the only form of true growth. True growth, when handled efficiently, will almost always result in greater revenue and profit and contribute to the long-term health of a practice.

To increase the number of dollars for each transaction it is important to look at the (ATC) Average Transaction Charge (or ACT) Average Charge per Transaction, which is defined as the average number of dollars for each transaction. This includes everything; prescription refills, major surgeries, sales or diets, etc.

Each staff member needs to understand how they can impact the number of transactions. For example: A staff member provides exceptional service, thus the client returns for future services and refers a friend to us.

“In times of need everyone does everything they can,” says Karen Miller, Practice Manager at Woodland West Animal Hospital.

Staff members also must understand how they can impact ATC. Two examples of this would be remembering to charge for everything that is done, and giving hospital tours so that the client feels comfortable with our facility and is more likely to accept our recommendations for their pet.

One of the most important ways to increase the number of transactions is to measure and increase progress exams (re-checks). How many times have you told your clients? “If Rover isn’t better in five days, call me.” Or, “When Fluffy finishes her medicine, let me know if she isn’t better.”

Most veterinarians are guilty of using these phrases, at least once in a while but what many of us don’t realize is that when we do this, we’re doing our patients and our clients a grave injustice. How? By making the client the doctor, and thus delegating to him or her, our responsibility for evaluating their pet’s health. The results can be fatal, or at the very least, cost you the client’s trust.

“The main thing we need to do is be an advocate for the pet, take care of these animals the way we would take care of our own pets,” says Dr. Beka Heinz at Woodland West Animal Hospital.

Score cards that can help increase revenue

The first metric to help increase revenue is evaluating discounts and bad accounts. The typical profit for a veterinary practice is 6 percent to 20 percent. According to the National Commission on Veterinary Economic Issues (NCVEI), profits are more typically 4 percent to 8 percent after all expenses are paid including salaries and fair rent are paid to owner veterinarian and. This means it's even more important to determine whether it's a good idea to offer discounts. We try to keep discounts below 1% of total revenue and bad accounts (non-payment) below 1% of total revenue.

The second metric to help increase revenue is capturing charges. Medical record-driven invoicing is the best way to capture charges. Think about it, not charging a client for a $10 item can do significant damage to your bottom line, especially given the tight profit margin for a typical veterinary practice. In fact, you must produce $100 more revenue to make up the money lost. Or, said differently, you must see an extra client to make up the $10 that was given away.

However, linking profit centers to your invoicing system will automatically generate an itemized charge. Why not integrate your lab equipment to your billing software? That way, any test performed in your lab will be automatically charged to that client and you and your team won't have to remember to manually enter the charge.

The third and easiest, most efficient way to capture charges comes from the simplest task: prepping charts. Consider this scenario: Let's say you set aside a few minutes every morning to review the day's case load. Reviewing the patients' charts will help you see which of your medical recommendations the clients have followed and which they haven't. If, for example, Mrs. Smith didn't follow through on Bucky's dental prophy, you can flag that so that you and your hospital team will remember to remind her about the benefits of dental care.

What's more, prepping charts in advance will give your team time to gather client education materials and handouts to further educate Mrs. Smith about preventive care, such as dental health or senior wellness programs. This will increase your compliance, boost your bottom line by preventing missed charges and make your practice more efficient. Plus, Mrs. Smith will be reassured Bucky is receiving the best possible care from such a professional, capable veterinary team, further bonding her to your practice.

The fourth metric that can increase practice revenue is offering new or additional procedures or services. Some examples of new profit centers for your practice may be behavior classes, glaucoma testing or day care services. Whatever the service or procedure, be sure to track it.

The fifth metric is referrals. This is important to track whether yours is a typical daytime veterinary practice or a specialty center that relies on referrals. Do you know which your top 100 clients are? If not, you should, and so should every team member. Print them out for the last 12 months and review their names at the next Open Book Management meeting.

Most of you have heard Alfredo Parado's 80:20 rule — you get 80 percent of your income from the top 20 percent of your clients. While many practices focus on ensuring these top clients continue receiving the best care, many also neglect those in the middle. But; it's probably not safe to say you can forget the bottom 20 percent of clients — these are the folks who provide just the basics for their pets; however, their situations are always evolving, so hang in there with those, but avoid investing exceptional amounts of time trying to convert them. Extreme pressure on this type client will be frustrating for both your staff and the client. On the other hand that 60 percent in the middle could be a new source of revenue if you and your team just nurture them along and consistently apprise them about the benefits of preventive care.

Scorecards that decrease your costs

First, it is vital that your team members understand how they affect the practice's bottom line. Every team member has multiple opportunities every day to make a good impression on clients, inform them about proper pet care, strengthen the bond with the practice — and save on overhead. In fact, everyone in your practice should look at all practices areas to see where they can reduce waste and take responsibility for doing their part. For example, a ward attendant must understand and deliver the correct amount of food for each boarded pet to reduce waste and ensure proper care. Medical support teams should know that using an average of two catheters per animal is not acceptable. They should know when to ask for help if they can't properly insert them. And everyone should be aware of turning off lights in rooms that aren't in use.

There are four metrics to track that can help decrease costs at the practice

The first metric is client waiting time. NCVEI research found that the average client transaction is about 10 percent lower if the client spent more than 22 minutes in the waiting room. Believe it or not, this research found that those doctors making patients wait actually felt guilty and, therefore, didn't charge them for their full fees. In other cases, they rushed through the exams and either forgot to do procedures or forgot to charge for them. The moral of the story is to have internal processes in place that will facilitate time management and decrease costs. Massage your computer system to report check in time and check out times. Anything more than 45 minutes for most visits is unacceptable. 10 minutes in the reception area and 10 minutes in the exam room waiting for the tech and 15 minutes with the doctor is best. Where is your bottle neck?

The second metric is client follow-through on your medical recommendations. (Note: See the medical progress exam (re-check) scorecard in chapter four.) The goal for every veterinary practice should be getting clients to come through your doors more often, because every time a client visits is an opportunity to inform the pet owner and further bond him or her to your practice. Make sure you and your team is focusing on client education to increase compliance and assure the best in pet care.

The third metric is to give a written estimate but emphasize that there are many variables in any medical procedure, but that you will contact the client if there are additional expenses. Be sure to have means of immediate contact available.

The fourth metric is to carefully follow the direct cost on you profit and loss statement and keep that expense below 20% or analyze why costs are excessive. It may be necessary to raise fees if no other reason can be found.

Summary

Now that you've used open book management to track your revenue, it's important to take actions to improve those metrics and boost cash flow.

Recommend the very best protocol first. If there is an objection then give a range of costs, warning that your offer of reduced treatment or a less expensive procedure could result in less than optimum results. The situation can change during actual treatment of a pet, and clients are more likely to accept your charges if they were able to anticipate or plan for them. This also prevents lost charges when a client balks at the bill and you provide a "discount" to maintain customer satisfaction.

Always attempt to collect for a service at the time it is provided. The ideal situation is to get a deposit when the animal is admitted for the procedure, then collect the balance when discharging the pet. If clients are having problems paying, offer them a third-party payment or insurance option. This ensures you receive payment promptly without becoming a "bank" for clients.

Take good care of your existing clients while continually attracting new ones. American Animal Hospital Association studies show a national average of 303 new clients per year (25/month) per FTE veterinarian. How does your hospital perform on this metric? If you only have 10 new clients per veterinarian per month, that's a good indicator that you need to increase your marketing program, your teams telephone answering skills, paint or renew your identifying sign, or work harder on community awareness to maintain real practice growth.

Do you belong to community organizations such as Rotary, Lions, or Toastmasters? Are you and your associates active in your public or private school and church?

Jack Stack, author of "The Great Game of Business," the book that launched Open Book Management, always talks a lot about knowing your critical number. Our most critical number is usually EBITDA. If EBITDA is 20% or better, this usually means the company is profitable and functioning well. If your company is not close to 20% EBITDA, junior partners may not be able to make their purchase payments and interest for buying into a practice. In a beginning veterinary practice, the need is to have enough cash flow to stay viable, to keep from going broke.

In all practices it is important to balance growth with profits. Some practices squeeze expenses to gain profit margins (EBITDA) but fail to look at growth. A practice needs to strive for a minimum of 5% growth. If you keep producing 20% EBITDA and there is no growth, there is no increase in salary available. Also, your hospital will not be keeping up with inflation. So, at the end of the day, our critical numbers are growth, EBITDA and net income because growth without net income is also not a desirable outcome. All scorecards are important and the most critical numbers will vary depending on the life stage of your veterinary clinic or hospital.

Another way to measure practice health is to use the Clark Heat Index, which is simply a measurement of EBITDA % plus growth %. A practice with 20% EBITDA and 10% growth would most likely have a great practice and a Clark Heat Index of 30. Caveat. There must be at least some net profit and some EBITDA. A practice with 40% growth and 0% net profit and 7% EBITDA would have a great future but costs are way out of line.