



## Solutions for Enhancing Veterinary Profitability

Profit Newsletter Series 3 of 3

This newsletter is a continuation of the first two series newsletters on profitability. It may be worth while reading the first two issues again to remind yourself of the logic behind the conclusions.

### **The Conclusions** (from previous newsletter)

The average veterinary practice in Australia produces an overall gross profit of 8.1% compared to 16.2% for the more profitable veterinary practice. This means that a practice that is on the 75th percentile position for profit will take home exactly double that of a practice on the 50th percentile for the same turnover. Furthermore, if you examine the table below, you will notice that a more profitable practice on a \$500K turnover will actually take home more than an average practice on a \$750K turnover.

Turnover	Average profit (50%)	More profitable profit (75%)
\$500,000	\$40,500	\$81,000
\$750,000	\$67,750	\$121,500
\$1,000,000	\$81,000	\$162,000
\$1,500,000	\$121,500	\$243,000

Your practice MUST get profitability sorted out first before overly focusing on gross practice turnover issues.

### **Solutions to Enhance Profitability**

One would think that there is some magical formula for changing profitability. In fact there is no such formula. It is simply taking some basic tools and using them in a logical and consistent long term fashion. It may seem boring but if you are suffering from lower profitability then you should use these tools methodically.

#### **1. Measurement**

In order to progress and get somewhere you must have some idea of where you are now! Many practices do not have an accurate measure of profitability at all. Your tax return is designed to make your profit look as low as possible. If you rely on your tax return to determine profitability then I would suggest that you get a more accurate measure of profit! Once you have done this you can make changes and further down the track you will use the exact same method to measure profit again and

determine if you have been successful. The requirements for an accurate measurement system are:

- Must be consistent and easily replicated – the method used must be identical each time a calculation is done so that you always compare 'apples with apples'
- Takes into account variables on your profit & loss sheet such as interest on business loans, etc
- Automatically adjusts for fringe benefits to the owners e.g. car
- Makes allowance for a market rate salary for owners

The Annual MPV Profit & Expenses Survey is a good way to compare your own profitability from year to year as well as comparing your performance to the rest of the industry. MPV Consulting is developing a 'regular participants' facility that will produce reports historically for the internal use of a practice.

#### **2. Setting goals & strategies**

Once you have a measurement system in place it is now up to you to make a change that will improve your position. By doing so you will effectively be developing goals of where you wish to be at some stage in the future. Any goals should be specific and measurable. For example: if in the MPV Annual Profit & Expenses Survey 2006 your *profit before veterinary salaries & wages* is 30.2% then you may say 'I should be able to get this up to 35.0%'. You have just set a goal! The strategy that will follow is where you determine a method by which you will achieve this goal. Setting goals is easy; it is the strategy of achieving the goal that requires more effort.

At the end of a pre-determined time period you must again measure profitability to determine if your goal has been achieved.

#### **3. Profit is NOT a dirty word!**

In the veterinary profession I think we often treat the word 'profit' like 'sex' – you keep it private! We don't talk about profit very often compared to other industries, we have no training at university on profit, and many of our staff have never heard the word profit mentioned in staff meetings or conversation.

The reality is, the veterinary profession as a whole is not profit driven – if we were driven in this manner we would probably all be bankers instead of veterinarians. From what I have seen, most practice owners are trying to balance - altruism : work & life enjoyment/satisfaction : business profit. You will note that I have said “balance” - this is the key part of the concept. You should freely talk to staff about profit but must ensure that this is kept in balance with the other important aspects of your business. Staff involvement is good!

#### 4. Fees

The *MPV Fees Survey* and *MPV Profit & Expenses Survey* have revealed that there is a very strong correlation between veterinary practice level of fees & practice profit. This is probably not an earth shattering revelation but the fact is that many veterinarians are still not prepared to charge adequate fees that will ensure a good, or even reasonable, level of profitability. The *average veterinary practice* in Australia is generating only 1.0% profit from veterinary fees (see previous newsletters). What this means is that the *average veterinary practice* in Australia is either not doing enough work or they are not charging enough for their services. Remember that a \$47.00 consultation fee has a gst component of \$4.27, so you are really only charging \$42.72 for your consultation. Most practices that are reading this newsletter will have already participated in the Annual MPV Fees Survey 2007 – my suggestion is that you should try to position all your fees at least in the upper 50% range. If you did not participate, then contact me and plan to participate now!

#### 5. High margin focus

The MPV Surveys have revealed that in 2005-06 the *average veterinary practice* gross turnover is 77.3% veterinary fees and 22.7% merchandising or non-vet services. Furthermore, the average growth in merchandising was 8.97% compared to veterinary services income of 5.97%. This indicates that merchandising is growing at a more rapid rate than professional fees – a trend that appears to have been going on for years. Merchandising represents a far lower profit margin than veterinary services fees. **So what does this mean?** It suggests that veterinarians maybe voluntarily becoming merchandisers of low margin products rather than providers of higher margin professional services.

If this is not the direction that you wish then I would suggest the following:

- a. Adjust fees for veterinary services to reflect the quality you provide rather than placing a higher reliance on merchandising
- b. Enhance the *perceived value* of these services – your clients work on what they perceive not necessarily what is real!
- c. Use your computer database to promote professional veterinary services
- d. Provide a display area in your waiting room for veterinary services that you offer not just merchandising
- e. Train nurses or reception staff to do the product merchandising and get veterinarians to focus on provision of professional fees
- f. Focus heavily on high margin activities

#### 6. Performance pay

Performance pay for veterinarians should be a system that rewards employees for performing well for a business. Veterinarians are the critical factor in the performance of a veterinary practice so why not pay them for doing well. There are many methods of performance pay which I will not be focusing on in this newsletter but I think that in today's environment the straight wage or salary method of pay is outdated. Performance payments should not be used in a 'threatening' manner. If they are structured properly, they should really be better for all concerned!

#### 7. Addressing expenses

This is the non-glamorous but essential part of having a more profitable practice. Every practice needs someone who keeps an eye on expenditure. The big expenditure items such as *Cost of Goods Sold* and *Wages & Salaries* should always be monitored to confirm that they do not 'blow out' however all the other smaller expense items will also add up to significant changes in profit. MPV Consulting analysis shows that the more profitable veterinary practices seem to have lower expenses in almost all the smaller item expenses as well as bigger items. If a \$750K practice can reduce expenses by just 3%, then the practice profitability will increase by \$22,500.

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### Thanks to AVPMA:

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would like to thank  
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strong support of  
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Expenses Survey  
2006* !

The *MPV Annual  
Performance Survey 2007*  
is now being collated!  
Don't miss out!

Measurement is an  
essential part of good  
performance!