

## HOW DOCTOR COMPENSATION AFFECTS PROFITABILITY

### MAY 2022

From what we have seen so far, the first four months of 2022 show practice revenue growing more slowly than in the past two years. But that's not a reason to panic! Gross fees from January through April 2022 have grown at a historically "normal" rate of approximately 5% over the prior year. While 5% is much lower than what we saw during the height of the pandemic, it suggests a return to pre-pandemic levels. That will be a relief to veterinary staff who have worked in overdrive for two years straight.

Veterinarians are still hard to find and command higher compensation and benefits than we have ever seen. (If you haven't reviewed your overall compensation plan, it may need an overhaul.) The shortage of veterinarians looking for new positions, the expansion of corporate veterinary practices, and the availability of corporate-level benefits have forced private practices to increase compensation packages for doctors. Experienced associates command good salaries and benefits, and new graduates are negotiating generous compensation packages of their own.

From a hospital's financial perspective, there is a limit to what you can afford to pay any employee, including doctors. For long-term profitability, a veterinary practice must control COGS and payroll costs while maintaining sufficient inventory and staffing to meet client demand. Our March 2022 newsletter discussed how to handle inflation so profits didn't suffer. Many of those recommendations apply any time costs increase.

So how can a veterinary hospital pay doctors more without corresponding decreases in profitability, cash flow, and value? Honestly, it's challenging to support the cost of paying doctors generously on an ongoing basis— unless the doctors are strong contributors to the practice. The primary way an associate supports the hospital is through fee generation.

There are some simple economics at play. A doctor's production must be sufficient to cover:

- the cost of the drugs and supplies used to provide care,
- their compensation and benefits,
- the cost of employing the technicians and assistants who work directly with their patients and clients, and
- a portion of overhead costs like client service staff, rent, and equipment replacement.

When you increase doctor pay, the doctor needs to be productive enough to justify that raise. For doctors on any form of production pay, price increases always increase doctor compensation. But what if your doctors want more money than your fee schedule supports? How can you pay more?

Begin by monitoring each doctor's production regularly – at least monthly. Show your doctors how to run on their own. Doctors should review these reports daily to verify they are correctly credited. Help associate doctors understand how their compensation is tied to their performance. Whether the hospital pays doctors on production or a flat salary, help your associates develop efficiencies and provide an environment for success. This point is critical. The entire practice benefits when its doctors are as productive as possible. Pets receive proper care, clients have shorter wait times, the doctor earns more money, and the hospital generates more revenue, which can be used to reinvest in equipment, education, or employee benefits.

In a companion animal practice, doctors are usually paid 20-21% of their production (more if few benefits are provided; less when generous benefits are offered). Even if your doctors are on salary, evaluate compensation relative to production. If a doctor is above 21%, talk to them sooner rather than later. Bring a willingness to listen to your associate about what they need. If they aren't getting through appointments quickly enough, work with them on increasing the pace. Are they using your veterinary nurses effectively? Making recommendations that follow the hospital's standards of care? Mentor your doctors so they have confidence in front of clients.

In addition to increasing the doctor's efficiency, what can the practice do to improve fee generation? Price increases top the list, but most hospitals have increased fees more than usual in the last few months. Clients may interpret additional increases as "money grabs" unless client service levels rise. Nurse appointments are a great way to increase revenue without adding more burden to your doctors. Work to minimize lost charges, control inventory, and increase staff efficiency.

Finally, doctors contribute to your practice in many ways besides fee generation, such as:

- covering extra shifts
- accommodating squeeze in appointments
- writing newsletters
- leading staff meetings or client training sessions
- participating in community activities, including parades, fairs, or local service groups like Rotary or Lions clubs.

While many of those activities don't result in immediate fee generation, they support the practice through increasing community awareness. Yes, that's part of the job, but don't overlook these activities when reviewing associate compensation.

We know some doctors are using the veterinarian shortage as justification for generous compensation increases. When a doctor demands an unreasonable increase, something that isn't tenable for the practice, say "no." The doctor is trying to take advantage of the situation, but they can't take advantage of you without your permission. You have options that won't crater profitability even in a tight labor market.