

Compassionate Medicine Successful Practice



By Keith VanHoy, CPA

Reconciling the emotions and finances of your veterinary practice

Your role as a veterinarian is more than a job - it's a way of life. It's a challenging and rewarding profession, one that puts you in contact with like-minded animal lovers each and every single day.

But there's also a degree of guilt attached to the role.

You've probably felt it whenever you've billed your patient's owner. And the truth is, you're not alone. I've spoken with a number of vets over the years who've all had a difficult time reconciling their overwhelming desire to help animals with that of making a good living.

Feeling guilty about having a successful, thriving, profitable practice is a very common issue. As a pet owner, I consider my pets (one dog and two cats) as part of the family. And along with the walks, treats, tummy rubs and scratches behind the ears, my role as a responsible pet owner involves regularly visiting the vet.

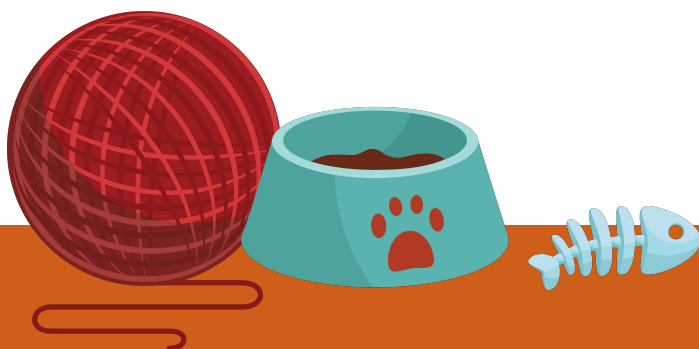
I've been numerous times with our current and previous furry little friends, and I understand how it feels to face the difficult choice between a necessary procedure and the financial burden of the treatment.

As a CPA, I also understand the business challenges you face as a veterinarian. Your industry is in a unique position when it comes to finance; pets are very much part of our families, but the practice of medicine is expensive and most pets aren't covered by health insurance.

This leaves you in a difficult situation where you need to make decisions daily that have both emotional and financial consequences. A tremendous amount of guilt accompanies these decisions, not to mention accusations that you're overcharging, are too expensive, or "if you truly loved animals, you would help." Statements like these can feel manipulative and damaging.

To overcome this situation, you need to reconcile the emotions you experience when making difficult practice decisions with the way those emotions play into your decisions regarding practice finance.

While we don't have all the answers, we do know that when your practice is successful, thriving and profitable, you are able to help more animals and provide the best possible care to them. Our goal is to help you continue on that path so you can keep on doing what you were called to do: providing exceptional care to your amazing patients and their owners.



INTRODUCTION

When you set up your veterinary practice, we are confident that it was for any number of reasons – your love of animals, care and help for your local animal-loving community, a desire to build a veterinary practice that excelled in every way.

Spending your time thinking about your financials, business administration and profitability were probably low on the radar (or non-existent). After all, that's what your accountant is there for, right?

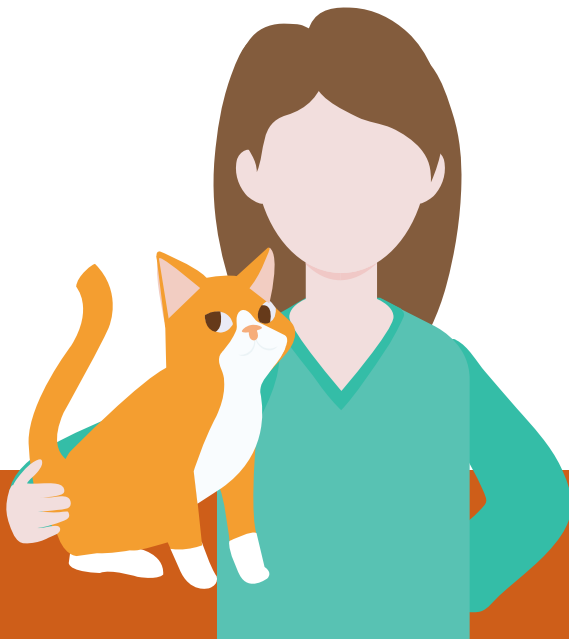
We're absolutely here to help with those things: but it is critical that you be personally involved with your profitability.

So, we've taken our years of experience of working with all kinds of businesses, and have distilled all that knowledge down into six key steps for creating an amazingly profitable veterinary practice.

We'll show you how to:

- 1 **Create the right mindset** – focusing on both the customer and future of your practice
- 2 **Find the leaks and plug'em** – locating your unnecessary costs and overhead
- 3 **Budget with a purpose** – creating clear budgets and sticking to them
- 4 **Fit the KPI puzzle pieces** – Discover how to track and measure your performance
- 5 **Think differently** – learning to collaborate and network with your peers
- 6 **Find the original 'You'** – how to step back and see the practice as a customer does

We can't promise you'll become a millionaire, but we can confidently say that following this six-step plan gives you a more efficient, more productive and more profitable veterinary practice.



1

CREATE THE RIGHT MINDSET

Creating an amazingly profitable practice starts, first and foremost, with your mindset. You must have a mindset that's always thinking about what's best for both the customer and the practice.

Notice that I say both 'customer' and 'practice' and not just the customer. That's because practices make decisions all the time that are beneficial for one but not the other – and when that conflict exists, it erodes profitability.

Balancing customer value and practice value

How does this conflict between customer value and practice value usually reveal itself? Let's take, for example, low prices.

Low prices are great for the customer as they can afford more services at a cheaper price. However, low prices can be detrimental to the practice because not charging appropriately for your services directly affects your bottom line.

Conversely, practices make decisions that are better for the practice but don't always have the customer in mind. Think about the last decision you made regarding staff scheduling, inventory or an internal policy on security. How did the decision affect your customers?

The key is to have a mindset that always factors in both the customer and practice perspective.

The problem of a negative mindset

When you don't have a profitable and positive mindset, doubt and fear can rule your practice and a negative mindset creeps in – and that's bad news for the customer service you deliver.

Let's look at examples of a negative mindset around the thought of raising prices:

- "I can't raise prices. I'm in a small community and my customers won't pay the same for vet services compared to if I was in a larger community. I have to keep my prices low so they can afford it."
- "If I charge more for lab work or surgery, clients will find another vet that charges less."
- "It's not fair to my customers if I raise prices. Some of my customers have been bringing me their pets for three generations."

How would your thought process look if you had a profitable and positive mindset?

- “I can raise prices because my services as a vet are valuable to my customers”
- “My prices for services to care for their pets reflect the value they provide and aren’t limited by demographics.”
- “I’ll keep the customers that see the value of my vet services and the care I have for their pets, which will make my working with them all that much more rewarding.”
- “The customers that have brought me their pets for years are the customers that know my value – and are willing to pay for that perceived value”

When making decisions about your practice, a can-do mindset that thinks about both customer and practice leads to better results and better profitability.



2

FIND THE LEAKS AND PLUG 'EM

It can be difficult to diagnose why a veterinary practice isn't performing as well as it should.

The practice's financial statements may show decreasing net income and cash flow but where's the leak? (in other words, what's causing the unprofitability?)

The leak could be from multiple competing and related factors in your practice – and that leads us to the all-important phrase, 'You can't manage what you can't measure!'

Measuring and comparing your numbers

In order to diagnose the leak, we need to have financial statement accounts that are reliable and comparable – and with a level of detail in the data that can provide meaningful analysis.

Financial statement balances are much easier to analyze if you've identified the key numbers that matter to the practice – and have the ability to track and compare these numbers over time.

These numbers might be:

- Data from the previous year or a previous period
- Performance against your practice's agreed annual budget
- Comparisons of specific numbers against veterinary industry benchmarks: for example, a calculation of your Average Client Transaction (ACT)

Comparing a 'key performance indicator' (KPI) like your ACT to prior years can give clues to the health of your practice. An ACT of \$175 can show your practice is a top performer, whereas an ACT of \$75 can indicate a cause for concern.



The value of your chart of accounts

The easiest way to track your numbers and KPIs is to code each element in your accounts. This list of codes – with each code relating to, say, sales, or drug costs, or payroll spending – is called your ‘chart of accounts’

Using a standardized chart of accounts for your income, expense and balance sheet accounts will allow you to record your income and expenses in detail – and because you can track these over time, it’s easy to compare them to previous periods. You can also use your accounts to compare to industry benchmarks.

Comparing your income and expenses to industry benchmarks can be hugely insightful, and makes it possible to bring in additional resources from outside the practice to help find that dreaded leak. By working closely with your accountant, and comparing your own account balances to the average account balances of your peers, you’ll soon start seeing where the dollars are disappearing down the lab sink.



3 BUDGETING WITH A PURPOSE

Budgeting is an important part of a strong financial management system. Whether you're a large or small practice, take the time to lay out a clearly defined budget for the year.

The most common response I receive when I ask about a budget is, "But I'm small, I don't need a budget. I know what we spend and I've been doing this for years!" This comment and others I have heard show the misunderstanding of how a budget is used.

Budgeting as a strategic tool

A budget isn't just a financial hoop to jump through. A good budget is a strategic planning tool and is used by practice owners and managers to give a long-term vision to all your immediate practice decision-making.

- Should I buy that new practice management software?
- Should I hire another technician?
- Should I add grooming as a new service of my practice?

By referring to your budget, you can keep an eye on your profitability goals while making the everyday decisions that keep your practice running day-to-day.

Too often do I see budgets that are meaningless. The budgets are created from prior year numbers without any thought of why. Think about your goals when you budget.

If you aim at nothing, you will hit it with amazing accuracy!



Putting real thought into your budget

When you sit down to write your budget, don't think of this as a financial admin task – instead, think of your budgeting process as a time for reflection and strategic thinking.

If you're struggling with profitability now, use the budget as a strategic planning tool to work on your profitability.

Start with your net income and owner take-home and set a goal for those amounts – and be ambitious, but realistic, with these numbers. Then, review your expenses and, lastly, the income needed to pay for the expenses and create your profitability goal.

Use data from your practice management system to help determine if your budget is doable.

- What decisions would you need to make in order to make your new budget a reality?
- Are these actions achievable in the next year? Or the next two years?
- What increases in revenue would be needed to take on a new technician, or receptionist for the practice?
- Have you set a profit goal for the year? And if so, is it possible to achieve it?

You may realize that the 'new and improved' practice presented in this budget can't be achieved this year. Congratulations! You've just created your three or five-year plan! And highlighted the areas to improve and change to meet your financial goals.

Armed with this information, you can work backwards from your plan to determine what you can accomplish this year. I bet your budget looks a lot better now than if you'd just started with last year's numbers – and that's because you've taken the time to reflect on your future.

Last but not least, never budget alone. If you have team members that have responsibility over a division of your practice, let them propose a division budget. They likely have a better handle on that area than you do and can provide a different perspective. All of your team should be aware and on-board with the budget and be expected to be held accountable to it.



4

PUZZLE PIECES THE CHALLENGE OF KPI'S

Key performance indicators (KPIs) are a method of assessing the performance of your practice by comparing key statistics of your practice to industry benchmarks.

Financial statements are an essential financial reporting tool of your practice. What KPIs do is combine these financial statement figures with information from outside your accounting system to provide a more meaningful point of view, that's trackable over time.

Putting KPIs into action

Let's explore how KPIs provide more insight, by running through an example of performance metrics in action.

Imagine that your practice is struggling with profitability and that your financial statements show the following information about employee wages and benefits expenses:

2016: \$685,000
2015: \$655,000

You might assume that the struggle is due to an increased workload by employees for the period. By adding KPI data, we can dive further into the practice to analyze the problem.

In this case, it's helpful to examine the staff-to-doctor ratio.

To calculate the ratio, the total support staff hours are divided by the number of doctor of veterinary medicine (DVM) appointment/surgery hours in a specific period. If the range exceeds 4 to 4.5, it could indicate a further problem with staff costs.

KPIs give us different ways of looking at our numbers to find a solution. They aren't all encompassing answers to the problem and should be taken into consideration along with all other factors when making a conclusion.



5 GREAT MINDS THINK DIFFERENTLY

George Bernard Shaw, the renowned author, had a famous quote:

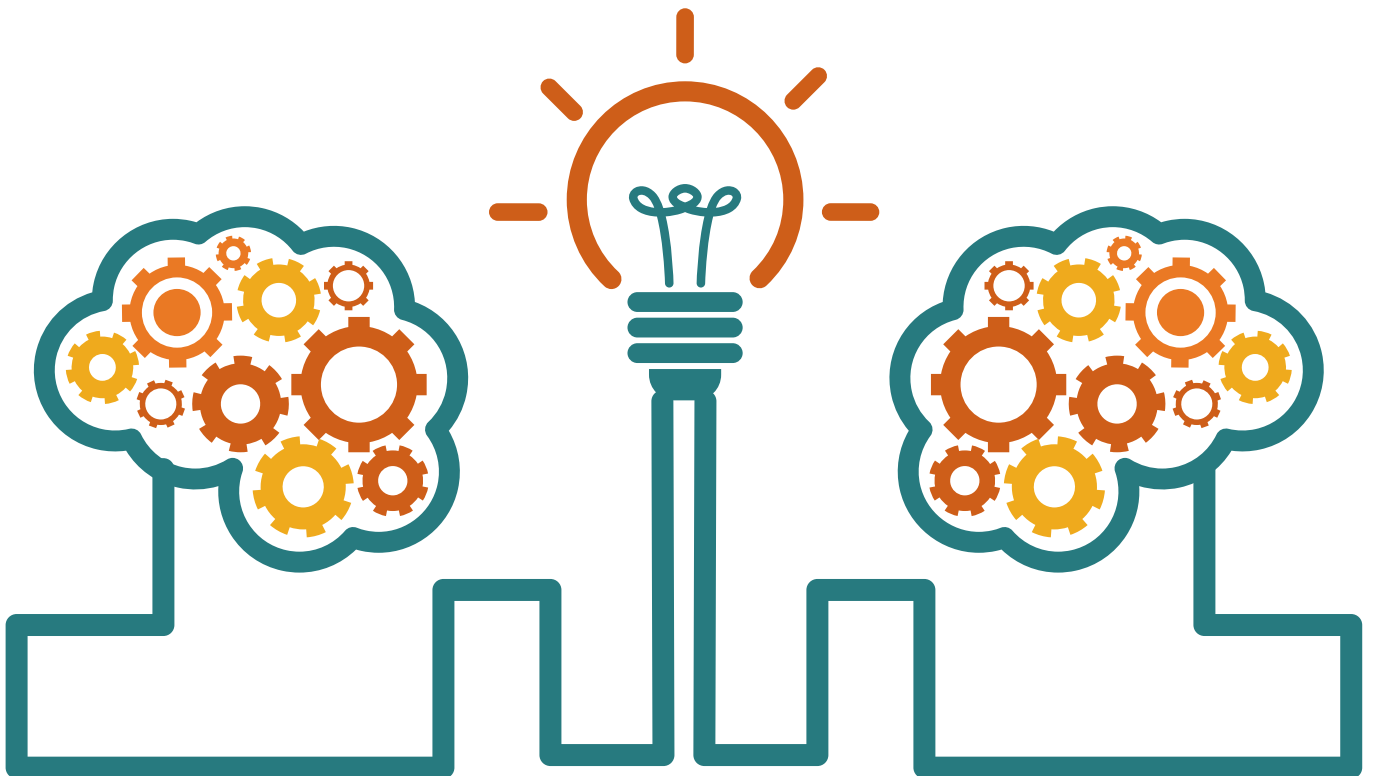
"If you have an apple and I have an apple and we exchange these apples then you and I will still each have one apple. But if you have an idea and I have an idea and we exchange these ideas, then each of us will have two ideas"

Why do you think that the greatest tech minds and business leaders collaborate to accomplish their objectives? It's to create the perfect scenario for innovation and multiple ideas.

As smart as Bill Gates was to form Microsoft, and as inventive as Elon Musk is in creating electric cars, surely they don't need an outside opinion to be successful? The truth is we work better in teams. Surrounding yourself with peers that have different strengths and weaknesses makes both of you stronger.

If you're struggling in a particular area of your practice, ask a peer that isn't struggling in that area for advice. Ask more than one person, and pretty soon you'll see a pattern to follow, or a best practice approach to replicate.

Collaboration is the easiest and fastest way to a better practice. And the first step can be as simple as saying 'hello' to the person next to you at the next veterinary conference, or pinging an email to one of your peers.



6

FIND THE ORIGINAL “YOU”

Have you ever tried to step back and look at your practice through the eyes of your customers?

Customers develop a perception about you from the minute they begin using your services. What is that perception for your practice? Do they see you as good value for money? Or do they prefer the quality of your customer service?

Knowing the unique selling point – or USP – of your practice is a hugely important piece of information to know...but it's not always easy to know what your own USP is.

Do you know what makes your practice unique?

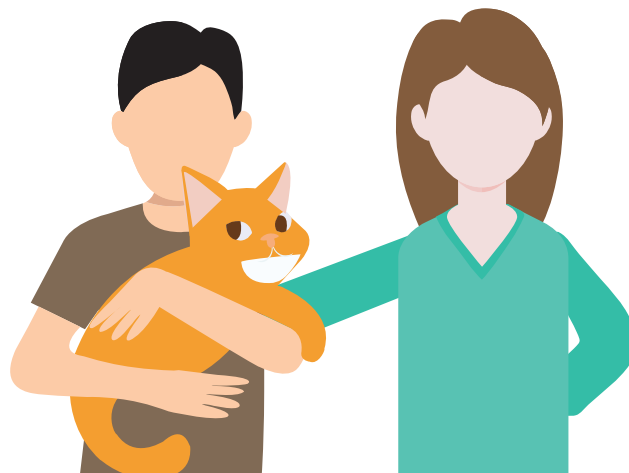
If you have trouble identifying what's unique about your practice, your customers likely do as well. When your customers can't judge you based on your uniqueness – and, therefore, how valuable you are – they are left to judge you based on price, which leads to lower profitability. Engage your staff in determining what your value proposition is to customers. They know your practice better than anyone and deal with your customers every day, after all.

- Do you have a specialty practice area – for example, focusing on farm animals?
- Does your DVM have an engaging personality that wins with customers?
- Do customers feel like you're a partner with them in caring for their pet, rather than a pure-and-simple service provider?

Providing a vision for the practice

Determining your original 'you' is not only for your customers – it's an internal process too.

The journey of self-discovery and definition of your USP is also for your staff. It provides a strategic vision for the practice that employees can identify with and buy into. Prospective employees who share your vision will want to work for you, and time and resources won't be wasted on employees who don't fit your vision.



FOLLOW THE SIX STEPS AND TAKE A GIANT LEAP FORWARD

There's no one answer to creating the perfect veterinary practice. But by following our six-step approach we'll help you to focus more on the areas that will deliver true success and profitability.

- 1 Create the right mindset** and make sure you're always thinking about the impact any decision will have for both customers and the wider practice.
- 2 Find the leaks and plug 'em**, and make sure you are being as cost-efficient and profit-focused as you possibly can.
- 3 Budget with a purpose** and base your budget numbers on your goals, strategic plans and what's attainable in your chosen timeframe.
- 4 Benchmark your KPIs against your peers** and measure your performance against the industry standards for your area or niche.
- 5 Think differently, but learn to collaborate** and make the most of your professional and business networks – you never know where the next innovation will come from.
- 6 Find the original 'You'** and define what the practice's USP is for you, your customers and the rest of your team.

WHO IS STOPP & VANHOY?

Stopp & VanHoy is a CPA practice based in St Louis, MO. We provide accounting, audit, tax and business advisory services across a number of industry sectors, with a speciality niche in advice for veterinary practices.

Find out more about us at www.stoppvanhoy.com