

The background of the slide is a dark, stormy night sky. A prominent, bright purple lightning bolt strikes vertically down the center of the frame. At the bottom, the silhouettes of hills and a city skyline with numerous lights are visible against the dark horizon.

There is Nothing Wrong with My Practice !!!

Small Grossing Practices in Crisis

Byron Farquer, DVM

Veterinarians vs. other professionals

KPMG-AVMA study

- Vets vs. physician, accountant, chiropractor, attorney, dentist, teacher, pharmacist (8 total)
- Equine Vets: **1st intelligence**, education, compassion, honesty, trustworthiness and technical proficiency.
- Small Animal: **1st compassion**, honesty, trustworthiness, **2nd intelligence**, **3rd education and technical proficiency**
- Non Pet owners: **3rd compassion**, **4th honesty and technical proficiency**, **5th trust and education**, **7th intelligence**

Top Reasons Owners Sell

- Retirement
- Unexpected Serious Illness
- Career Change
 - #1 Large Practices – Burn-out or Boredom
 - #1 Small Practices – Frustration (finding associates)
- Divorce

The Average Practice — KPMG Study

- 22,400 veterinary practices
- +/- 2 FTE veterinarians
- Average gross revenue \$478,355
- Average expenses are \$303,584

- Average Cashflow to Owner 27-41%
Example = \$174,771 (36.5%)
- Average Earnings 14-17%
Example = \$74,145 (15.5%)

Life Cycle of a Practice

- Origin: Gross \$0.00 1 DVM
- Growth: Add DVM's and Staff
- Steady State: +/- match inflation
- Decline: Drop staff, Drop Gross
- Terminal: Limited hours & procedures
- Euthanasia: Nothing viable left

Two Types of Low Gross Practices

- Young, Small, and Growing Practices
 - Start Up or Partially Staffed
- Mature, Declining Practices
 - Getting smaller over time



Alarming Trend

- The lower the gross, the harder to sell
- Rapidly rising trend in the US:
small grossing practices becoming un-sellable ¹

– AT ANY PRICE !

¹ 2006 Simmons & Associates, AVPMCA

Practice Price/Gross income



Significant Factors?

- Supply and Demand
- Too Many Facilities
- Not Enough DVM's
- Low Ownership Desire
- Baby Boomers
- Buyer (NOT SELLER) cashflow problems

I'm Frustrated!

- I have good clients, many are “A’s”
- My staff is loyal, and well trained
- I’ve been here 30 years!
- I’m making money!
- It’s my heart and soul.....



Typical Comments from these Owners

Perfect for a husband – wife team

Fastest growing area (in the US)

Huge upside potential

My practice is special

I don't work it very hard, but you could....



Common Complaints

Associates are so hard to find !

What happened to the work ethic?

No one sees the potential!

(If a buyer would just work longer, add boarding, grooming, work nights, take emergencies, plus they are building 2000 homes across the road, blah, blah, blah)

Why is this Happening?

- Changing times?
- Demographic alterations?
- Community Growth?
- Gender?
- Generation X, Y, Z er's ?
- Cost of doing business? (taxes, equip, ins)
- Real Estate Costs?

What are the two main reasons my practice is difficult to sell?

Am I doing something wrong?



#1 Detrimental issue = Low Profit

- \$\$ are the Cornerstone of Value
- Earnings not Gross Income *is Most Important*
- The Source
- Transferable
& Reproducible



#2 Location

- Geographic (desirable, urban)
- Local Address (consumer influences)

Consider relocation of the facility if needed

Statistics

- 2000 59,000 Veterinary Jobs
- 28% Self Employed (16,520)
- 2000 Median income \$47,020 to \$84,220
- 2010 USDA predicts >average job growth rate

Anecdotal Studies¹

- 1990 vs. 2000
- Senior Students and 1st and 2nd year grads
- Questions:
 - A) Do you want to own a practice?
 - B) How soon do you desire to do so?

¹ Simmons & Associates research

Anecdotal Studies¹

Questions:

- A) Do you want to own a practice?
- B) How soon do you desire to do so?

➤ Answers 1990

- >50% said Yes !
- >50% desired to do so “sooner rather than later”

➤ Answers 2000

- +/- 50% said NO (“never”)
- > 50% (“no hurry”)

¹ Simmons & Associates research

What Caused the Marketplace to Shift?



What Caused the Shift?

- Business Model (mom-pop vs. business)
- Multi-doctor (practice by peer)
- Money (student loans)
- Wage Shift (associates now well paid)
- Gender (possibly)
- Work Ethic or Values change?

Graduate's Debt

- Consumer Debt - all time high
- Graduates 1990 <\$40,000 student debt
- Graduates 2007 >\$100,000 student debt
Tuition KSU out of state \$27,516 per year, up 16% !
- Veterinarians spend between 10 to 15% of their monthly income to pay off their debt versus 8.6 percent for dentists and 5.3 percent for physicians. ¹

Starting Salary By Species

	2004	2000	1994	1990
➤ SA	\$50,878	\$42,918	\$35,500	\$28,000
➤ LA	\$50,403	\$41,629	\$26,530	\$22,000
➤ MX	\$47,704	\$40,358	\$23,950	\$24,000
➤ Equine	\$38,628	\$28,526	\$26,545	\$22,000

2000, etc.... AVMA Report of Starting Salaries for Associates

Salaries of Professionals

Income	1985	1995	Growth 1985-1995
Current dollars			
Physicians (median)	\$92,000	\$160,000	73.9%
Veterinarians (median—owners)	\$51,064	\$61,532	20.5%
Veterinarians (mean—associates)	\$30,665	\$47,543	55.0%
Veterinarians (mean— owners and associates)	\$42,498	\$57,507	35.3%
Dentists (generalist owners)	\$64,130	\$122,860	91.6%
Real 1996 dollars			
Physicians (median)	\$133,139	\$163,253	22.6%
Veterinarians (median—owners)	\$73,898	\$62,783	-15.0%
Veterinarians (mean—associates)	\$44,377	\$48,510	9.3%
Veterinarians (mean— owners and associates)	\$61,502	\$58,676	-4.6%
Dentists (generalist owners)	\$92,807	\$125,358	35.1%

Sources: Income data come from the AVMA, American Medical Association, Association of American Dental Schools, and Bureau of Labor Statistics.

Veterinary Workforce

- 76,291 active in US
- 5,860 Veterinarians in California
- Ratio of vets to population is 27:100,000 in US
- 17:100,000 in California
- If adjusted to national averages, CA needs 3,367 additional veterinarians

UCD applications vs. enrollment

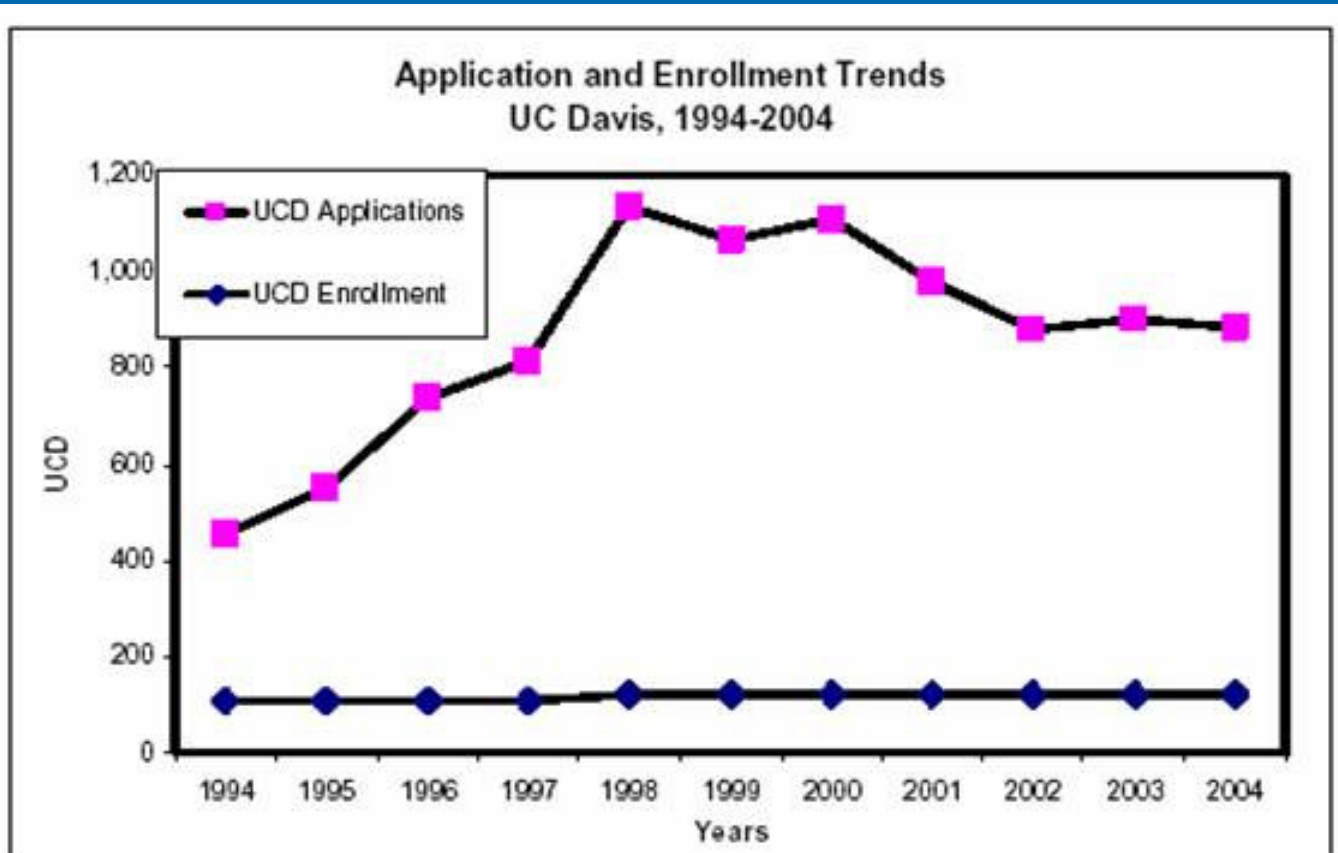
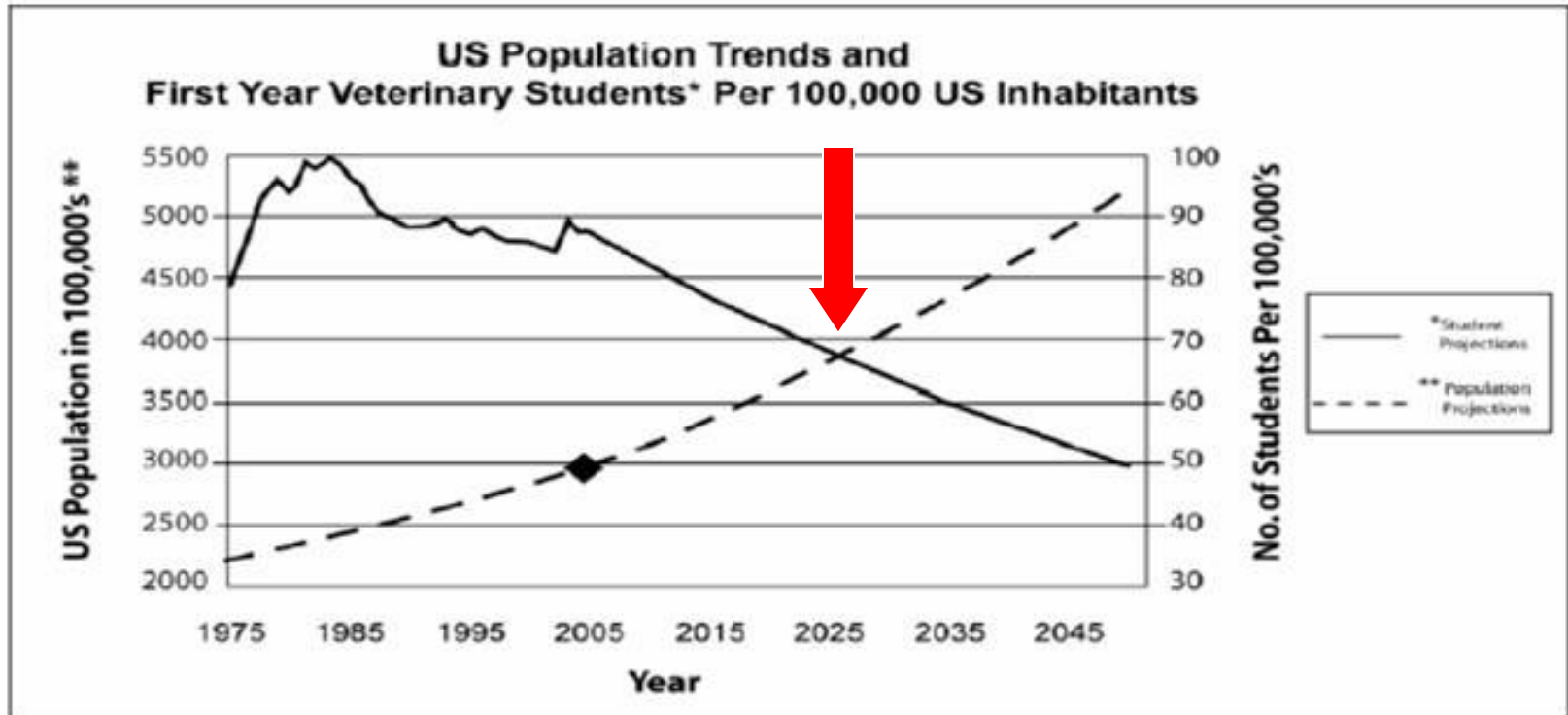


Figure 4: Applicant and Enrollment Trends for California

US population vs. Vet Students



* First year students enrolled in an accredited college or school of veterinary medicine in the United States

** Population data and projections from US Census Bureau

Diamond represents current US population in 2004 (293 million).

Problem Not Limited to the US

- 1995, 325 veterinarians working in Saskatchewan.
- 2000, dropped to 265--an 18% decrease in just 5 years.
- Age of the work force is a growing concern. In 2001, nearly 50% of all Saskatchewan veterinarians were 45 years of age or older.

Has the hiring place changed?

- Job loyalty now 3 years vs. 7 years (US News & WR)
- 2nd Income
- Part time is satisfactory (quality of life influence)
- Male “traditional bread winner” is still alive and well
- Survey from Vet Students
 - 25% capped their work hours
 - 75% strongly avoided after hours duties
 - 25% refused large animal work at any pay scale
 - 60% required benefits

Demographics

- 45% female
- 55% male
- 2001-2002 65% students were female
- Average age of practitioner now 45
- Rising mixed ethnic diversity

Veterinary Students

2004-2005 Enrollment

Female	8,720	74.2%
Male	3,028	25.8%
Total	11,748	

Females:

7 percent of 4429 students in 1967.

55 percent of 8751 students in 1987.

Female Influences

- Women work 3-4 hours less per week
- lower earnings expectations
- Higher satisfaction rating vs. income
- Less interest in solo ownership
- Female owners set pricing slightly lower (9%)
- Support staff and employee benefits costs higher
- Willing to leave the profession for spouse, children, health

“Women aren’t driven by money as much as they are by other measurements of value as a practitioner”. - Dr. Bussell 2007

Small Animal Practices 2003

20,132 practices

- Gross Revenue \$530,000
- Ave Expenses \$390,000 73%
- Ave Net (Cashflow) \$180,000 33%

- Ave Owner DVM \$102,000 19%
- Ave Mngmt comp \$ 10,000 2%
- Ave Net Earnings \$ 68,000 15%

Does Size Matter?

Question: True or False?

Smaller practices are more affordable, easier to finance, and are less risky to buy.



Small vs. Larger Practice

➤ Gross Revenue	\$300,000	\$700,000	\$1.5M
➤ Value	\$245,000	\$610,000	\$1.3M
➤ Cashflow	\$129K	\$238K	\$450K
➤ Debt service	<u>\$39K</u>	<u>\$106K</u>	<u>\$197K</u>
➤ Buyer Income	\$90K	\$132K	\$253K
➤ Salary Min	<u>\$80K</u>	<u>\$80K</u>	<u>\$80K</u>
➤ Cushion	\$10K	\$52K	\$173K

Example Practice

\$300,000	gross income
<u>\$210,000</u>	expenses
\$ 90,000	cashflow to seller 20hrs / wk
<u>\$ 70,000</u>	(seller salary + mgmt)
\$ 20,000	earnings to seller

Example Small Gross Practice

\$300,000	gross income
<u>\$210,000</u>	expenses
\$ 90,000	cashflow to buyer
<u>\$ 80,000</u>	(buyer's min. needs) 40 hrs/wk
\$ 10,000	earnings to buyer

\$10,000 Available for Debt Service
(**\$63,000** purchase price with **\$20K** down)

Example Comparison Practice

\$700,000	gross income
<u>\$462,000</u>	expenses
\$238,000	cashflow to buyer
<u>\$ 80,000</u>	(buyer's min. needs) 40hrs/wk
\$158,000	earnings to buyer

\$158,000 Available for Debt Service
(>\$610K purchase price with \$20K down)

Next Steps – Small Grossing Owners

- Build profitability (appraisal and monitor)
- Improve facility, equipment, staff training

HOT TIP -

Focus on client compliance

*it affects profit, growth
and
transferability*



DO list

- DO an appraisal and marketability analysis
- DO report ALL income
- DO document all discretionary expenses
- DO increase gross income
- DO decrease expenses
- DO computerize

DO list (continued)

- DO stabilize staff
- DO offer full selection of services
- DO keep your fee schedule current
- DO keep the facility neat, clean, and painted
- DO expand client base

DON'T list

- DON'T play too much golf
- DON'T retire further mentally
- DON'T let the equipment deteriorate
- DON'T refer if you can bring in a SDVM
- DON'T let your ego interfere
- DON'T take it personally

What Can Else Can I
Do?



Alternatives

- Grow it again
- Work it harder (clinically and managerially)
- Acquisition – Mergers (clientele)
- Pension (defined benefits plan)
- “Nearly – Free” Practice
- Pick a date for closure (eBay date)



Friday,
November
30, 2008



Up Next

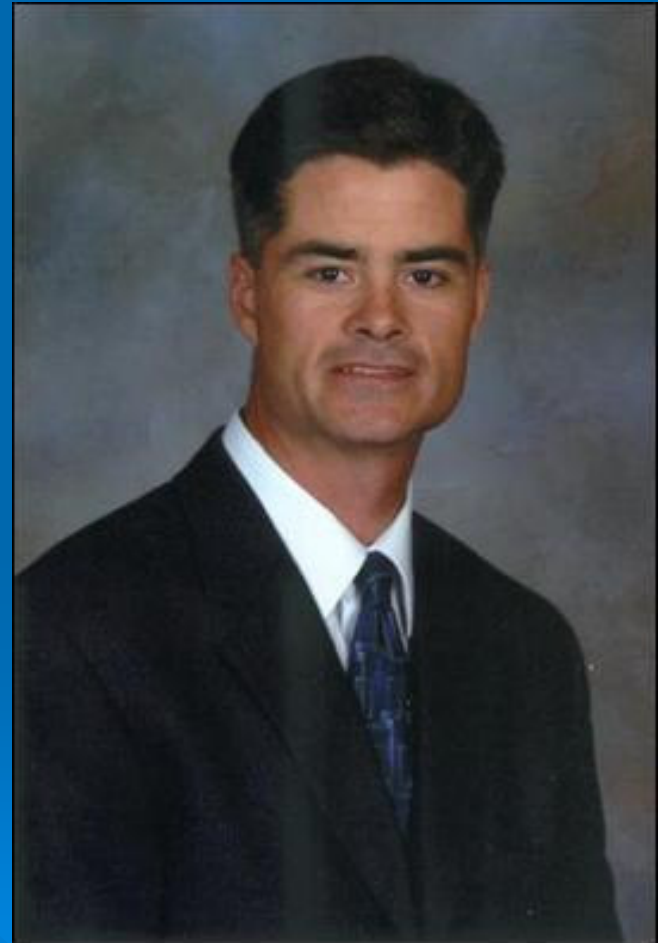
- You're a Good Doctor.....SO WHAT!
 - An enlightening look at why clients seem to choose one practice over another
 - Why medial competence just isn't good enough anymore

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