DO BENCHMARKS MATTER IN POST-COVID BUSINESS DECISIONS?
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It seems that we have barely survived the pandemic when we are hit with more challenges – rising inflation, dissatisfaction with employee wages, evolving business models, and increasing client demands. Also on this list of challenges is the "elephant in the room" – veterinary fees. Many practice managers are wondering if fees should be increased at this time? Or is now the time to pay higher wages? The short answer - yes. The long answer – look before you leap, or in other words, review your key practice indicators (KPIs).

This rollercoaster of changes may make one think there is no point in monitoring metrics and to throw out any benchmark used in the past because times are so crazy! However, the truth of the matter is that benchmarks offer guidance and points of reference – enabling you to make a strategic decision versus a knee-jerk reaction.

When considering making changes such as giving raises or increasing fees, review your history – what year-on-year trends are important? Which trends provide insight into productivity, efficiency, and profitability? Don't ignore these numbers because they help keep the business out of the 'red' by providing alerts and reassurances. Once the internal benchmarking (comparing your numbers now to your numbers then) is assessed, external benchmarks (comparing your practice to other practices) can and should be used to evaluate areas for potential improvement and growth.

Let's consider staff wages. How competitive are your wages for hiring and retaining quality employees? Do you know what your competitors are paying (not just the other veterinary hospitals, but retailers and other businesses as well)? Are you monitoring the Consumer Price Index (CPI) trend for your area? What is the benchmark for non-veterinarian staff? The typical benchmark is 18-22% of gross fees (Your practice's percentage may be different). In today's economy, employee wage is a hot button, and, according to the Harvard Business Review, "avoiding paying higher wages in the post-COVID cycle will be a losing strategy."[1] So, should you pay higher wages? Short answer – yes. Long answer – look at a few KPIs as you develop your wage strategy. Don't simply implement pay increases and say what a good guy you are… only to find yourself in a serious predicament when you can't make payroll. Many factors go into making a good business decision, and employee pay is no different.

Wages as a percentage of fees (or revenue) means that you need to look at both sides of the coin - look at revenue and expense benchmarks. The first thing that most likely comes to mind is the fee schedule. Let's tackle this elephant right now – should fees be raised? (By now, you get the short answer/long answer idea). Fees need to be raised to support changes in wages and because of inflation's impact on profits. Costs are up. May 2021 inflation rate was 5%. Even though the Federal Reserve Chairman, Jerome Powell, said inflation is temporary and will subside, there have been and will continue to be inflationary impacts on your business.

Your practice may already be aware of inflationary impacts in your Costs of Goods (seen in the income to expense ratios and expense as a percentage of revenue benchmarks). Rising costs mean you need to increase some of your fees. Consider increasing fees 4-5% (although you may want to leave shopped fees where they are at for now). But don't stop there. Changing your fees is not the only way to increase revenue – there are additional strategies to consider.

Other metrics give insight into revenue production. Metrics such as efficiency indicators, client compliance, and stats on capturing all charges are just a few. In addition to metrics, client communication techniques affect revenue. Try using more direct recommendation language (e.g., rather than saying "you may want to think about it," say "let's get this scheduled") and watch client compliance improve. On the flip side of the coin, work on controlling costs. Review vendor fees (especially credit card processors, which are hitting 2.5% of revenue) and explore the benefits of purchasing groups. If overall wage changes are not the best decision right now, perhaps paying a COVID bonus as a thank you will work. Do not cut benefits, but do consider alternatives that attract and retain employees. Finally, explore changes to your business model.

The pandemic forced changes to the veterinary business model. For many, curbside service was the most common modification. For others, virtual care and telemedicine were implemented. It is important not to ignore these changes. For example, expanding hours may be off the table at this time, yet partnering with a virtual care platform is a strategic move that expands access to care and provides another revenue stream. Membership models are changing how the veterinary team provides care and communicates with clients – and is another way some businesses are reimagining the veterinary business model. Technology must now be a part of the strategic decision-making process…and yes, there should be new metrics to track technology's impact.

The goal is not to respond with a knee-jerk reaction to the latest news reports. Instead, establish a regular, timely review of key metrics to keep your finger on the pulse of your business. Then, when the time comes to give employees raises or increase fees, the action is strategic, and you can monitor the impact.

You must be strategic – because a decision not backed by data can be catastrophic. Look at the numbers – because benchmarks still matter. The goal is to make smart decisions that result in success – success in profitability, employee satisfaction and job performance, client engagement, and patient care. Now is the time to respond to the challenges.

Reference
[1] Who Will Win – and Lose – in the Post-Covid Economy? Carlsson-Szlezak, P., Swartz, P., and Reeves, M. Harvard Business Review. June 01, 2021.