MPV consulting
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Profit in veterinary practices

As most of you would be aware MPV Consulting recently carried out the *MPV Annual Profit & Expenses Survey 2006* on behalf of veterinarians in Australia. Approximately 5% of all practices in Australia participated. Each participant received critical information on how the profitability of their practice compared with other similar practices. One of the concerning aspects of the survey was how poorly the 'average practice' profitability was when compared to other industries.

Analysis of the 'Average Veterinary Practice'

In the typical veterinary practice, the practice owners should be remunerated for each of the following:

1. A wage or salary for working within the business
2. Profit from generation of veterinary fees by both owner and employed veterinarians
3. Profit from sale of merchandising items (& other non-veterinary income)

1. A wage or salary for working within the business

Participants in the survey were asked to specify a 'Market Rate" salary for owner veterinarians. The definition of a 'market rate salary' is the amount that you would pay another veterinarian to perform your veterinary duties if you were unable to do so. In the *MPV Annual Profit & Expenses Survey 2006* the average *"Market Rate"* salary for owner veterinarians was $81,450. Even though this is a form of owner remuneration, it is not considered to be a part of profit as it is what one would expect to receive for performing daily duties.

2. Profit from generation of veterinary fees

Cost of operating the business

One of the main statistics that *MPV Annual Profit & Expenses Survey 2006* identified for each practice manager was their *"Net profit <u>before</u> veterinary salaries & wages"*. This important statistic was effectively telling veterinarians the cost of operation of their business before vets are paid. In Australia the average ***Net profit <u>before</u> vets salaries and wages was 32.3%*** of gross practice revenue. By deduction, this of course means that the average cost of operation of veterinary practice is (before veterinarians are paid) 67.7% of the total gross revenue.

Think of it this way, if you are an average clinic that charges $75.00 for a dog C5 vaccination the breakdown of costs is as follows:

	$
Government gst	6.82
Cost of business operation (excluding vets)	46.16
Amount left to pay employed vets and owners	22.02
Total C5 Fee	**$75.00**

Profit from generation of veterinary fees

It has long been said that veterinarians should generate 5 times what they are paid ie veterinary salaries are 20% of the gross fees that they generate for the practice. I have heard this quoted many times over the years and, whilst I generally agree with the goal, I had serious doubts that it was being achieved in the general veterinary community. One of the aims of the *MPV Annual Profit & Expenses Survey 2006* was to identify how each practice performed in this area and compare this to other similar practices.

The results showed that in Australia the *average practice* has a *"Veterinary wages : veterinary fees generated ratio"* of 31.3%.

This means that the average practice has veterinarians generating closer to 3 times what they are paid, rather than the often talked about, 5 times.

The veterinary wages : veterinary fees ratio = 31.3%.

So what does this mean?

For our theoretical *'average practice'* we have two statistics from which we can draw a few conclusions:

Firstly, the average *"Profit <u>before</u> vets salaries & wages"* is 32.3%

Secondly the average "*Veterinary salary : Fees generated ratio"* is 31.3%

By deduction we can now determine the profit the average practice owner receives from veterinary fees.

The profit from generation of veterinary fees = 1.0%

Using our previous example of a C5 vaccination we can now calculate the following:

	$
Government gst	6.82
Cost of business operation (excluding vets)	46.16
Amount paid in veterinary wages (owner & employed)	21.34
Profit to owners	0.68
Total C5 Fee	**$75.00**

3. *Profit from sale of merchandising items*

The *MPV Annual Profit & Expenses Survey 2006* identified that in Australia the gross revenue in the average veterinary practice was made up of:

Veterinary Fees	77.3%
Merchandising & other income	22.7%

The *profit before Veterinary salaries and wages* detailed above is 32.3%. Therefore the profit from merchandising is 32.3% of 22.7% the merchandising component = 7.3%
The profit from merchandising & other fees = 7.3%

The Analysis of Result

Owner/s veterinarians of the *average veterinary practice* in Australia receive the following remuneration:

1. A salary for each veterinary owner of $81,450
2. Profit from generation of veterinary fees of 1.0% of gross turnover
3. Profit from merchanding & other fees of 7.3%

Items 2 & 3 represent a net practice profit of 8.3% of the gross practice revenue. This would then have to be divided amongst the total number of owners/partners.

Strengths & weaknesses of the calculations

Before I get inundated with phone calls about the methodology of the above calculation I would like to point out some good and not so good points about these statistics:

1. The *MPV Annual Profit & Expenses Survey 2006* had over 40 statistics delivered to participants of which only a few have been displayed in this newsletter. This allowed for a much broader capability to analyse individual performance.
2. These are statistics the *average practice* attained and are not directly applicable to your own practice. To identify your own performance you need to participate to get accurate results.
3. Irrespective of how the profit is split, the fact is that in Australia the average practice profit to owners after a *market rate salary* is deducted is 8.3% of gross practice revenue.
4. I have assumed that veterinarians are employed to produce *veterinary fees*. In other words no cost of veterinarian salaries has been factored into merchandising sales. One could disagree with this assumption but it does raise questions of what the primary purpose of being a vet has become.
5. In the veterinary industry both veterinary medications and merchandising products are generally purchased from the same wholesaler. By doing so veterinary practices generally are not able to accurately breakdown the true proportion of cost for veterinary medications versus merchandising products at purchase even though they may be able to breakdown sales statistics. As a result, the analysis above has included the total cost of <u>*all*</u> purchases as a part of the *cost of operating the business* before veterinary salaries and wages. This will have no impact on the overall profitability of the business but may affect the split between *veterinary fee profit* versus *merchandising profit*. Irrespective of this split, 8.3% profit is not a good result for the *average practice*!

It is not too late to participate!

Good news! If you still wish to participate in the MPV Annual Profit & Expenses Survey 2006 then email us at mpvconsulting@toadhall.com.au for details.

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If you would like some help or alternatively would like to comment on any MPV Consulting newsletter, please feel free to contact us!

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