NEWSLETTER
Issue 8 January2008

Does the 80:20 Rule Apply in Veterinary Practice?

I have often heard the 80:20 rule quoted at seminars and other business forums. This rule states that 80% of your business will come from 20% of your clients in the long term. The broader principle being promoted is that a relatively small number of clients will produce a disproportionately large amount of revenue in the long term for any business, even though it may not strictly be in the ratio of 80:20. This being the case the rule suggests that businesses minimise promotion to the larger group of less productive clients and focus the greater share of energy into looking after those clients at the top who account for the greatest source of revenue. Even though it has been a popular rule promoted by practice management gurus for many years I have generally doubted its application in veterinary practice. As a result MPV Consulting has put the rule to the test in veterinary practice by analyzing the performance of a number of practices with the intention of determining “Does the 80:20 rule apply in veterinary practice?

Analysing of the 80:20 rule

The type of practices

MPV Consulting has analysed three small animal veterinary practices. Certainly 3 practices is not a highly relevant statistical number, but I can say that the 3 practices were what I would describe as 'typical' small animal practices in metropolitan locations. Each of these practices performed in the mid-range group for both the *MPV Performance Survey 2007* and the *MPV Fees Survey 2007*. By my analysis I would say that the practices were very typical in relation to the operation of any small animal practice or the small animal component of a mixed practice. So with this in mind I thought that the results would more than likely be broadly applicable across the small animal component of bulk of veterinary practices.

The results

MPV Consulting found that in 2007 on average the top 20% of financial clients produced 43.2% of the total income of the practice. This outcome was well below the supposed 80% that the 80:20 rule suggests and confirmed what we had all no doubt been reasonably expecting. But being in an investigative mood, we were not totally happy with the outcome so we decided that we had better go back through another years worth of data and check the results again. Guess what? For 2006 the top 20% of financial clients accounted for only 39.6% of the total income for the veterinary practices.

Coming Events

MPV Profit & Expenses Survey 2007

This is arguably one of the most important surveys that MPV performs. At the end of the day we work hard because we enjoy our profession but, for most of us, it is the only source of income that we generate. It is important that the hours that we work are both enjoyable AND profitable. The MPV Profit & Expenses Survey will give you as a practice owner and/or manager the perfect opportunity to see how your profit at the end of the day compares to other practices.

Distribution date: 31st January 2008
Closure date: 28th February 2008
Results sent: 10th March 2008

MPV Fees Survey 2008

This is the most popular survey that MPV Consulting does. We expect that 20-25% of veterinary practices in Australia will participate each year. The impact of fees on a practice is immense so getting it right is also of immense importance. This low cost benchmark WILL make a difference to your practice!

Distribution date: 1st March 2008
Closure date: 31st March 2008
Results sent: 15th April 2008

This seemed to again confirm what I had been reasonably expecting about the so called 80:20 rule but we had more to do! I particularly wanted to know if the top 20% of clients in 2006 were the same clients as the top 20% of clients in 2007. As a result of this investigative urge we spent some time identifying which clients on our 2006 list actually reoccurred on the 2007 list. Out of this analysis we discovered that only 7.1% of the group occurred on both the 2006 & 2007 lists whilst 12.9% of clients on the 2006 list did NOT recur on the 2007 list. Hmm! What does this mean?

The interpretation

If the top 20% of financial clients in any practice produces in the order of 40% of the gross income then it would be safe to say that the 80:20 rule does not strictly apply in veterinary practice but perhaps the underlying principle being promoted still applies. This principle being that a relatively small number of clients will produce a predominance of income in any veterinary practice. Naturally if this is the case then we as good managers should focus our attention on these clients because of their value. The results showed that only about 7% of clients recurred in the top 20% in the second year.

It has long been my view that clients do not necessarily have patients that require medical or surgical treatment consistently enough each year to sustain any individual client within our top 20%. By this I mean, for example, that if a client has a patient in need of expensive surgery such as cruciate ligament repair in any given year then they will automatically catapult into our top 20% by expenditure. The likelihood that in the following year this client would have another cruciate repair, or an equally expensive procedure, to sustain their position is moderately low. In fact it is likely someone else will have a patient that needs a cruciate repair instead and so our top 20% list will keep changing. This defies a major element of the 80:20 rule because it is dependent on the fact that the small number of clients producing the majority of the income *must be in a sustainable manner.*

This does not happen in veterinary practice! The reality is that clients change vets, patients go through various age related expenditure periods and consistent preventative healthcare of a broad range of patients is required to sustain small animal veterinary practice.

The conclusion

The 80:20 rule has no application at all in the small animal sector of most veterinary practices. In fact clients that have not had high expenditure within a practice always have the potential to be a valuable client simply by virtue of the fact that anything can go wrong at any time. The client that regularly comes for the yearly vaccination and heartworm injection has potential to become a top 20% client simply by their pet getting sick or requiring surgery – it just means that they have not had a reason to spend heavily at their vets yet! The *MPV Performance Survey 2007* shows that in average small animal only practices clients spends $473.00 at their vets on a annual basis. If the client only spends half this amount in year one then they may well spend double the average the next year. Based on this conclusion you should teach staff that all clients should be treated equally well without favouritism (with the exception of perhaps selected regular top performers). It may well be beneficial to rate clients on factors other than revenue but analysis of non-financial criteria was not the subject of research on this occasion.

MPV Consulting welcomes feedback!

We are eagerly waiting any constructive input that will help us to help you improve your business.
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