Sustainable Remuneration

Introduction

The veterinary profession stands on the threshold of a new era in determination of remuneration. Veterinarians, whether employers or employees, have the right to be adequately remunerated. **Remuneration which is adequate for the needs of the veterinary professional plays an important role in retention and motivation of staff as well as employee job satisfaction and productivity**. Job satisfaction and motivation is extremely important in a profession that struggles daily with issues such as compassion fatigue, depression and suicide. **Sustainable remuneration in the sense of this document is remuneration that maintains the viability of the veterinary profession. The decisions that we take now will determine the health of our profession for many years to come.**

The Meaning of Remuneration

Remuneration is a compensation or reward for services rendered. In the case of the employer veterinarian or one-person practice owner, compensation is received from charging clients for veterinary services rendered. In the case of the employee veterinarian, compensation is received from the employer. When one examines remuneration in the veterinary economic sector therefore, one must not only examine the remuneration of employee veterinarians but also that of employer or owner veterinarians.

The Necessity of a Comprehensive Review of Veterinary Remuneration

Veterinary fees are no longer determined by a central committee or authority. For many years since fees lists were determined to be illegal, veterinarians have tended to "thumb-suck" fees and fee increases**. Unfortunately individual veterinarians do not have sufficient information of good quality to accurately make these determinations. This very often leads veterinarians to implement fee increases that inadequately address their needs (including amounts necessary for reinvestment in their practices) and those of their staff.**

By means of illustration, a fee increase of merely two percent below what is required (given good quality information) will result in under-remunerating staff by ten percent in only five years. Even if fees are readjusted after five years increases in line again the fees lost due to increases not being adequate in previous years are lost forever.

Let's look at a practice with a six million turnover per year, increasing fees at six percent per year instead of eight percent. After five years this practice does a re-adjustment to bring fees in line with where they would have been if it had implemented an eight percent annual increase. Although it is now charging what it should, it has lost a cumulative ten million rand over the previous years of inadequate increases.

Setting Fees via a Remuneration Benchmark

This comprehensive review is meant to benchmark veterinary remuneration in terms of the skills and training required to adequately perform the functions required of a veterinary professional in carrying out his or her work. This benchmark study uses a host of factors such as skills, training, working hours and degrees of responsibility and decision-making to compare remuneration across the professional spectrum. **The advantage of a wider spectrum than veterinarians is that we are not influenced by the current remuneration of veterinarians which would skew the result to the current remuneration structure.** This does not mean that current remuneration has no place because current remuneration is taken into account in the determination of the path of adjustment from current to benchmarked remuneration.

Benchmarking remuneration is not price fixing. Such remuneration will be similar to any salary scale or wage determination in any company or organisation in South Africa. It is the same as any press advertisement for a position in a government department listing a level of remuneration for a particular grade of work.

Once remuneration is benchmarked fees can be determined which will lead to veterinarians being remunerated at the determined level. **This fee determination takes into account each individual practice's cost structure thus leading to a unique fee level for each individual practice**. Therefore there is no fixing of fees. **By implication the fee structure will also be determined by the local economic environment – rural vs. urban, rich vs. poor, production animal vs. companion animal etc.**

The Method to Determine Fees from Remuneration Benchmark

For the purposes of this illustration, I wish to use a fictional currency called the Vetdollar.

Remuneration benchmarking in Vetland has determined the following annual amounts for its veterinarians:

One new graduate veterinarian should be paid approximately 120,000 Vetdollars.

A veterinarian with 3 years of experience should be paid approximately 180,000 Vetdollars.

Owner/Employer veterinarian should be paid 720,000 Vetdollars.

For Vetpractice to determine at which level to set its fees for next year it must look at its income and expenditure for this year. The expenditure must of necessity exclude veterinarian remuneration as well as retail expenditure, the latter being the selling of products not directly linked to a certain patient's health and wellbeing (examples are pet food and pet product retail). Income must only be service income as well as income from products dispensed or used for a particular patient (or group of patients in production animal practice).

So under these conditions assume income to be 2,000,000 Vetdollars and expenditure to be 1,000,000 Vetdollars. Vetpractice also determines that it expects expenditure to increase by approximately the Consumer Price Index (10%) next year. So next year's expenses are expected to be 1,100,000 Vetdollars. How does Vetpractice now determine at what level to set its fees? It merely adds up expected expenses 1,100,000 + 120,000 + 180,000 + 720,000 = 2,300,000 Vet dollars. Income must increase from 2,000,000 to 2,300,000 Vetdollars to cover expected expenses, therefore fees must increase by 15%.

Veterinarians are Reluctant to Raise Fees for Fear of Losing Business

In previous years of fixed prices the fear of losing business didn't arise as everyone was forced to charge the same fees. "Forced" due to some sanction which was often exclusion from the veterinary community and/or complaints to various regulatory authorities.

Currently veterinarians may charge any fee they wish as long as facilities meet minimum standards and there is no exploitation of the public.

When veterinarians talk about losing business, what they actually are referring to is losing clients to opposition practices which charge lower fees. The true meaning of "losing business" is losing

revenue (income), and this is not the same as losing clients. As will be shown below, "losing" clients can actually result in higher revenue!

<u>Price increases vs. Inflation adjustment</u>

By modern standards South Africa's Consumer Price Index (CPI) is increasing at a relatively high rate. This results in mostly annual adjustments of fees by veterinarians. Here one must distinguish between an inflation-related adjustment which leaves the veterinarian in the same position as a year earlier, and a real increase in fees which an increase above CPI. The entire above discussion relates to real increases in prices.

<u>When should there be a real increase in prices?</u>

There are two instances where a real increase in prices must be considered: One is an annual real increase and the other is a real increase to adjust for previous years' under-adjustments or when new circumstances dictate.

The annual real increase is necessary because the **CPI does not take into account improvements in quality** – it compares like with like. For example it compares the cost of a loaf of bread this year compared to last year. That loaf of bread must be exactly the same. If there is an improvement of the quality of the loaf of bread by, for example, adding extra vitamins and minerals and this increases the price of the bread, it is not inflation. The same effect is seen in the services that we provide as veterinarians. **Mainly due to improvements in our knowledge, the quality of the service that we provide to our patients increases on an annual basis**. No-one can deny that the quality of veterinary services has increased dramatically over the last decade especially. **Due to the better quality service that we are providing, this service is more valuable to our clients and thus should attract greater compensation for veterinarians.** To what extent should we compensate for this? We have unfortunately grossly underestimated this in the past.

So the first thing to understand is what is the doubling time for medical knowledge? There is a paper written by Dr Peter Densen entitled "Challenges and Opportunities Facing Medical Education" in the Transactions of The American Clinical and Climatological Association in 2011; 122: 48-58 (<u>paper is linked here</u>) that gives some insight into this first questions.
In 1950, it was estimated that the double time for medical knowledge was about 50 years. In 1980 it took about 7 years for medical knowledge to double. In 2010, it only took about 3.5 years for the medical knowledge to double in size. It is estimated that by the year 2020, it will only take 73 days for the volume of medical knowledge to double.

Although this is the rate at which all medical (and presumably veterinary) knowledge increases, our individual doubling of knowledge is at a much slower rate because it is physically and mentally impossible to keep up with all the advances in our particular field. Let us assume very conservatively that our veterinary knowledge doubles every ten years. This means that the price that we charge for our services should double every ten years if we are to maintain the "price-per-unit" of our knowledge. This equates to an eight percent increase every year!

<u>Why are veterinarians reluctant to raise prices in real terms?</u>

- They do not understand the concept of real vs. inflation-adjusted increases

- They do not understand the quality improvements in knowledge provided to clients

- They fear losing clients without understanding the total revenue curve

- They are subsidising their clinical services with income from retail operations