Among the many day-to-day queries that we receive, the question of whether a practice is successful or not, regularly comes up. It’s swiftly followed by another question: just what do we mean when we say ‘successful’? Is there a definition or criteria that we can measure success by?

In this article we are of course focusing on the financial side of success. For this purpose we can put a definition on success as a practice that is sustainably profitable. But it’s interesting to note that a common theme runs through most practices that sustain profitability. Indeed, it’s a standout feature and one which goes hand in hand with clinical excellence. It’s a feature which has become more apparent as the veterinary market has become increasingly competitive and the recession has hit.

Simply put, success comes from putting the clients at the forefront of everything that the practice does. Make clients happy and they will want to return to your practice. They will tell their friends, family and contacts about you. Get this right and half the battle towards achieving healthy finances is already won.

In this article, space dictates that we focus predominantly on small animal, although many of the principles apply equally to farm, equine and mixed practices. To give you an idea of how significant the winning and keeping of a client is, the average spend (excluding VAT) over the lifetime of an animal at a small animal practice is £3,000. Certainly not to be sniffed at!

So What Does A Profitable Practice Look Like?

It’s all very well striving to be a highly profitable practice, but how can you tell a poorly performing practice from one that is flying?

There are of course no hard and fast rules, but illustrated above (Fig.1) is an example of a small animal practice that is below average profitability based on our benchmarking data. By its side, is a practice that is performing well above average profitability based on our benchmarks. In both cases, the practice has 5.75 full time equivalent vets.

<table>
<thead>
<tr>
<th>Fig.1</th>
<th>£000 Below average</th>
<th>£000 Above average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>1,150</td>
<td>1,500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>800</td>
<td>1,145</td>
</tr>
<tr>
<td>Gross profit %</td>
<td>69.8%</td>
<td>70.7%</td>
</tr>
<tr>
<td>Staffing costs (including market rate equivalent for owners)</td>
<td>(525)</td>
<td>(572)</td>
</tr>
<tr>
<td>48.4%</td>
<td>58.9%</td>
<td></td>
</tr>
<tr>
<td>Overheads</td>
<td>(320)</td>
<td>(310)</td>
</tr>
<tr>
<td>(Loss)/Profit before tax</td>
<td>(55)</td>
<td>260</td>
</tr>
<tr>
<td>Interest</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Depreciation</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>Amortisation</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>EBITDA</td>
<td>10</td>
<td>305</td>
</tr>
</tbody>
</table>

EBITDA stands for Earnings (i.e. profit) Before Interest Tax Depreciation & Amortisation. It provides an indication of the underlying financial performance of a practice, irrespective of its structure (e.g. sole trader, partnership, LLP, Limited Company), debt levels, policies on writing off the values of assets (depreciation/amortisation) and exposure to tax. Where necessary, EBITDA is further adjusted to exclude private costs/income and exceptional items, e.g. one-off repairs/legal and professional fees etc.

EBITDA gives an indication of the amount of cash a practice generates before capital expenditure and drawings/dividends.

It is worth mentioning that an owner may be happy with the performance of their practice, even if it is supposedly “below average” profitability. For most owners, maintaining a good work / life balance is very important. However, as you will see as we consider each of the financial headings above in more detail, many of the actions that can help turn a poorly performing practice into a high performing one require very little, if any, extra work.
1. Turnover
It sounds simple, but focusing on turnover is surprisingly often forgotten. Keeping an eye on the pennies with good cost control will not by itself make a high performing practice. Without a comparatively decent level of turnover for any given level of costs, there will not be any profit.

For new start-up practices, growing turnover is absolutely critical. For established practices, it is still important that turnover grows. With cost inflation, profitability will fall in real terms unless turnover increases.

Clearly a practice’s turnover will depend to a great degree on its number of vets. The average turnover per vet for a Small Animal practice based on our data is around £230,000 per annum, although there are regional variances, with the South East and in particular London generally achieving higher figures. Some practices achieve significantly higher turnover per vet figures, even as high as £500,000+, although this tends to be the exception as opposed to the rule.

The below-average performing practice in the example above (Fig.1) has a turnover per vet of £200,000 compared to £260,000 for the above average performing practice. For ideas on boosting turnover see later. It can also be useful to consider how making improvements to a practice’s pricing structure and charging can help make improvements to turnover per vet.

Some examples are shown in the table above (Fig.2): In this example, a few of the practice’s prices are lower than might be considered ideal (please note all figures are illustrative only) and a number of items are routinely undercharged compared to what they should be charged out at. By “correcting” these areas, turnover per vet would increase by just over £23,000 per annum. With our example practice which has 5.75 full time equivalent vets, this equates to around £132,000 of turnover that is not being charged.

2. Gross profit
So what is gross profit? This is set out in the following table (Fig.3). The average Small Animal gross profit margin (Gross profit/turnover) based on our data is 73.1%. Practices in the South East which generally command slightly higher prices tend to have a slightly higher margin.

A practice’s gross profit margin is driven to some degree by the mix of sales between fees and drugs. Fees are items such as consults, injection fees, lab work and operations, whilst drugs are POMs, PMLs, food, fleas and wormers etc. The higher the proportion of fees, the higher the gross profit margin, all other matters being the same, as fees do not have associated costs that form part of gross profit (remembering that when we are talking about gross profit, staffing costs are not included). Referral practices will tend to have a higher proportion of fees and a correspondingly a higher gross profit margin.

Whilst the average Small Animal fee to drug ratio based on our data is 1 : 0.62, a lower (or indeed higher) ratio is not right or wrong as clearly your practice may have expertise in a particular clinical area that will drive the mix of fees to drugs. Rather it can be interesting to monitor the fee to drug ratio over time to see how it impacts on the gross profit margin.

**How can you boost gross profit?**
- Reviewing buying terms regularly with your wholesaler / buying group, lab and clinical waste suppliers to ensure that you are getting the best overall deal and level of service.
- If you refer work to other practices, reviewing any referral fees to ensure that they are competitive.
- Making sure your practice has an appropriate pricing strategy.
- Taking steps to reduce undercharging, as considered above.

3. Staffing costs
We generally consider that an efficient proportion of Small Animal staffing costs to sales is between 38% and 45%, although there can be exceptions outside of this range. It is important to note that this includes an equivalent market rate salary for any owners plus employer’s NI. A typical figure is in the region of £52,500 to £55,000 although they can be higher or lower depending on the nature of the work undertaken by the owner, e.g. first opinion, specialist, referral etc and the area of the country. Any directors’ remuneration, directors’ pension costs should be excluded and replaced with this equivalent market rate salary.
We generally find an efficient staffing mix in terms of relative % for each staff type, for a Small Animal practice to be as follows (Fig.4) (please note the £000 figures are illustrative only and the costs include an equivalent market rate salary for owners as well as employer’s National Insurance).

<table>
<thead>
<tr>
<th>Staff Type</th>
<th>%</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vets including locums</td>
<td>24</td>
<td>322</td>
</tr>
<tr>
<td>Nurses including locums</td>
<td>27</td>
<td>166</td>
</tr>
<tr>
<td>Support including Practice Manager</td>
<td>19</td>
<td>117</td>
</tr>
<tr>
<td><strong>Total staffing costs</strong></td>
<td>100</td>
<td>615</td>
</tr>
</tbody>
</table>

Just because a practice has a ratio higher than 45% does not necessarily mean it is overstaffed or that its staff are overpaid. Whilst this can be the case, it is often that the practice is turning over less than it should for any given level of staffing. Boosting turnover can help to bring the ratio back to a more acceptable level.

It can be useful to compare individual vet’s turnover as a proportion of their “package”, being their gross salary plus the value of any benefits, e.g. car, accommodation etc. A typical range based on our data is between 16% and 25% with 19% currently being average. Clearly there can be distortions where staff other than vets book work to the vet system. One way to overcome this issue is to allocate such turnover to the vets based on their respective individual turnover.

Monitoring these ratios over time and between vets can be very enlightening. They can also provide a useful tool to assist in appraisals and when considering pay rises.

An example of this is shown in the table below: (Fig.5)

<table>
<thead>
<tr>
<th>Turnover per vet system £</th>
<th>Unallocated turnover £</th>
<th>Total turnover £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vets 1: 215,000</td>
<td>25,889</td>
<td>238,889</td>
</tr>
<tr>
<td>Vets 2: 225,000</td>
<td>26,111</td>
<td>261,111</td>
</tr>
<tr>
<td><strong>Total: 450,000</strong></td>
<td><strong>50,000</strong></td>
<td><strong>500,000</strong></td>
</tr>
</tbody>
</table>

Vet 1 - Unallocated turnover: 215,000 / 450,000 x 50,000 = 23,889
Vet 2 - Unallocated turnover: 235,000 / 450,000 x 50,000 = 26,111

In this example, whilst vet 2 has a higher package than vet 1, their package as a percentage of turnover is actually lower.

Successful practices are good at mentoring staff and providing them with ongoing support, rather than simply waiting for appraisal time. Regular staff meetings can help here.

What about the issue of what pay rises to give? One way to approach this matter is to decide on an overall budget for pay rises and then split it between staff based on individual merit as you feel is appropriate. This way, you will avoid overstretching the budget. This is a different approach to an across-the-board increase, although it is accepted this can be appropriate in some cases.

We often find that owners say that they don’t have the time to put in place all the ideas that they would like to at the practice or that they are simply out of new ideas. Holding regular staffing meetings and encouraging staff to share their own ideas can work well here. A good practice manager can also be invaluable in helping drive practice initiatives forward and motivating staff.

### 4. Overheads

Generally an annual review of overheads is sufficient at most practices, to ensure that the best value service is being obtained.

When reviewing overheads over time, pay particular attention to any exceptional / one-off costs that need to be excluded to show the underlying trends.

Managing the financial information in your practice

The quality of financial information varies considerably between practices. Some will manage their finances using basic turnover and bank balance information. Others look at key data including turnover, gross profit and staffing costs, whilst some go a step further and produce regular management accounts by branch / division.

Relatively few practices produce cash flow projections. Cash flow projections can be really helpful, particularly when deciding how much can be taken out of the practice as drawings or remuneration. Recognising that cash is not the same as profit is part and parcel of this.

With the increasingly competitive veterinary market, coupled with times still remaining relatively tough for many, access to high quality and timely financial information can make a big difference. It enables practices to see trends quickly and act accordingly. We generally find that if a considered budget is drawn up, it is more likely to be hit.

### Final word

*Turning a poorly performing practice into a successful one is not rocket science although it can often feel like it. The best practices do the basic things well.*

For many practices, making improvements will depend upon making small changes in certain areas as opposed to a wholesale change in the way they do business. The ideas considered above are by no means
exhaustive and different practices will find different things work for them.

For most practices, it would not be unrealistic to expect that each vet could generate say an extra £50 per day in what they charge. In our example above of a practice with 5.75 Full Time Equivalent vets, with an assumed 220 working days per annum, this would give an extra £63,250 turnover per annum.

The reality is that additional turnover and profit can often be generated without carrying out any additional work. Clearly where there are also opportunities to increase footfall as well, the potential for improvement is even greater.

The author welcomes questions from readers and can be contacted on 01242 680000 or mark.harwood@hazlewoods.co.uk

This release has been prepared as a guide to topics of current financial business interests. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of this material can be accepted by us.

BOOSTING Turnover

A good way to think about boosting turnover is to look at the “client journey” and all of the contact points they have with your practice.

Before a client gets to the practice
Let’s consider how a practice can engage a client before they even arrive.

There are many ways in which practices communicate with their clients. Successful practices engage clients in a range of ways and by doing so encourage them to remain loyal to the practice. For example:
– Having an up to date, simple to use and informative website. Don’t forget to include details of any current offers. Having a great website is all very well and good, but ensuring that your practice comes out towards the top of internet searches is also invaluable.
– Using social media. Whilst the likes of Facebook and Twitter are not for everyone, more and more clients have been brought up with technology as a part of their everyday lives and this will only increase. It is at least worthwhile considering whether using social media could benefit your practice. Bear in mind that if you choose to use social media, updating it regularly is important – out of date media can be more damaging than no media at all.
– Giving clients the choice of how you contact them, for example text, email, post or telephone or indeed a combination of these. Different clients will have different
preferences so it is important to cater for these, whether in house - for example using your vet system - or by taking advantage of services provided by suppliers. Some practices send reminders to clients to administer the likes of flea/worming products to their pets and to also remind them when they should be getting low on these and that extra supplies are waiting for them at the practice.

– A vaccine amnesty can prove a useful way to encourage owners to ensure their animals are vaccinated. That said, a successful vaccine amnesty can suggest that a practice is otherwise poor at ensuring animals remain within vaccine protocol!

– Asking clients to confirm if they have any change in contact details when they visit to ensure that your vet system is up to date.

– Using well trained and enthusiastic reception staff. The key part receptionists play is often overlooked. They are the point of contact for potential and existing clients when they make an enquiry. Monitoring call to consult/bookings over time can be an eye opener and can help to highlight staff that may benefit from training. A mystery shopping exercise can be helpful here as well.

Clients arriving at the practice

– Having opening hours that are convenient for your clients. Whilst for smaller practices, opening 7 days a week or even 24-7 may not be feasible, many practices are offering extended opening hours, including weekends and evenings. If your practice has the edge on local competition with opening hours, it can be another tick in the box when clients are choosing which practice to go to.

– Good car parking. Whilst this is often hard to change, the benefit of having easily accessible and sufficient car parking should not be underestimated.

– Courteous staff can make a big difference.

– Having details of latest practice offers on show.

– A clean waiting room with literature to read and entertainment for children.

In the consult room

– Encouraging all vets and other staff to be proactive as opposed to reactive about the health of animals under the practice’s care. This is not just about financial opportunities, as after all this approach is in the best interests of the animal. Regular discussions with clients, for example (by no means an exhaustive list) about vaccines, fleas/wormers, diet, dentals, insurance, microchipping, nurse clinics, offers on the go and general animal health can be really beneficial.

– Taking the opportunity to capture information about an animal’s healthcare can prove invaluable – this can go hand in hand with the discussions mentioned above. Some practices operate a traffic light type system of rating certain areas of an animal’s healthcare, e.g. teeth, weight, renal function, arthritis etc, with green being good, amber in need of attention and red being critical. An alternative would be to use a numbering system, e.g. 1 to 5. Using the vet system to record this information should mean that over the course of a year, the practice has undertaken a clinical audit of all its active clients. This can provide hugely useful to help target marketing initiatives, e.g. offers on dentals, weight clinics, healthy pet foods etc. Practices that find this approach works for them are successful in getting all vets to buy in to this being part of a consult or health check. Nurses can also help here.

Post consult

– Where vets find that they have spare time at the end of a consult, it can provide a good opportunity to walk with the client to reception to help them book to a follow up appointment, that may otherwise be missed.

– Some practices, as well as offering nurse clinics, also offer clients the chance to meet nurses immediately after a consult to discuss ways they can be proactive with the health and care of their animal, e.g. diet, flea/worming products, micro chipping etc. With the client at the practice, this can prove an easy way to “work up” sales and benefit the health of the animal.

– Whilst there are pros and cons to the likes of insurance products and pet health clubs, and they are not for everyone, offering these to clients can be a good way to encourage loyalty to the practice. Offering direct claims, where time is available to administer, can also make matters easier for clients.

– Promoting pet food. Whilst we would certainly not suggest removing a consult room to fill it with pet food(!), the sale of pet food remains surprisingly low – indeed only around 3% of pet food is sold through veterinary practices. The average pet food turnover per vet per annum based on our benchmark is around £12,000. Promoting pet food represents a missed opportunity in many cases.

– Following up operations by calling clients in the few days afterwards suggests a caring practice. It also provides an opportunity to encourage clients to book follow up appointments if it was missed whilst they were at the practice.

Other thoughts

– Ensuring that the practice has an appropriate pricing strategy. Many practices are unaware that they are perhaps expensive on routine items where it is generally accepted that they need to be competitive locally, e.g. vaccines, whilst they charge too little on items that they could reasonably and fairly charge more for. At Hazlewoods, we help our clients review their pricing to help them ensure that it is appropriate. Reviewing prices on a regular basis, e.g. annually for non-routine items, is important.

– Encouraging vets to charge properly. Lost income through undercharging is perhaps one of the biggest failures of many practices. Using the vet system to “package up” common procedures can help to avoid this, as can regular invoice reviews. Another idea is to ask all vets to diagnose a case, to see how what they would charge may differ.

– Review the composition of turnover, e.g. vaccines, neutering, dentistry, consults, injection fees, hospitalisation etc. This can be interesting to look at both over time and between vets, helping to highlight where incoming generating opportunities are being capitalised on or missed. It can also be helpful when considering which areas to focus on as regards undercharging.

– Reviewing your out of hours service, whether in house or outsourced, to ensure that your clients are getting a good service and you, a good deal.