MPV consulting NEWSLETTER
Issue 6 July 2007

The 'more profitable' veterinary practice

Profit Newsletter Series 2 of 3

Veterinarians and practice managers who are on our email news list will have received (and hopefully read) the *MPV Consulting Newsletter 5 – June 2007*. This newsletter dealt with the profit of an *"average veterinary practice"* in Australia. We requested feedback on the usefulness of this and other newsletters and as a results have developed a further 2 newsletters in a series relating to the topic of profitability. This newsletter does assume that you have read the previous newsletter headed "Profit in veterinary practice" so if you do not have a copy please contact MPV Consulting and we will forward it to you. The principles applied in the previous newsletter will again be applied in this one.

The *'more profitable practice'*

I have chosen the typical *'more profitable veterinary practice'* to be a theoretical practice that attained the 75th percentile within the *MPV Annual Profit & Expenses Survey 2006*. This means that this theoretical practice had the distinction of having 75% of practice participants perform at a lower level of profitability and 25% of practices participants perform at a higher level of profitability. This is aimed at helping practice managers to set goals for practice profitability that are practically attainable in the veterinary industry. If you have participated and performed in the upper 25% then you should congratulate yourself and see if you can improve! A word of warning before we start – in the *MPV Annual Profit & Expenses Survey 2006* we surveyed approximately 40 statistics. I have selected only a few for this analysis. Of these chosen statistics no single practice could realistically sit permanently on the 75th percentile for all statistics. For example a practice could be on the 75th percentile for net profit because they managed their expenses very well whereas another practice may not have managed expenses as well but performed very well in veterinary productivity to achieve the same profitability. This newsletter will deal with the theoretical practice that actually achieved the 75th percentile for both *'profit before veterinary salaries & wages'* and *'veterinary productivity ratio'* and will make some assumptions on other statistics. The net result will be a typical example of how a *more veterinary profitable practice* would have performed.

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

In the *MPV Annual Profit & Expenses Survey 2006* the average *"Market Rate"* salary for owner veterinarians was $81,450. This remuneration is for performing daily tasks, it is NOT part of profit. (see MPV Consulting Newsletter 5 for definitions)

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 effectively tells veterinarians the cost of operation of their business before vets are paid. In Australia the *more profitable veterinary practice* achieved a ***Net profit <u>before</u> vets salaries and wages of 37.5%*** of gross turnover. By deduction, this of course means that the cost of operation of the *more profitable veterinary practice* is 62.5% of the total gross revenue. (The *'average veterinary practice'* was 32.3% and 67.7% respectively)

Think of it this way, if your practice charges $75.00 for a dog C5 vaccination the breakdown of costs is as follows:

$	Average practice	More profitable practice
Government gst	6.82	6.82
Cost of business operation (excluding vets)	46.16	42.61
Amount left to pay employed vets and owners	22.02	25.57
Total C5 Fee	**$75.00**	**$75.00**

Profit from generation of veterinary fees

Theory dictates veterinarians should generate 5 times their salary in veterinary fees (see MPV Consulting Newsletter 5 for detail). The results showed that in Australia the *more profitable veterinary practice* has a ***"Veterinary wages : veterinary fees generated ratio"* of 27.5%.** This means that the *more profitable veterinary practice* has veterinarians generating closer to 4 times what they are paid, rather than the often talked about, 5 times. (The *'average veterinary practice'* result was 31.3% representing approximately 3 times salary)

So what does this mean?

For our theoretical *more profitable veterinary practice* we have two statistics from which we can draw a few conclusions.

Firstly if the average *"Profit before vets salaries & wages"* is = 37.5%; and

Secondly the average "*Veterinary salary : Fees generated ratio"* = 27.5%

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

The profit from generation of veterinary fees = 10.0%

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

	$	Average practice	More profitable practice
Government gst		6.82	6.82
Cost of business operation (excluding vets)		46.16	42.61
Amount paid in veterinary wages (owner & employed)		21.34	18.75
Profit to owners		0.68	6.82
Total C5 Fee		**$75.00**	**$75.00**

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 from generation of veterinary fee* detailed above is 10.0%. Therefore the profit from veterinary fees expressed as a percentage of gross practice revenue is 7.7%

The profit from vet fees = 7.7%

3. Profit from merchandising items

The *profit before Veterinary salaries and wages* detailed above is 37.5%. Therefore the profit from merchandising is 37.5% of 22.7% the merchandising component = 8.5%

The profit from merchandising & other fees = 8.5%

The Analysis of Result

Owner/s veterinarians of the *more profitable 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 7.7% of gross turnover
3. Profit from merchandising & other fees of 8.5%

Items 2 & 3 represent a net practice profit of 16.2% of the gross practice revenue. This would then have to be divided amongst the total number of owners/partners.

Strengths & weaknesses of the calculations

See previous newsletter.

Conclusions

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 your profitability sorted out first before overly focussing on gross practice turnover issues.

NEXT ISSUE:

Profit Newsletter Series 3 - will deal with solutions on how to enhance the profitability aspect of your practice.

Contact us

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MPV Consulting would like to thank the AVPMA for its strong support of the *MPV Profit & Expenses Survey 2006* !

Need help with profitability? Contact Rob White!

NEXT ISSUE:

Profit Newsletter Series 3:

Strategies to improve profit