In examining veterinary performance and wages paid to veterinarians we need to first clarify what constitutes performance. No doubt each veterinary manager has a view on this. Many may say that performance is really profit whilst others may say that performance is represented by gross revenue. In reality performance will depend largely of what the practice goals are and measuring to see if we are achieving what we set out to do. For the purposes of this particular lecture I am going to adopt a fairly limited definition of performance in that it will represent ‘practice revenue’.

Performance based or straight salary based pay?

The MPV Business Index Survey shows that around 1/3 of practices pay veterinarians based directly on their performance. Even though 2/3 of veterinarians are paid on a salary basis it does not mean that the salary is not based on performance. As good practice managers we know that veterinarians are our main source of revenue and if they do not perform then the practice will struggle financially. This means that a practice manager should pay their veterinarians based on some form of performance.

The 5 to 1 Rule

The 5 to 1 rule that states that a veterinarian should generate revenue valued at 5 times the gross wages they are paid. This enigmatic rule seemed to have evolved in the 1980’s and it seems unclear as to where it came from. Even so it has been around for many years and generally has been accepted as a ‘general rule’ by which much management is measured. When talking to most veterinarian managers there is a general feeling that their practices do in fact achieve this 5 to 1 goal but the MPV Consulting Surveys tend to indicate that very few practices do in fact achieve a 5 : 1 ratio of revenue to wages.

The 5 to 1 rule in detail

When developing the MPV Surveys we found that there was considerable variability in the way practices calculated the wages paid to veterinarians and the revenue that they generated. Some examples of problems that we encountered are.
1. How do you account for cases that have several vets involved e.g. one admits another does the surgery. (Many do not record detail separately on PMS—means figures are inaccurate immediately)

2. Some included gst in their revenue calculations

3. Do you include repeat medication dispensed at reception and authorised by veterinarian but not technically work performed?

4. How do you record situations where a client has a consultation and then goes to reception and purchases additional merchandising product that was not actually on sold by veterinarian. Many practices just added these items to the existing invoice rather than creating a new one under another sales persons name.

5. Are merchandising items included as part of veterinary revenue or should this be limited to actual professional services and medications. (Raises questions about why we employ veterinarians.)

6. In salary side what is included?
   a. Many practices calculate the salary component as the agreed salary and not the actual salary. E.g. agreed on $60K as a salary so do calculation based on this. The reality was that end of year salary did not match due to:
      i. Salary sacrifice situations
      ii. Failure to include holiday loadings etc
      iii. Failure to include bonuses
      iv. Failure to include ‘salary creep’ i.e. paid $60K for 6 months and then had a salary change to $65K. They do calculation for year based on $65K rather than average for the period
   b. Superannuation should be included but many practices just worked out veterinarian wages and forgot about the super component.
   c. What about bonuses?

7. How do owner vets include their own performance?
   a. Owner vets generally have no performance basis at all for paying themselves. Usually they pay themselves according to taxation situations rather than ‘market rate’
   b. Owner vets often do the major surgery e.g. orthopaedics but let the revenue accrue to associates

These are just some examples of issues.

**Performance considerations**

For the 5 to 1 rule to be used effectively we need to consider:

1. What is revenue?
2. What are wages?
3. What else can go wrong?
4. What ratio suits our practice? (Perhaps not 5:1)
How does MPV Consulting determine performance:wages ratios?

In order to bypass many of the issues listed above and calculate a true performance ratio for a clinic and subsequently for the industry, MPV Surveys calculate by the following method:

1. Take gross veterinary related revenue for practice for financial year (i.e. don’t worry about who did the work). This excludes gst and includes veterinary service and medications but not merchandising sales or non-veterinary services e.g. boarding, grooming etc

2. Add income from group certificates for employed veterinarians only + add super + add fringe benefits

3. Ask owners to stipulate a ‘market rate’ salary for themselves for actually being a veterinarian

By calculating this way we have been able to produce a consistent and objective calculation for wages:revenue ratio

The result

Average Results in Profit & Expenses Survey 2010

<table>
<thead>
<tr>
<th>By Practice Type</th>
<th>2010</th>
<th>2009</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed</td>
<td>29.5%</td>
<td>28.3%</td>
<td>28.9%</td>
</tr>
<tr>
<td>Predominantly Equine</td>
<td>22.2%</td>
<td>NA</td>
<td>22.2%</td>
</tr>
<tr>
<td>Predominantly SA</td>
<td>28.3%</td>
<td>28.9%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Small Animal Only</td>
<td>23.2%</td>
<td>25.5%</td>
<td>24.4%</td>
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</table>

<table>
<thead>
<tr>
<th>By</th>
<th>Level of Performance</th>
<th>2010</th>
<th>2009</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>25.6%</td>
<td>26.5%</td>
<td>26.1%</td>
</tr>
<tr>
<td></td>
<td>Top 25%</td>
<td>19.8%</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bottom 25%</td>
<td>30.1%</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

Note: the above results are expressed as a percentage of wages:revenue ratio rather than revenue:wages multiple. This is actually an easier way to do accurate calculations for statistical purposes. This means that 5:1 ratio = 20%; 4:1 ratio = 25% etc

Conclusions

As you can see by the above table the average veterinary practice has a veterinarian productivity ratio of 26.1% which means that in Australia the average veterinarian is achieving a revenue : wages ratio of close to 4:1 rather than the much touted 5:1. This does not mean that the principles of the rule do not apply. In reality they apply very much too Australian veterinary practice – but what it does mean is that each practice needs to determine the ratio that is applicable to their clinic.

The lecture

will vary based on

- Type, size and location of practice
- High performing practices compared to not-so high performing
- Other management factors.

White, Rob, Evidence on veterinary practice performance and how it relates to veterinary packets
What about merchandising?

As a footnote to this exercise I thought I had better clarify some aspects of merchandising when calculating the performance ratio. I am aware that some would argue what should and should not be included. For MPV Surveys we have included all medications no matter if dispensed over the counter or dispensed within the consulting room but have excluded merchandising items. This was done partly because so many practices in our surveys do not have adequate systems for recording sales performed at reception separately from those performed within the consulting rooms. Often the reception staff simply adds additional sales at reception to the existing consultation invoices thus artificially inflating veterinary performance. This is however a statistically valid factor that needs to be considered from a profitability point of view.

Let's use dog food sales as an example: the MPV Fees Survey shows that the average mark up on dog food in the veterinary industry is close enough to 33.3%. This means that if I purchase a bag of dog food for $100 then I will sell that dog food for $133.30 with a gross profit of $33.30. As discovered above, the average veterinarian in Australia generated close to 25% (or 4:1). If I then pay my veterinarian 25% of the sale price of the bag of dog food then I will in fact pay that veterinarian $33.30. This of course means that the gross profit to the practice from the dog food sale is zero!

Consider the implications of this!
MPV CONSULTING STRUCTURE OF MANAGEMENT (SoM) FOR A VETERINARY PRACTICE

Items marked* are covered in at least one MPV Survey:
- MPV Fees Survey
- MPV Profit & Expenses Survey
- MPV Performance Survey
- MPV Wages & Salary Survey

The MPV Structure of Management (SoM) has been developed as a tool to identify the major areas of veterinary practice activity that require attention in developing a practice management strategy. It will identify the basic relationship that exists between all activities and demonstrates how ‘practice management’ is not a single dimension but is rather a ‘package’ of management activities that combine together to create a practice management strategy. The SoM will be referred to on numerous occasions throughout the lectures that I will be giving at the AVA Conference.

White, Rob, Evidence on veterinary practice performance and how it relates to veterinary packets