

Merchandising in your clinic: Why and how?

In the final part of our series by Philippe Moreau, the Veterinary Practice Management Consultant looks at merchandising in the practice environment.



Introduction

Merchandising is more than the simple optimisation of sales through the appropriate choice and display of products. It is one of the factors that contribute to the client's judgement about the overall services offered by the clinic. Merchandising facilitates a meeting between the customer and the clinic's products and services.

One can say that merchandising is a component of marketing, but it is also closely related to sales. This is the reason why you can see, within a company, merchandisers who are specialists that improve the overall productivity of the retail area. Merchandising then becomes a close connection between marketing and sales forces.

Today products need to sell by themselves. It is the world of self-service and free choice: the customer has to find the product, learn about the offer and select one item versus another with little or no assistance. It was the birth of a self-service society that triggered changes in products. Goods now need to be self-explanatory. The packaging has to be attractive to be selected, as well as explain its mode of action and its practical use, clearly and simply, in order to motivate the consumer to buy it. A counter or rack of products must be easy to 'decode' and to understand.

The technique of merchandising reflects a scientific approach that starts at the manufacturing level, and it is through a close collaboration between the producer and

the retailer that the various aspects of merchandising are applied efficiently. There are many different steps that include the producer, as well as the sales force of the products and then the retailer. These steps should always be conducted with the client's needs and expectations in mind because we live in a society where everyone has to win. The client always remains a paramount part of the equation. The idea is not to sell at any price. Clients are looking for value and this is where the merchandising aspects of a product play a role.

Types of merchandising

In our model, the retailer is the veterinarian. He or she has the responsibility for defining the selection of products that fits the image, the positioning and the strategy of the clinic and matches the needs of the clients. It is veterinarians that will choose the ultimate display of the products, and some will benefit from the assistance of experts or consultants that will guide them in their decision. The result of appropriate merchandising will be an increase in client flux within the retail zone, multiplying the possibilities of contact and therefore of information and seduction towards the action of purchase. There are several different types of merchandising:

Organisation merchandising

The consumer should be able to locate easily the various

products and services that he or she is looking for by presenting a clear and structured offer. This is where access and signals are helpful. The organisation of a display rack consists in defining the best place for a family of products or a brand. In other words what do we place at the beginning of the rack? Which categories of products do we position on top (above the eye level), in the middle and at the bottom?

Management merchandising

It is the second and most classical step. This can have two forms:

- the value or return of the product selection, where one organises the choice and the display according to the results obtained by each product, respecting a minimal threshold of perception and considering the re-ordering rhythm;
- the study of the optimal selection and implantation of the products that take into account local market, regional specificities and the overall strategy of the clinic.

Seduction merchandising

This consists of bringing to the client an additional attraction through proper communication within the display area (banners, posters, etc.). It is the 'dressing' of the display, including the use of dedicated attractive displays that 'seduce' the clients at first sight.

The sale of products by the veterinarian

The sale and merchandising of products will also depend on the strategic positioning of each clinic, which is the veterinarian's decision and therefore the various retail techniques that can be developed.

Positioning of the clinic : a veterinarian's decision

The clinic has a certain profile. Often veterinarians have no control and the different profiles have evolved without any conscious influence from the veterinarians. Obviously it is better to keep a certain level of control and veterinarians can and should be actively involved in such positioning in terms of products, services, prices, etc. This is often determined by the local environment and the so-called 'retailing zone'. This personal identity of the clinic can directly influence client satisfaction and the level of retention of clients. The clinic represents a certain aspect of the community and the vets should entertain this feature of his or her premises. Clinics that have a profile of 'general practices' should generally hold a wide selection of products (large width of the line) with small quantities for each (small depth of the line). This is to satisfy large numbers of different clients. A specialty clinic, on the contrary, should concentrate on a small selection of specialised products (small width) with large quantities of each (large depth) which correspond to their specialty.

One needs to remember, however, that companion animal medicine is part of a consumer industry where the sentimental aspects of ownership (human animal bond) play an important role which automatically places the veterinary

hospital in an environment of high quality health space for the pet animal. This is one of the reasons that the veterinary clinic should not look like a pharmacy, a drug store, or a pet shop. If such a similarity is perceived by the clients, he or she will consider both places as competitors, which would be detrimental to the veterinary clinic. This is where the principle of differentiation plays its role.

The client profile

This profile can be defined by the type of practice (small animal, mixed practice, equine, etc.), by the socio-professional environment of the clients, or the usual local trends (local market tendencies). Consumer studies tell us that consumers have three major motivations for their purchases: the cost of the product, the security of the product and the matching of the product with their own image. (Other motivations are innovation and commodity etc.)

- cost: this is essentially the price limitation: "I am going to this clinic because their products and services are cheaper, therefore I will pay less either because I am forced to, or because I manage my budget well."
- security: today, this is a major concern for consumers: "I am a client in this veterinary hospital because it is the best, I trust the veterinarians."
- the client's image: this is not a well-known motivation

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but a very strong one for most pet owners: "I am a client in this brand new, modern, expensive clinic to show myself and my friends that I am part of the elite that uses what's best."

The retail zone

The retail zone is the commercial zone of influence of a sales point, made up of clients and competitors. Special marketing studies can help identify the best location prior to selecting a place to establish a clinic and the potential income that one can expect. Other than the number of inhabitants in the area, one should look at their average income, the growth of the neighbourhood, the type of families, the lifestyle, the number and type of pets and the nature of the competition. One should also look at the other pet suppliers in that zone, including supermarkets and specialty shops. These aspects are particularly important when one wishes to develop the sales of pet food. For a veterinary clinic, it will be useful to identify the various fluxes of people. In an area close to a commercial centre, for example, it will be helpful to carry products of first necessity (food, litter etc.). In a vacation spot, one should concentrate on small supplies of various items that will best fit clients that are transient in the area. In an urban zone, it will be important to know the clientele well and adapt the selection of products accordingly.

The various types of sales

As mentioned above, the veterinarian may decide the orientation and the positioning of his or her clinic and therefore of the products he or she will carry and propose to the clients. This strategic choice has consequences on the sales techniques within the clinic.

Prescription selling

The clients have a passive role - they often don't have access to products. This technique should be preferred for drugs and for specific technical products that require information, documentation and a true prescription from the vet. The clients have little to do and impulse purchases are limited. The production relies highly on the veterinarians who prescribe. It is the model of a specialty referral clinic where merchandising is limited.

Self-service selling

In this case, the client has an active role. He or she selects the product, looks at it, touches it, looks at its price and buys it. This is the perfect example for hygiene products, pet accessories, cosmetics, food treats, etc. The client is free and actively involved in his or her purchases. There is a tendency to use products that he or she knows and that are consumed with satisfaction. New products are often a risk and, without motivation for clients to purchase, are usually left on the shelves.

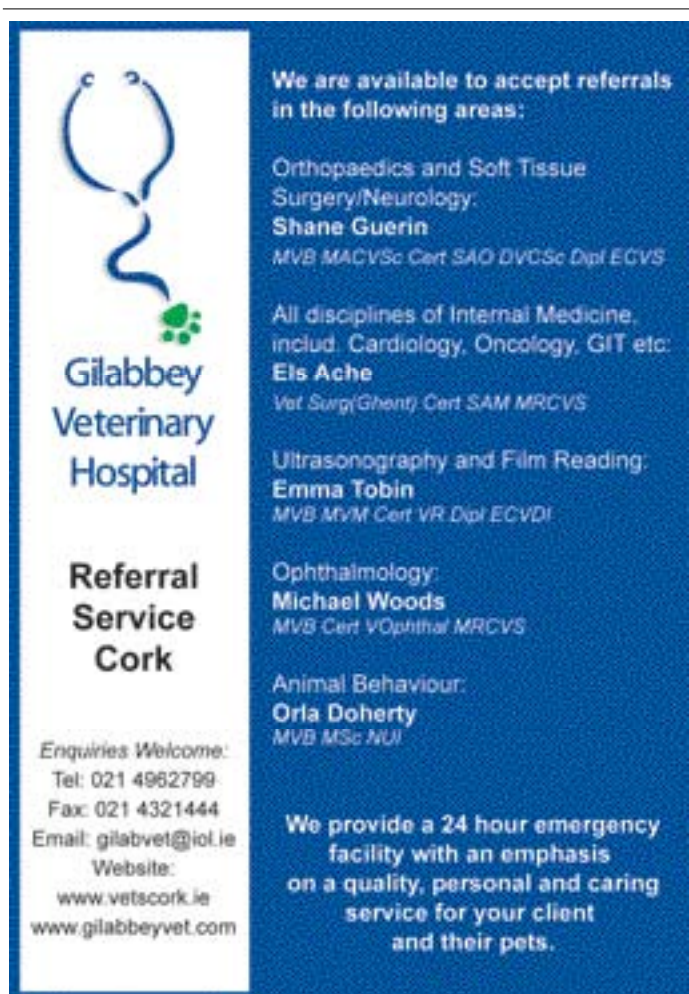
Assisted selling

This is a mix of the first two techniques and is usually what is appropriate for veterinary diets and the various external parasite products on the market. For this method, which is often the best, clients find a strong support from the staff. The merchandising is displayed such that new products are located close to the counter where the staff are in contact with the clients. Products that are self-controlled and well known (famous anti-flea products, pet food) are located in 'cold spots'. The assisted selling is the best method to keep clients using the clinic for their common purchases simply because personalising the sale and giving additional information to each purchase is adding value to the content of the package. It is what makes people come back to the clinic for a product they could find elsewhere.

Summary

Merchandising must help clients be comfortable within the retail zone of the clinic. It must be produced so that the client understands the relationship between the products and the clinic. It must be elaborated so that the clients use more and more of the services and the products of the clinic. It must also contribute to the confidence and overall satisfaction he or she has developed through the years.

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Fees - eliminating the guesswork by automating the hard work

You and your veterinary team are working hard, but does your practice income reflect this? Phil Scanlan looks at technology that can help manage fees and charging.



The irony of running any small business – including a veterinary practice – is having the time to truly analyse what you should be charging, and to fine-tune and maintain your fees accordingly over the medium and long term. Market and consumer trends complicate the challenge. For example, in Ireland, an increase in disposable income means that more practices are opening up because people have more money to spend on their pets and horses. At the same time, the cost of medical equipment, technology and staff wages are also on the rise. Client behaviour is changing, too. Clients are now more likely to shop for standard items, looking for clinics offering the best price for cat spays, wellness exams and vaccinations before they book an appointment. All of these factors should be considered when setting fees for veterinary products and services and the goal should be to create a fee structure that provides value to clients, enough income to sustain and grow the business and a fair return to practice owners. Easier said than done? Well, fortunately, there are practice management technology tools available to take the guesswork out of fees management. And once your approach to fees is determined, today's technology can automatically and accurately update fees to keep pace with market and competitive pressure.

Update your approach to fees

Despite advances in veterinary medicine and diagnostic

equipment, too many vets today are using outdated methods for setting fees. Computing a fee by adding a percentage of the product cost, or calculating service charges based on a percentage of the exam fee can rob a practice of profits – and also create a client view that veterinary rates are overpriced or 'unfair'.

Another issue is maintaining fees over time. Vets may check and refresh fees when installing a new practice management system or preparing for an audit, but the integrity of the fee file will diminish over time if staff forget to update fees, or enter fees without also linking them to client reminders and healthcare indicators.

Here's how technology today can help you take a fresh approach to fees – one that is based on true cost and the ability to change fees without sacrificing profit, as market and competitive conditions demand

- **Create bundled fees from component building blocks.** Each veterinary practice has its own standards of care approach and common protocols are made up of multiple fee components. A cat spay, for example, could contain the cost of the exam, anaesthetic and other drugs, consumables used during surgery and a post-procedure follow-up exam. Once a fee is set for a particular component – a urinalysis, for example – your system should automatically replicate the fee in all other procedures where that component is part of the procedure.
- **Set fees based on true cost.** Today's technology can determine your actual cost variables, including equipment costs, overhead allocation and profit margins. For example, systems can convert information from your current profit and loss statement to an electronic spreadsheet. You can then automatically calculate true service cost per hour or even per minute for provider time, cost per use for equipment, etc. Once you've determined and applied pricing variables and desired profit margins, fees can be calculated automatically based on an accurate cost assessment. Of course you can override the cost to discount where appropriate. The system will then tell you the variance from the true cost of the procedure or product.
- **Link fees to client reminders.** Each time you add a new product, service or protocol, your system should automatically assign the fee, then link the item to pre-defined reminders, recall tasks and healthcare indicators. For example, if a new flea product is entered, a 'client reminder' flag can be set to trigger at appropriate intervals.

- **Communicate confidence in what you charge.** There's a saying that applies here: "Perception is reality." Once you've set fees based on true cost, you can explain your fees in a way that instils confidence (and acceptance) in your clients. For each product or service you provide, all related fee components are available for you to use as you see fit. If you spay a dog, your system should allow you to print information about the procedures on the invoice, along with a description and price for each component. Consequently, your clients can see, step-by-step, exactly what they're being charged and why. Include this information on the invoice and tell your staff to explain it as part of the added value your practice provides.
- **Offer flexible payment plans.** Consider that at any given time only around 3% of an animal population requires medical or critical care treatment. The problem is wellness care for the other 97%. Clients may tend to neglect regular health checks and vaccinations for their animals until illness strikes – requiring medical treatment and extra expense that could have been avoided.

Technology is a way to encourage clients to maintain wellness regimes for their pets or large animals. In return for affordable, regular installment payments by the client, the practice provides standard vaccination and health-check items, as well as setting special discounts for other services. The result is an increased level of service to clients and improved wellness care for a larger percentage of the animal population.

- **Discount fees without sacrificing profit.** One of the greatest advantages of today's flexible practice management technology is the ability to track and analyse discounted fees. There are a variety of reasons for discounting. One is competitive pressure due to price shopping. And while the trend hasn't yet hit Ireland, in many countries preventative health items are now widely available via the internet or in retail stores, increasing competitive pressure. It may simply make sense to price a 'loss leader' or temporarily discount a 'shoppable' product or service. Also, there is a natural tendency amongst vets to discount for deserving causes – for example that farmer who has been such a good client but has had a bad year.

Discounting, in short, is part of doing business, but the problem is tracking the true cost of these discounts. For example, the vet who discounts medication for the cattle belonging to that favoured farmer is typically considering only the cost of the medication. But what about the related overhead costs, such as the time he spent with the client and the wages not earned as a result? Modern practice management technology overcomes these challenges by allowing you to track and analyse:

- Discounts given by category of product or service, per staff member;
- Related overhead costs for each discounted product or service;
- Income, by category of product or service, generated within a defined period, by vet;

- Positive or negative variances for a specific period. (A variance is the difference between the reduced and standard fee. Temporarily reduced fees result in lower profits or a negative variance. Fortunately, services that are value-based can often be charged at a higher margin than the standard – resulting in positive variances. The challenge is to balance the positive and negative variances.)

Armed with this information, you can see the true impact of discounting and can determine how to balance discounts with other fee increases. And you can determine these strategies over the short or long term. For example, you might choose to reduce your markup on a particular medication from X% to Y% over a 24-month period. To offset this loss, you may decide to increase a particular service fee over the same period of time. The advantage is that your clients are not faced with sudden, significant change in price, yet your practice is able to keep up with competitive pressure and maintain profit margins over time. Simply put, technology helps to ensure that you can discount without losing profit.

- **Track and report business performance.** Many practices still gauge performance by comparing year over year gross revenue, but that's not necessarily an accurate picture. Increased revenue over last year does not result in better performance if costs have been increasing at a higher rate.

Using your system to track positive and negative fee variances against profit projections is a much more accurate way to measure success. If your variance reports reflect a zero or positive variance as well as increased revenue, you'll know that profit is tracking as planned. Also, if you track and report gross revenue and variance for each category of service or product in your practice, you can spot those areas that are meeting goals and those that need attention.

Fees management: technology checklist

To set and maintain a fee strategy based on true cost, your system should be able to:

- Calculate all standard costs and fees for designated fee components.
- Organise and store fee components.
- Build 'bundled' service fees from these components.
- Use the calculated service fees to bill (and inform) clients.
- Provide management tools to monitor performance based on pricing variances.
- Quickly recalculate costs and fees in response to changing market or client conditions.
- Enable new ways of serving clients – such as regular, affordable client payments over time in exchange for wellness products and services.

Phil Scanlan is CEO of RxWorks, an international supplier of advanced business management software and services for the veterinary industry.