



## **Product Sales, Profitability and Practice Value. Is there a connection?**

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Most practices find that product and supplies costs often consumes 18 to 20% of gross revenue, and is second only to payroll as the most expensive cost of doing business. In order to manage inventory, one must have an inventory manager complete with a detailed job description. Simply giving someone the title Inventory Manager, without a clear roadmap, SOP's (standard operating protocols), benchmarks and instructions is a sure way to encourage disappointing results. You need to manage the inventory, ensure someone is in charge, price things correctly and market in ways you never have before. Do not give up your product sales, clients want to shop from you, they trust you, and product sales can be profitable if managed correctly. How?

1. **First, join a buying group.** Done well these groups can reduce drug costs and benefit from an economy of scale. Use strategic mark ups rather than across the board rules of thumb.
2. **Urgent medications** (antibiotics, pain medication, injections, etc...) are not as sensitive to price shopping. The urgency of need facilitates a client's tolerance of cost. These items can have strong mark-ups.
3. **Pricing items that are no longer exclusive to veterinarians** (ie. certain flea products, etc.) should be priced differently, usually lower than you've previously offered. You don't need to price match but you need to be close. Once the exact same product you sell shows up everywhere else, you are now compared to everyone else. If I can Google a product you sell and find it readily available in many other locations, price becomes an issue. You can't price the product low enough to be competitive and still turn a profit? Maybe it's time to get those price sensitive products off your shelf and replace them with another good quality substitute.
4. **Dump the dual-marketed products.** If a veterinarian used to be the only source of Product X but now every internet site, big box retailer, feed store and catalog sell the same product, it's time to differentiate yourself. Yes it might have been a big seller for you previously but when you have the exact same product everyone else does, it becomes a commodity. Think about a coach airline seat between Denver and Chicago between Noon and 2pm. If 5 airlines all have flights, and all are reasonably the same regarding service and amenities then price becomes a very important means of choosing which airline. But if there is also a chartered jet available with a ticket cost that is slightly higher but not exorbitantly, the choice becomes more difficult. The charter jet won't require a strip search before you board, will generally offer high-end refreshments and excellent customer service, it has no baggage claim delay and no yelling children (unless you are bringing your own with you). Having a hard time letting go of certain products because you've used (recommended) them for a long time? Ask yourself how long did it take you to discontinue selling flea collars, powders and home foggers when the new generation flea medications came out years ago. Months? Years? No. Most of us strongly encouraged our clients to switch products in a very short period. They listened to you then, they will listen to you now.
5. **Surround yourself with veterinary exclusive products.** Exclusive products doesn't have to mean expensive, it simply means "access restrictive". When you fill your shelves with the same

products clients can buy from Wal Mart, you give up your veterinary-exclusive advantage. You blend in. You are just one of many choices.

6. **Dump the generics.** Despite claims that all generics are equal to the original brand name or legacy drug, many of us have experienced variations in generic drug performance both as veterinarians on the prescribing side as well as general consumers. The public expects generics to be cheaper in part due to competitive pricing but also as a result of their own experiences (perceived or real) they feel generics don't always perform as promised. When you dispense the same generic drug as Costco or Publix your client expects price to be the most influencing factor. Most of the big box retailers avoid legacy drugs due to lower margins or restrictive sales policies imposed by manufacturers. They are focusing on price alone, and you usually can't win that battle very often. Legacy drugs offer you some level of veterinary exclusivity or differentiation. If you are preferentially handling generics because you are bent on "saving your clients money" in hopes they will like you better, you are dismissing reams of behavior research that indicates cost is not the single most important driver for consumer decisions.
7. **Add private labeled products.** You can have numerous pet products private labeled. You can choose catchy names or something simple, but either way it will also have your practice's name on it, and a client isn't going to find it for sale at any other veterinary practice, online or at any big-box retailer. In many cases you can instill a wider profit margin on these products. Where are they going to price compare? One of the most popular private label products are therapeutic dog shampoos. A practice in California switch all of their shampoos to private labeled products and increased their prices on average 30-50% over current pricing. It brought in over \$12,000 more in profit in a single year. Try that with Hartz or even Vibrac.
8. **Fight to keep the prescription, don't fax it!** When you talk to a client make a solid argument why you the veterinary practice, rather than the retailer or internet warehouse, is the best source for pet meds including verification of chain of shipping, manufacturer warranties and adherence to storage and quality control. Don't just sign the fax request. Call that client. Talk to them about their desire to purchase somewhere else. Price will usually be the first comment but dig deeper, there is often more to the story. And don't be surprised if your client just thinks you are priced higher when in reality you are not. Some practices use signage or other client communications to show clients that they are truly price competitive on certain products. If you really want to play the price matching game then make your website's on-line pharmacy a bit more competitive than your in clinic pricing, but impose the same purchase process restrictions as PetMeds, etc... The on-line shopper has to place the order, pay in advance, commonly pay shipping, wait for it to be delivered, etc... as opposed to walking into your practice, getting expert advice and receiving the product right on the spot. People shop on line for convenience by a margin of 2 to 1 over price. So you don't even have to have the cheapest price, but you do need to make products available for sale to your clients on-line since not everyone can get to your practice during business hours.
9. **Use prescription drugs when possible.** Consumers often perceive prescription drugs as more powerful, even when they are not, however that may be true of some formulations. Many newly released drugs (newest pharma-technology) are *only* available by prescription. Prescriptions also require better record keeping than OTC medications. Prescription drug dispensing may require additional doctor examinations, offering benefits beyond additional revenue such as more frequent veterinary-patient-client interactions which translate to improved compliance and continuity of care.

10. **Stay in the loop of treatment.** Dispensing oral pills with instructions to return in two weeks if things don't improve opens the door for client compliance induced treatment failure. Incorporating injectables (ie. Convenia), technician applied treatments (ie. every 5<sup>th</sup> day otitis flush and deep medication), or other techniques like smaller dispensed volumes for chronic treatment medications (thyroid or NSAIDs) requires more return visits. Client-patient touch points and of course refills.
11. **Re-price your services.** The industry has been lax on seriously structuring its services-pricing. Annual "across the board" % mark ups is as sophisticated as many practices get with re-pricing. Many practices fail to adjust fees on services to make up for reduced product mark ups and its corresponding impact on profit. You can calculate the expected cash flow at a current drug's pricing level and then again at a new lower price. Take that expected lost revenue and spread it over a number of service categories in the form of price increases on service items. Non-shoppable services are ideal candidates. Cashflow is preserved, drug prices remain competitive and services carry more of the load. When prices go up on drugs and you feel you need to freeze your retail price or lower it, you need to redistribute the lost cashflow to other sales like services or watch your profit (and practice value) quickly erode.
12. **What business are you in?** Be realistic with your expectations. Are you in the high volume, low margin product sales business or are you in the veterinary medical health industry? Do you provide prescription drugs because it's a useful tool in your arsenal to fight disease and dispense other products to enhance the pet's well being or are you trying to gain a competitive pricing edge on Walmart? It's ok not to be very price competitive when you offer uniqueness. Imagine Denny's trying to sell a cup of diner quality coffee for \$5.95, or even Starbucks trying to sell its unique coffee in a Denny's at the same price?

Pharmacy and product sales remain an integral part of the current veterinary business model. Until that model dramatically changes, until practices are able to develop a successful sale strategy that is nearly 100% services-only we are going to need to preserve product sales. You can't blindly mark up drugs 100% anymore, make across the board price % increases, and then give away your services. As much as we hate to hear it, we have to run practices like businesses. Luckily most don't require you have a Masters in Marketing and an MBA in order to remain profitable. You just have to be smart, competitive and offer an exceptional sales experience between your staff and your clients.