



Service Pricing Challenges

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Topics

- Pharmacy Revenue in Decline
- Pricing Challenges and What We Can Do About It
- Financial Tool overview
- Discussion

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the pharmacy revenue solution for your business

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- Overview of the Profit Solver product and how it can help you make informed decisions on Pricing
- One of the most difficult things to do is to try to figure out what to charge my clients that is fair based on my situation.
- So how do we do it today?
- Guess
- Use Benchmarks
- Call competitors in my area? Your costs are very different than your competitors so why should you base your pricing on what they charge?



WE'RE ON A MISSION...

...To partner with our customers
to create mutually beneficial growth
and profitability

This will be done by focusing on
the health of the patient
and the health of the practice
through Zoetis solutions and resources

THE PROBLEM

- Need for standard model for pricing services
- Increase in pressure on pharmacy profit from retailers
- Decrease in overall profit in veterinary hospitals
- Require a profit of ~15% for 3–5 years before a practice can sell for close to a year of gross sales
- Identify which services make money or lose money

THE SOLUTION

- Profit Solver is a **scientific** and **fair** way of covering costs
- Uses **your** cost data, not national or regional benchmarks, so recommendations are **practice-specific**
- Enabling you to make accurate and informed decisions on how to best manage **costs, pricing and new equipment** purchases

The Future of Pharmacy Sales

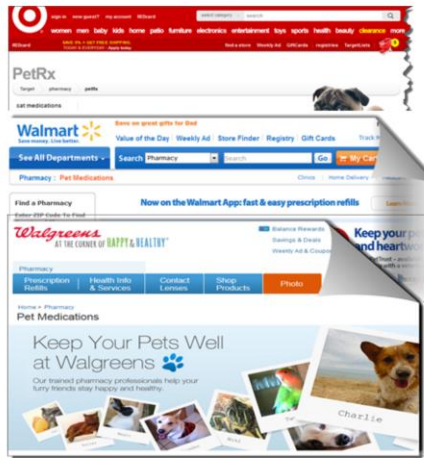
- The veterinary product sales market is rapidly changing
- Markup % in decline
- Inventory management procedures being exposed

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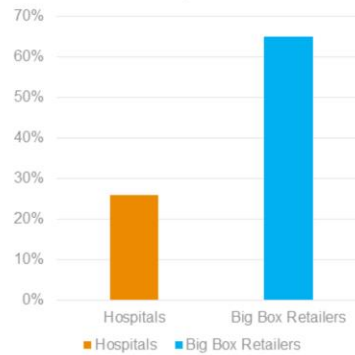
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- The veterinary product sales market is rapidly changing. In the midst of a challenging economy, veterinarians today are facing the challenges of increased internet competition, the expansion of veterinary products on super mart shelves and the highly advertised offering of low cost generics through human pharmacies. Failure in appropriately responding to these challenges has many veterinarians possessing a very inefficient inventory investment.
- Below are some of the more challenging issues in inventory management that, when not addressed properly, are leading to pharmacy sales effecting a decline, rather than a boost, in a practice profitability.
- Price Matching with the Competition
- Many owners feel it necessary to offer products at the same price that clients can purchase them on the internet. When an owner chooses to go this route, they need to do it with the understanding and awareness that they are matching prices with a company whose likely biggest costs are shipping and advertising. These companies do not have the costs associated with keeping a highly educated staff, providing health care services with specialized equipment and maintaining a hospital facility with patient record oversight. They receive and ship. That is it.

Reasons Pharmacy Revenue in Decline



Pharmacy Revenue



Reasons Pharmacy Revenue in Decline

- Clients Pre-conditioned
- Other Retailers want a slice
- Fairness to Pet Owners Act - **Introduced in House 02/10/2014**

Fairness to Pet Owners Act of 2014 - rules relating to veterinary prescriptions that: (1) require the prescriber of an animal drug to provide a copy of the prescription to the pet owner before offering to fill it or dispensing it and, upon request, to a pharmacy or any other person designated to act on behalf of the pet owner;

- **Introduced in House (02/10/2014)**
- Fairness to Pet Owners Act of 2014 - Requires the Federal Trade Commission (FTC) to promulgate rules relating to veterinary prescriptions that: (1) require the prescriber of an animal drug to provide a copy of the prescription to the pet owner before offering to fill it or dispensing it and, upon request, to a pharmacy or any other person designated to act on behalf of the pet owner; (2) prohibit such a prescriber from requiring, as a condition for providing a copy of such prescription, purchase of the drug from the prescriber or another person, a payment as part of or in addition to the examination fee, or the signing by or delivery to the pet owner of a notice waiving or disclaiming liability of the prescriber for the accuracy of the prescription; and (3) permit the prescriber to require payment of fees for an examination before providing a prescription, but only if the prescriber requires immediate payment in the case of an examination that reveals no requirement for an animal drug.
- Defines "veterinary prescription" to exclude an animal drug administered by the veterinarian in the course of providing acute care.
- Makes this Act applicable only to medication for a domesticated household animal that the federal government prevents consumers from purchasing without a prescription.
- Requires a violation of this Act to be treated as a an unfair or deceptive act or practice under the Federal Trade Commission Act.

Do I keep my Pharmacy?

- Yes
- What can I do if my Pharmacy Revenue declines?
- Focus - pricing of your services

Increase Profit in 2 Ways

- Expense Control
 - Use Benchmarks
- Create More Revenue
 - More Volume (Capacity & Marketing)
 - Pricing (Fee & Value)
 - New Products / Services (Profit Centers)

Financial Tools to Assist with Pricing Challenges

- How to approach Fee Increases more objectively
- How to incorporate existing and new equipment into fees
- How do we handle product price increases
 - We are good at increasing prices on noticeable cost increases
 - What about subtle cost increases to us
 - Pill vials
 - Syringes
 - Applicators
 - Reconstituting fluids ect

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- Many practice owners are pretty good at increasing a product's price when they notice the unit cost has gone up (which we hope is noticed right away and not a month or two later) But what about the more subtle increases in cost of pill vials, syringes, applicators, reconstituting fluids, etc.? These are small items but used frequently and should be reflected in the services that you perform each day.
- How do you account for the increase in these foundational pharmacy costs?

WHAT CAN A FINANCIAL TOOL DO FOR ME?

Problem	Benefit
<ul style="list-style-type: none"> • Most veterinarians don't track profit centers, so don't know what is profitable and what isn't • Currently there is an over-reliance on revenue from dispensing • Many veterinary fees are arbitrary and may or may not be profitable for a hospital • Veterinarians are eager for pricing assistance, especially if defensible 	<ul style="list-style-type: none"> • Identify where to increase profit • Recognize inventory as a source of income • Evaluate ability to purchase equipment

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- Veterinarians are eager for pricing assistance, especially if defensible
 - We have been using outside resources to determine our fees or making educated guesses. What our customers appreciate about the Profit Solver program is that they now have a program that can tell them what it costs to deliver their services and so now they have confidence in the exam rooms. Now you will have confidence in the pricing strategy you set in your practice.
 - One of The huge advantages of Profit Solver is that it takes the emotion out of the decision. For many veterinarians you are looking at that client across the table and not only do they have a significant amount of emotion but they want to put that back on you and they would love to make you feel guilty or uncomfortable about your prices.
 - So if you don't know where those prices came from then for many of us guilt and discomfort come very quickly if you cant defend that price to yourself or to anyone else.
 - I find the vast majority of doctors that I talk with have the exact same concern and are looking for that relief from the emotional stress of handing that estimate over.
 - The level of comfort that you have comes through in the body language, in tone and emotional level that you are comfortable with it and the clients pick up on that. It may be very subtle but it is very important.
 - Clients will read you like a book and can tell immediately if you are shifting from foot to foot because you are not 100% comfortable with your pricing
- What Profit Solver brings to the table is buy in from your staff on your pricing strategy and their understanding of what goes into the pricing – They are the ones who often input our medical histories and are invoicing our clients and if they don't have confidence in our pricing strategy then they are liable to give the service away or discount the service so this is a very important tool to give them confidence to talk about the pricing.
- In many practices it is the staff members who present all or a majority of estimates to the clients so for them to have that emotional comfort in presenting it is critical.
- We have a Rational, Objective Approach to Pricing

HOW DOES IT WORK?

- Profit Solver is neither management nor accounting software
- It is a patented, **scientific financial tool** that uses:
 - Practice's labor rates
 - Overhead costs
 - Materials and inventory costs for specific services
 - Correlated with validated **time-in-motion** studies
- **Turn Key Solution**

The Use of Time and Motion Studies

Key Component of the Process

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- One of the key elements of our program is our time and motion studies which is included in the Profit Solver software application

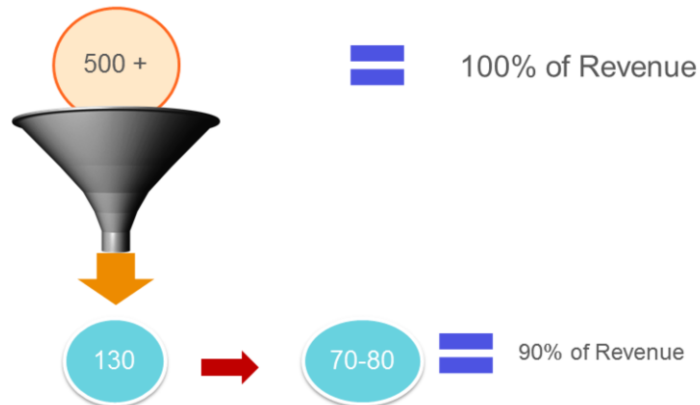
Time & Motion Studies

Purpose and Value



- Time study measures how long it takes an average worker to complete a task at a normal pace
- Who's involved in the task
- Used to apply a billable rate per minute

What Services Do You Focus On



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- Performed 568 time and motion studies for services within this industry
- Through extensive analysis, we created a subset of those 568 services resulting in approximately 80 services that make up 90% of your revenue.
- These 80 services are performed more frequently on a daily basis as opposed to services performed less than a dozen times a year (ie. a pyometra surgery) - You could quadruple that fee and it would have very little effect on your bottom line

Financial Tool Demonstration

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- Profit Solver Demo
- Short version of in-clinic presentation

Sample Service Price Adjustment Report

Service Name	Total Quantity	Total Revenue	Current Price	Ideal Price Based on Profit Target	Price Difference	Price Adjustment	Total Difference
Blood Chem: Organ Profile	120	\$8,695.31	\$92.97	\$72.46	\$20.51		\$2,461.09
Blood Chem: Pre Surgical	355	\$21,460.05	\$47.26	\$60.45	(\$13.19)		(\$4,682.75)
Blood Draw	3316	\$33,156.08	\$12.00	\$10.00	\$2.00		\$6,635.92
Blood Glucose Single Test	528	\$9,853.35	\$23.50	\$18.66	\$4.84		\$2,554.65
Board per night - Dog Medium	3300	\$63,046.72	\$12.00	\$19.11	(\$7.11)		(\$23,446.72)
Catheter: IV	408	\$15,100.46	\$78.00	\$37.01	\$40.99		\$16,723.54
CBC	912	\$34,219.47	\$39.23	\$37.52	\$1.71		\$1,558.29
Chem 17	528	\$50,259.55	\$98.00	\$71.89	\$26.11		\$13,783.97
Dental: Canine (Grade 2)	187	\$59,713.42	\$225.00	\$321.65	(\$96.65)		(\$18,073.40)
Derm: Major (Clip, Scrub, Clean)	870	\$39,450.10	\$25.05	\$45.34	(\$20.29)		(\$17,656.60)
Ear Trmt: Flush BiLateral	1056	\$36,795.20	\$26.48	\$34.84	(\$8.36)		(\$8,832.32)
Euthanasia: Dog Medium	60	\$2,550.21	\$89.39	\$42.50	\$46.89		\$2,813.19
Euthanasia: Dog Small	109	\$4,483.33	\$69.40	\$41.13	\$28.27		\$3,081.27
Exam - Annual Physical	4397	\$218,848.83	\$56.00	\$85.09	(\$29.09)		(\$127,910.70)
Extractions: Carnassial (3 root)	30	\$4,467.78	\$81.95	\$148.93	(\$66.98)		(\$2,009.28)
Fecal Float	230	\$4,673.80	\$25.00	\$20.32	\$4.68		\$1,076.20
Fecal Smear and Stain	320	\$14,686.69	\$25.75	\$45.90	(\$20.15)		(\$6,446.69)
FELV / FIV Test	120	\$5,468.15	\$65.24	\$45.57	\$19.67		\$2,360.65
Fluid Admin: SQ 250 ml	409	\$8,020.51	\$53.83	\$19.61	\$34.22		\$13,995.96
Heartworm Test K9 4DX	1156	\$40,730.82	\$43.44	\$35.23	\$8.21		\$9,485.82
Injection Doc/Asst	519	\$8,411.72	\$20.25	\$16.21	\$4.04		\$2,098.03
Urinalysis: Collect and Diag	834	\$33,310.31	\$30.46	\$39.94	(\$9.48)		(\$7,906.67)
X-Ray 2 views digital + Interp	540	\$51,518.20	\$105.00	\$73.75	\$31.25		\$16,877.18
Target Profit Goal Difference							(\$121,459.37)

- This is the report that you will receive after our implementation of Profit Solver. This report will provide you with the profit and loss of each service that we review. This report has been used as the basis for pricing strategy sessions for many practices.

Your Information Used in the Process

- Profit & Loss / Income statement for the last 12 months
- Doctor production for the last 12 months
- Annual payroll (wages and benefits) We assist you in entering your via conference call
- A common services and inventory form filled in with quantity & price

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an all-in-one practice software for your business

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- We have to prepare the software by entering your information into the system. Once we have your information entered then the reports and pricing strategies can follow.

What Is Your Profit Goal?

Profit Solver Profit & Loss Statement		
	Total	%
Revenue	\$2,176,037.61	100.00
COGS	\$512,413.72	23.55
Gross Margin	\$1,663,623.89	76.45
Billable Labor	\$794,883.29	36.53
Non-billable Labor	\$374,074.71	17.19
Overhead	\$417,660.81	19.19
Profit	\$77,005.08	3.54
Profit % / Revenue		
Desired labor profit	15.00	

- after we receive your p&l data we will ask you a very important question – “what is your targeted profit goal for your hospital?” We can help any practice at any profit level.
- This particular hospital came to us with a profit of 3.54% profit and this is true profit so this is the profit that’s left over after everyone’s paid including the owners. So it is really is true profit or excess earnings or the amount of money available to new investor to pay off their debt to you when you sell your hospital. They are at 3.54% OUR average that we are seeing is between 4% and 7% across the US.
- What we target is 15% of profit initially but this number can be anything based on the hospitals needs...as we have targeted lower for hospital that come to us with negative profitability and it can be targeted higher for hospitals that are already at 15 or 20% profitable.

Breaking the P & L Apart

3 Independent Profit Centers

Profit & Loss Statement

Our patent:



1 2 3

Profit centers Save Cancel

	Total	%	Labor	%	Inventory	Equipment	%
Revenue	\$2,176,037.61	100.00	\$1,650,285.00	100.00	\$525,752.61	\$0.00	0.00
COGS	\$512,413.72	23.55			\$512,413.72	\$0.00	0.00
Gross Margin	\$1,663,623.89	76.45	\$1,650,285.00	100.00	\$13,338.89	\$0.00	0.00
Billable Labor	\$794,883.29	36.53	\$794,883.29	48.17			
Non-billable Labor	\$374,074.71	17.19	\$374,074.71	22.67			
Overhead	\$417,660.81	19.19	\$417,660.81	25.31			
Profit	\$77,005.08	3.54	\$63,666.19	3.86	\$13,338.89	\$0.00	0.00
Profit % / Revenue			2.93		0.61	0.00	
Desired labor profit	15.00						

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- The first thing I will point out is that our process is patented. One of the keys of the patent was to separate labor from inventory.
- . Once we get the profit loss statement we will dissect it and separate it out into 3 profit centers Labor, Inventory and Equipment. But most importantly, we want to make the labor and inventory category pure . We do this by isolating any charges associated with Labor and placing it in the labor category.

Labor Category

1

Profit centers

Save

Cancel

	Total	%	Labor	%
Revenue	\$2,176,037.61	100.00	\$1,650,285.00	100.00
COGS	\$512,413.72	23.55		
Gross Margin	\$1,663,623.89	76.45	\$1,650,285.00	100.00
Billable Labor	\$794,883.29	36.53	\$794,883.29	48.17
Non-billable Labor	\$374,074.71	17.19	\$374,074.71	22.67
Overhead	\$417,660.81	19.19	\$417,660.81	25.31
Profit	\$77,005.08	3.54	\$63,666.19	3.86
Profit % / Revenue			2.93	
Desired labor profit	15.00			

Salaries
+ Payroll Taxes

Dues

Membership
Licenses

CE Costs

Uniforms/Allowance

Medical, Dental, WC

Liability Insurance

Pet Discounts

Billable Vs Non Billable Employees

Profit centers		
	Save	Cancel
	Labor	%
Revenue	\$1,650,285.00	100.00
COGS		
Gross Margin	\$1,650,285.00	100.00
Billable Labor	\$794,883.29	48.17
Non-billable Labor	\$374,074.71	22.67
Overhead	\$417,660.81	25.31
Profit	\$63,666.19	3.86
Profit % / Revenue	2.93	
Desired labor profit		

Billable Employee's Financial Responsibility to Bring in Enough Revenue to Cover Expenses:

- Billable Labor
- Non-Billable Labor
- Overhead
- Profit

Inventory Category

2

Profit centers		
	Total	%
Revenue	\$2,176,037.61	100.00
COGS	\$512,413.72	23.55
Gross Margin	\$1,663,623.89	76.45
Billable Labor	\$794,883.29	36.53
Non-billable Labor	\$374,074.71	17.19
Overhead	\$417,660.81	19.19
Profit	\$77,005.08	3.54
Profit % / Revenue		
Desired labor profit	15.00	

Save

Cancel

Inventory

\$525,752.61

\$512,413.72

\$13,338.89

\$13,338.89

0.61

Cost of Goods Sold / Inventory

+

Outside Services

Idexx

Antech

Marshfield Labs

Phoenix Labs

IMPORTANT POINT

Inventory then only have to cover itself.

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- cost of goods sold is made up of inventory and outside services. The outside service would be antech ,IDEXX. Marshfield lab or Phoenix lab as well as any specialist that you bring in. Radiologist or surgeon to do a specific surgery. These individuals would then send you invoice and you would track that back to the client apply a mark up and bill them for it
- **IMPORTANT POINT** - Inventory then only have to cover itself. So we are not going to rely on it to be your primary profit center so we are not going to rely on inventory markup of pharmaceutical mark up to cover costs.
-
- so when you're asked or forced - to give up some of our pharmaceutical revenuewe will now be in a position to price inventory competitively because it now it only has to cover itself. So NOW you can put a competitive markup on that because labor is going to be your primary profit center and hopefully keep your pharmaceutical sales in house.

Equipment Category

3

Profit centers

Save

Cancel

	Total	%
Revenue	\$2,176,037.61	100.00
COGS	\$512,413.72	23.55
Gross Margin	\$1,663,623.89	76.45
Billable Labor	\$794,883.29	36.53
Non-billable Labor	\$374,074.71	17.19
Overhead	\$417,660.81	19.19
Profit	\$77,005.08	3.54
Profit % / Revenue		
Desired labor profit	15.00	

Equipment	%
\$0.00	0.00
\$0.00	0.00
\$0.00	0.00
\$0.00	0.00
0.00	

How Do You Include
Your Equipment Costs
in Your Service Fee?

Now we have a defined
way for you build the
cost of your equipment
PLUS maintenance and
supplies into every
service with our
Equipment Module

Price Adjustment Worksheet (PAW)

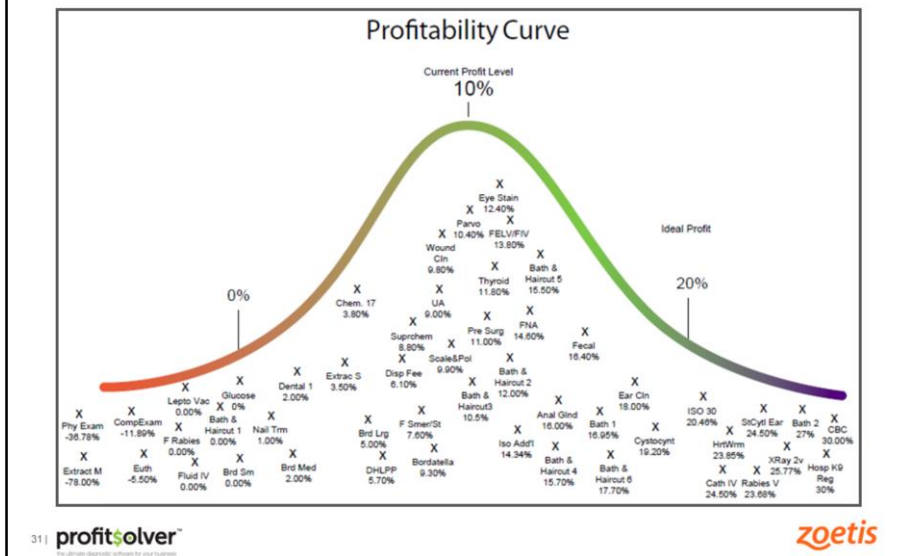
Revenue For 12 months Ended 12-31-13				\$	1,417,991	Profit %		Services Reviewed		109
Current Profit				\$	172,994	12.20%		Tweaks Made		49
Profit Goal				\$	283,598	20.00%		Average Adjustment Amount		\$ 2.18
Profit Needed to Achieve Goal				\$	110,605	7.80%		Value Added X 4		\$ 481,404
Years to Achieve Goal					2			Value Added X 6		\$ 722,106
Profit Goal - Year 1				\$	55,302					
Profit Goal Obtained - Actual				\$	120,351					
Services Reviewed					109					
Tweaks Made					49					
Average Adjustment Amount				\$	2.18					
Value Added X 4				\$	481,404					
Value Added X 6				\$	722,106					

Service Name	Service Code	Performed	Billed	Revenue	Price		Variance		Tweaked by	New Price	1st Yr Add'l
					Current	Ideal	Unit	Total			
Abaxis-Histopath: 2 samples	541	20	20	\$2,300.00	\$115.00	\$101.99		\$260.29		115.00	-
ALPC-Cortisol: Acth (Alpc) <30#	141	22	22	\$2,057.22	\$93.51	\$70.09		\$515.22		93.51	-
ALPC-Histopath: <2 Tissues	4168	92	92	\$6,440.00	\$70.00	\$71.57		(\$1.57)		(\$144.58)	
ALPC-Thyroid T4 test	420	41	41	\$1,312.00	\$32.00	\$53.15		(\$21.15)		(\$867.15)	
ALPC- Thyroid/THS and T4	72	13	13	\$686.53	\$52.81	\$66.97		(\$14.16)		(\$184.09)	
Anes: Reversal	503	129	129	\$6,563.52	\$50.88	\$19.03		\$31.85		\$4,109.12	
Anesthesia: Local	502	52	52	\$1,315.60	\$25.30	\$14.86		\$10.44		\$542.65	
Bandage Application <25#	250	13	13	\$253.89	\$19.53	\$25.22		(\$5.69)		(\$73.95)	
Bath/Blowdry <25#	BBS	62	62	\$1,085.00	\$17.50	\$19.10		(\$1.60)		(\$98.97)	
Bath/Blowdry 26-50#	BBM	62	62	\$1,085.00	\$17.50	\$21.60		(\$4.10)		(\$253.99)	
Bath/Blowdry 51-75#	BBL	39	39	\$838.50	\$21.50	\$24.10		(\$2.60)		(\$101.28)	
Bath/Blowdry >75	BBG	27	27	\$722.25	\$26.75	\$29.10		(\$2.35)		(\$63.38)	
Boarding: <25#	650	1078	1078	\$14,887.18	\$13.81	\$18.80		(\$4.99)		(\$5,380.77)	
Boarding 26-49#	651	473	473	\$6,820.66	\$14.42	\$18.80		(\$4.38)		(\$2,072.42)	

- 'The power of this information, pulling the levers of your business.
- Control your business versus it controlling you

THE PROFITABILITY CURVE

What services are your most profitable?



- 3 key areas reviewed
 - Labor (billable and non-billable)
 - Inventory
 - Equipment
- We see on average a profit of 3.5 – 4%
- We target a profit of 15% (some higher, some lower depending on practice and current profitability)
- Profit Solver will review those services most commonly performed, approx. 60-80
- Profit Solver will show the exact profit level in **each service fee** you charge
- The Bell curve shows how you form and create your profit
- You will know where competitive prices are, which services offset them, and which services don't
- It is a **powerful** management tool to inform associates and staff of costs for services to reduce discounting or not charging for services

Practice Discussions

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- Profit Solver Demo