Learning Objectives

After completing this module, the benefits you realize should include:

- Describing sources of revenue in your practice.
- Understanding the difference between active income and passive income.
- Examples of veterinary products and services that generate passive income.
- Appreciating how Hill's® Science Diet® and Prescription Diet® pet food products can be a substantial part of your practice's passive income and revenue stream.
- Recognizing how delegation is important in generating passive income.
- Promoting the importance of passive income to overall practice productivity.
Introduction

As discussed in VNA Level III, Module 1 - Business Realities, a veterinary practice for the most part, is a fixed-cost business. Therefore, the greatest opportunity to increase profits is to increase gross income, (revenue).

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\text{Profit (Net Income)} = \text{Gross Income (Revenue)} - \text{Expenses (Fixed portion ~70-80%)}
\]

Then, in VNA Level III, Module 2 - Revenue Sources, you learned the two components of Gross Income: The Average Charge per Transaction (ACT) and The Number of Transactions.

\[
\text{Gross Income} = \text{Average Charge per Transaction (ACT)} \times \text{Number of Transactions (NT)}
\]

In addition recall two factors that can significantly impact the Number of Transactions: Leverage of, and delegation to, a confident and competent veterinary health care team.

\[
\text{Gross Income} = \text{ACT} \times \text{NT} \text{ (leverage and delegation)}
\]

This module explores the how the veterinary health care team can enhance pet care AND practice productivity through the generation of passive income.
Two Types of Revenue

For purposes of this module, income sources, (revenue) in a veterinary practice can be broadly classified into two categories: Active income and Passive income.

**Active income** is income that can only be generated by a veterinarian, with the veterinarian’s direct, full-time involvement.

Examples of veterinary services provided in your practice that require the doctor’s direct, full-time involvement include:

- Examining the pet
- Diagnosing
- Prescribing and initiating treatment
- Performing surgery
- Certain client consultation activities
Two Types of Revenue

In veterinary medicine, it’s critically important that doctors maximize their time and talent by generating income that only they, AS VETERINARIANS can generate—active income. These are the high-value, highly remunerative activities which require a license to practice veterinary medicine.

Many revenue producing products and services in a veterinary practice however, DO NOT require the veterinarian’s direct, full-time involvement. On average, the active income items listed above account for around one-half of the gross income in a typical small animal practice.

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\text{Profit} = \text{Gross Income (} \sim 50\% \text{ "Active" and } \sim 50\% \text{ "Passive") - Expenses}
\]
Two Types of Revenue

Passive income is income that can be produced without the veterinarian’s direct, full-time involvement. Practice income generated by members of the health care team is termed passive, but in no way is to be construed as condescending or as having little importance. Quite the contrary! Passive income is VERY important to the health of a practice, and can be generated though both services and products.

Examples of veterinary practice services that generate passive income include:

- Dental cleanings
- Radiographic procedures
- Lab work (including fecal tests, heartworm tests, CBC’s, biochemical profiles, and urine tests)
- Nail trims
- Ear cleanings
- Anal sac expressions
- Suture removals
- Bandage changes
- Boarding and pet day care
- Grooming
- New puppy/kitten programs
- Pet adoption programs
- Behavioral programs
- Senior pet programs
- Obesity and weight management programs…

Income produced by the veterinary health care team should be a substantial part of enhanced pet care and practice productivity.
Two Types of Revenue

Although the veterinarian may have some involvement in the delivery of these services, the veterinarian need not be involved on a direct, full-time basis. The doctor might be in an exam room or the surgical suite generating active income, (supported by health care team members) while these, (passive) services are performed. For example, assume the veterinarian requests radiographs. Members of the veterinary health care team should be trained and capable of taking and developing radiographs, which constitutes the bulk of the time and effort involved in this scenario, while the veterinarian is conducting other business. The veterinarian then interprets the radiographs, potentially making a diagnosis and/or recommending next steps. Both processes, however, are vital to an accurate diagnosis - that is, good films to read and competent interpretation of those films. Importantly, in this scenario, each party is assuming an appropriate role. Specifically, members of the veterinary health care team are performing tasks for which they have adequate training and experience (taking and developing radiographs), and the veterinarian is performing tasks for which he or she is qualified to do, (requesting and interpreting the radiographs).
Two Types of Revenue

Of course, there will be times when a veterinarian may have to assist with certain procedures. But if this becomes routine practice protocol because of managerial inadequacies, it may reflect in poor veterinarian productivity, possibly less-than-optimal pet and client care and lower compensation for all employees.

Next, let’s consider veterinary practice products. Examples of products that generate passive income include:

- Hill’s® Science Diet® and Prescription Diet® pet food products
- Heartworm prevention products
- Flea control and prevention products
- Pain management products
- Shampoos and other skin and coat products
- Miscellaneous pet supplies
Two Types of Revenue

Note that each veterinary service and product listed above can generate passive income from a competent and confident veterinary health care team. With active and passive income, increasing one often allows you to increase the other. For example, if a veterinarian delegates routine dental cleanings to a veterinary technician, (increase in passive income), the veterinarian has the ability to see more patients in the exam room – thus generating more active income. Look around your practice- there are many services and products provided in your practice that produce passive income. Enhance ways to increase this important area of revenue. An obvious way, is of course, being an advocate for the pet’s best nutritional interest.

Generating active income and producing passive income are not mutually exclusive. In fact, they are extremely synergistic, often occurring simultaneously.
Veterinarians and Passive Income

A significant economic problem can exist in practices where veterinarians spend too much time producing passive income, (when they could be producing active income). What are the tasks or activities in your practice currently performed by a veterinarian, but which could be delegated to other members of the veterinary health care team? Consider organizing a team meeting to “brainstorm” lists of products and procedures that could (should) be performed by non-veterinary support personnel. Alternatively, for one week, have each member of the veterinary health care team pay close attention to the activities of the doctors. Note all the things done by a veterinarian that could have been done by a health care team member. Share your lists with one-another and with the veterinarians, the goal being to identify ways to shift those activities to the support team.

If training and on-going skill set development/continuing education for health care team members is part of a practice’s culture, veterinarians should “unleash” the talents of competent support personnel. Also, many team members thrive on opportunities to utilize their skills and abilities to enhance pet care and improve practice productivity.
Why is Passive Income Important?

Why is passive income critically important to the success of your practice? Because in a veterinary practice, the veterinarian’s time is usually the most constraining factor - the most limited, finite, and scarce resource. Veterinarians have only so much time in a workday to generate income- be it active or passive. So there exists a “cap,” or physical limitation in terms of how much total income a veterinarian can generate. Active income should then be the focus of the veterinarian’s time and talents, with passive income being delegated to other members of the health care team. Appropriate analogies to the doctor’s time would be an airplane seat or a hotel room. Once an airplane leaves the runway, the airline has permanently lost the ability to sell any open seats. Similarly, if a hotel fails to book a room tonight, they have permanently lost the ability to receive revenue from that room occupancy. So, dramatic increases in practice income are a function of how well the practice is positioned to generate active (doctors) and passive (non-doctors) income.

As an example, assume a veterinarian practices alone and subsequently adds two technicians. He or she has effectively tripled the number of hours per day (capacity) available to generate income. This is broken down into active (what the doctor is directly involved with) and passive (what the two technicians are able to generate working in concert with and under the supervision of the doctor). Of course, the objective is to not only in have the capacity, but to also use it effectively, (doing things right) and efficiently, (doing the right things).
Delegation

The principle of having people undertake tasks or activities for which they are adequately trained and experienced is called delegation. Delegation can produce substantial passive income - which allows, at the same time, the veterinarian the ability to produce active income. If a doctor is unable or unwilling to delegate to others, very little active income can be produced (because the doctor’s day is spent producing passive income).
Veterinarians should delegate to members of the veterinary health care team everything not specifically required by a veterinarian. Then, it is more probable that veterinarians and other health care team members can be more highly compensated.

If veterinarians are able and willing to delegate, veterinarians, other health care team members and the pets and people they serve all benefit!
Other Professions

Recall your last visit to the dentist for routine care. How much time did you spend with the dental hygienist? How much time did you spend with the dentist? Most likely, the majority of your time was spent with the hygienist. The hygienist probably conducted an oral exam, assessed each tooth and gingiva, cleaned your teeth, applied fluoride, and perhaps took some radiographs. THEN, the dentist reviewed the hygienist’s findings, examined specific areas and interpreted the radiographs. Again, each member of the dental health care team assumed an appropriate role - each doing what he or she was specifically trained to do.

Similarly, recall your last visit to the optometrist for routine eye care. If your visit involved glasses or contact lenses, you probably spent a fair amount of time with the optician.

The economic or financial consequences of delegation are considerable. Imagine how many more patients a dentist or optometrist can see each day by appropriately delegating to members of his or her health care team. If the dentist performed tasks typically assumed by the hygienist, could he or she see as many patients? If the optometrist “fitted” each set of eyeglasses, could he or she see as many patients? Of course not. These professionals have found that by effectively delegating to members of their health care team, they can focus on the more complex - and the more remunerative - tasks and activities.
The Bottom Line

What does passive income mean for your practice? Most importantly—better pet care. By delegating, veterinarians can see more pets more often. And if knowledgeable health care team members are more accessible, clients will likely feel more comfortable asking questions, which enhances overall pet care and compliance. From a business perspective, successfully generating more passive income can, for example be utilized for:

• Higher veterinarian income (practice owners and associate doctors)
• Higher compensation for members of the veterinary health care team. The benefits of paying higher, more competitive salaries include attracting and retaining top employees, less turnover (which leads to stronger and deeper client relationships), less investment in continuously training new-hires, etc.
• Purchasing state-of-the-art medical equipment
• Purchasing new computer hardware or software
• Renovating or remodeling the practice
• C.E. and skill set development
• Supporting various community projects…
Summary

Dramatic increases in practice income are a function of how well the practice is positioned to generate active and passive income. In a practice with a “pet-centered” philosophy, the veterinary health care team will be an integral part of practice productivity. And as the team becomes a more cohesive, pets and their owners reap the benefits of better care. Effective use of the time and talents of veterinary health care team members cannot be overemphasized. Promote the “power of passive income!”

Are you ready?

To continue, you will need to complete the quiz for this module. When you are ready, click on the forward arrow below to take you to the quiz.