

SPVS Profitability Survey - Report June 2018

Measuring success in veterinary practice

Success in Veterinary practice can be defined in any number of widely differing ways.

Practice success is all about these and many other measures but every single one ultimately depends on the financial as well as the professional success of the business – and that requires the ability of the practice to generate a healthy profit -

That is why the SPVS Profitability Survey is such an important initiative to monitor the financial health of veterinary practice in the UK

Survey requirements

At the outset, it was agreed that the survey should generate results which were authentic, valid, up-to-date, easy to understand and freely available for comment and interpretation by the industry at large.

The survey is intended to be easy for practice owners to collect and submit their data and be simple to interpret. The identity of contributing practices and their data should be regarded in the strictest of confidence. The survey has been designed to offer a valid benchmark service for all practice models and as a free service for all UK practice owners and managers whether or not they were SPVS members.

How is profit defined?

The SPVS Survey defines profit as earnings after interest, depreciation, amortisation, owner's remuneration and an appropriate property charge if not otherwise included in the accounts. For the purposes of the survey, practice owners are allocated a notional 'salary' for their role as clinicians, equivalent to the average cost of their employee veterinarians. We feel this gives a practical definition of profit, although it should be noted that this is different from EBITDA which is often used to value a practice, and the profit figure shown may be lower than expected if for example the accounts contain higher than usual levels of depreciation for tax planning purposes.

Survey findings at June 30th 2018

Figure 1 summarises some information about the practices which have submitted data

Figure 1	
Number of separate financial accounts	164
Number of separate practices	141
Number of 'independent' practices	133
Number of Joint Venture practices	8
Equine practices	4
Mixed practices	17
Small animal practices	143



Individual Reports

Figure 2 is an example of the report now being provided for practices submitting data to the SPVS Profitability Survey

SPVS Profitability Survey from https://Veterinary Business.org				Lower Quartile	Median	Upper Quartile	Your Practice
Your Practice Code							spvs/sa/1628
Transaction Volume Index (TVI)				8.4	11.6	14.5	11.5
Cost of drugs and supplies as a percentage of revenue %				24.2	27.2	30.9	33.9
Cost of all your people as a percentage of revenue %				34.5	39.0	43.1	41.3
Establishment and overhead costs as a percentage of revenue %				18.4	22.8	28.3	12.0
Profit as a percentage of revenue %				3.9	10.2	15.8	12.8
Your Practice Score is:				Average			
Notes							
Transactions Volume Index Total revenue per vet team per day divided by the average transaction value							
Cost of drugs and supplies Annual cost of medical and surgical supplies, animal foods and other veterinary products							
Cost of all your people Annual cost of support staff, employee veterinarians and employer vets working as FTE clinicians, allocated a salary equivalent to the average paid to their employee veterinarians							
Overhead costs Total costs less the cost of drugs and supplies plus a yield of 8% of the estimated capital value of the property if not otherwise accounted for in the financial statements							
What your score means. If the estimated profitability is:							
Greater than 18%						It may be regarded as:	
Between 15% and 18%						Excellent	
Between 12% and 15%						Good	
Between 8% and 12%						Average	
Below 8%						Below average	
Below 8%						Poor	

The report for each practice includes explanatory notes and identifies 5 practice numbers compared with the median and upper and lower quartile numbers for all the participating practices – together with an overall descriptive profit ‘score’

The numbers reported are:

- Transaction Volume Index (TVI) - a measure of ‘busy-ness’
- Cost of Drugs and Supplies (essentially COGS) as % of revenue
- Cost of all the People (including the owners in their clinical role) as % of revenue
- The Establishment and Overhead costs as % of revenue
- Profit as % of revenue

Each practice contributing data is allocated a profit ‘score’ as follows:

- Profits greater than 18% of revenue scored as ‘Excellent’
- Profit between 15% and 18% scored as ‘Good’
- Profit between 12% and 15% scored as ‘Average’
- Profit between 8% and 12% scored as ‘Below Average’
- Profit below 8% scored as ‘Poor’

Overall Results

Figure 3 summarises the profit 'scores' for participating practices, the median and average profit generated and the percentage of practices recorded as making a loss (generating a negative profit value)

Figure 3	
Percentage of practices scored as 'Excellent' or 'Good'	29.3%
Percentage of practices scored as 'Average'	14.0%
Percentage of practices scored as 'Below Average' or 'Poor'	56.7%
Current Median Profit as %age of revenue	9.3%
Current Average Profit as %age of revenue	8.9%
Percentage of practices recorded as making a loss	15.9%

Generic Results

Figure 4 identifies the generic results for the TVI, three cost headings and net profit as a percentage of revenue

Figure 4					
	Transaction Volume Index	Cost of drugs and supplies	Cost of all your people	Estab and overhead costs	Profit as %age revenue
Lower quartile	8.4	24.2%	34.5%	18.4%	3.4
Median	11.6	27.2%	39.0%	22.8%	9.3
Upper quartile	14.5	30.9%	43.1%	28.3%	15.5

Figure 5 identifies the generic results for the revenue generated per VS FTE, VS earnings, VS earnings as a percentage of revenue generated per VS FTE and Average Transaction Values

Figure 5				
	Revenue per VS FTE	Earnings per VS FTE	Earnings as % revenue	ATV
Lower quartile	179,645	34,664	17.4%	41.00
Median	217,413	44,000	20.3%	52.00
Upper quartile	257,908	52,000	23.4%	67.00

Partners Income

Figure 6 identifies the generic income for partners. Partners income is calculated as the notional 'salary' equivalent to the average salary paid to their own employee vets, plus the partners share of practice profit

Figure 6			
	Partners Total Income		
	Notional Salary	Profit Share	Total
Lower quartile	31,400	0	31,400
Median	41,485	16,585	58,070
Upper quartile	50,759	32,868	83,627

Characteristics of practices generating profits scored as 'good' or 'excellent'

Figure 7 identifies some of the characteristics of the contributing practices generating profits scored as 'good' and 'excellent'

Figure 7			
	Lower Quartile	Median	Upper Quartile
Transaction Volume Index (TVI)	9.1	12.4	16.5
Cost of Drugs and Supplies	23.5%	26.8%	29.9%
Cost of all your people	31.4%	34.6%	38.2%
Establishment and overhead costs	14.7%	18.8%	22.4%
Profit as a %age of revenue	17.6%	19.5%	21.4%
Revenue generated per VS FTE	205,017	261,307	310,464
Earnings per VS FTE	37,618	45,486	54,547
Earnings as %age of revenue	16.2%	18.6%	20.9%
ATV	43.96	64.50	72.50

Significance of the results for the veterinary profession in the UK

A recent RCVS Annual Report indicates that there are approximately 19,000 vets working in *circa* 5,000 practices premises in the UK.

If practices submitting data to the SPVS Profitability Survey reasonably reflect the situation throughout the UK, the results to-date suggest that 15.9% of practices are losing money. That represents more than 2,800 vets working in more than 700 veterinary practice premises.

These results indicate that the financial health of the independent practice sector in the UK is poor and that seven in every ten practices are generating an inadequate level of profit.



The significance of the survey results for individual practice owners and managers

Every stakeholder with an interest in veterinary practice in the UK wants to be associated with a practice perceived as successful. Successful practices are profitable practices.

If yours is not one of them, the news which is almost as good, is that your practice too, could achieve financial results which match the best of those identified in this report.

How?

Contributing your practice data to the SPVS Profitability Survey is the essential first step to identify those all-important, five key numbers, understand how they compare with the generic results of all the other participating practices and then use the appropriate business tools, techniques and support to identify the specific issues responsible for your disappointing financial results.

As clinicians, you preach the value for animal owners, of seeking professional advice from a veterinarian. Perhaps now is the time to seek some professional help to ensure that the financial health of your veterinary business matches the quality of your professional standards and service to clients.

Your membership of SPVS can point you in the right direction.

John Sheridan
June 2018