

CVMA

Colorado Veterinary
Medical Association

2016

Practice Diagnostic Report

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Sample

CVMA PRACTICE DIAGNOSTIC REPORT

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This confidential report is offered as a "thank you" for participating in the CVMA Practice Diagnostic Survey. Throughout your Report, your information from the CVMA Practice Diagnostic Survey is compared to both the average and top performing practices in Colorado. Top performing practices are defined as those practices operating at the 85th percentile.

Data reflects the 2016 reporting period.

If we did not have survey data from your practice, sections of the report may have an "na" or zero.

All the information in this report is strictly confidential.

If you have any questions about your report, please call Darren Osborne at 800-670-1702.

Sample

CLIENT STATISTICS

CLIENTS DRIVING REVENUE

The annual revenue generated by a small animal veterinary hospital depends on three factors.

- 1) How many active clients the hospital has
- 2) How many annual visits each client makes to purchase services or products annually
- 3) How much money each client spends per visit

Your client statistics are shown below compared to the "Average" and "Top Performer." Information on clients per hospital is shown for both the hospital and per FTE veterinarian (2,000 hours).

| CLIENT STATISTICS | Your Hospital | Average | Top Performer |
|---|---------------|---------|---------------|
| Number of clients (by head count) seen per year | | 2,025 | 2,812 |
| Number of new clients per year | | 686 | 762 |
| Number of clients (by head count) per FTE seen per year | | 859 | 1,111 |
| Number of new clients per FTE per year | | 279 | 294 |

INCREASING THE NUMBER OF CLIENTS

If the number of clients per FTE veterinarian is lower than average, it may be a result of:

1) Ineffective Client Retention. Client loyalty is a direct result of effective client satisfaction. There may be an opportunity to improve client retention by improving client satisfaction. Focus on the areas that were ranked as important by your clients on the Client Satisfaction Survey. You can also contact the clients who left the hospital to find out why they left. Exit Surveys from clients who left the hospital can provide valuable information on how to improve customer service.

2) Not Attracting New Clients. There may be an opportunity to step up marketing efforts to attract new clients. This can be done by:

A) Posting a sign that states, "New Clients Welcome,"

B) Improving service to existing clients to increase referrals,

C) External marketing such as speaking to local school groups, hospital tours for local schools, and writing articles for the local newspaper.

CLIENT STATISTICS

| CLIENT STATISTICS | Your Hospital | Average | Top Performer |
|---------------------------------|---------------|----------|---------------|
| Annual visits per client | | 3.9 | 4.3 |
| Average revenue per transaction | | \$131.02 | \$147.61 |
| Annual revenue per client | | \$495 | \$560 |

INCREASING ANNUAL VISITS

If the number of annual visits per client at your practice is lower than average, it may be:

- 1) Below average sales of pet food. Selling more pet diets helps to bring clients to your practice more often, increasing both revenue and contact between them and the hospital. When accompanied by great customer service, pet food sales provide an opportunity to build client loyalty through continued service satisfaction.
- 2) Lack of client retention. If several clients are no longer bringing their pets to the hospital, the average number of annual visits per client may be skewed down. Working to increase client satisfaction may help to improve client retention, as more satisfied clients are more likely to be loyal to your hospital. As mentioned previously, Exit Surveys from clients who no longer use the hospital can provide valuable information on how to improve customer service.

INCREASING THE AVERAGE REVENUE PER TRANSACTION

If your average revenue per transaction is low, it may be the result of:

- 1) Higher than average sales of pet food. Many hospitals wish they had this problem. Higher than average sales of pet food skew down the average revenue per transaction, but increase the annual revenue per client. If revenue per client is higher than average, pet food sales may be causing a low average revenue per transaction.
- 2) Low fees. It may be possible to increase many of the fees in the hospital in order to increase the average revenue per transaction (see page 7 of your Report).
- 3) Expensive procedures not being offered. You may be able to offer your clients a wider range of treatments and services than they thought available. Clients may be spending less than average because they do not know they can take advantage of more thorough procedures and treatment.

NOTE

Figures for Client Statistics are calculated independently. For example, the practice with the highest number of visits per client may not be the same practice with the highest number of clients.

STAFF PRODUCTION

The tables below are separated into DVM and non-DVM staff. For DVM staff information, unless noted, the figures are shown with both owners' and associates' information combined. Non-DVM staff information was broken down by staff types. In cases where a staff member performed more than one duty, the predominate type was used.

The hospital production is based on a combination of DVM performed procedures and non-DVM performed procedures. Combining the production from the two groups provides information on the total team production. This is a valuable measure for comparing the production of your staff complement.

| DVM Staff | Your DVMs - Owners and Associates | Average Owners and Associates | Your Owner DVMs | Your Staff DVMs | Average Staff DVMs |
|-----------------------------|-----------------------------------|-------------------------------|-----------------|-----------------|--------------------|
| Total Hours | | 4,755 | | | 2,951 |
| Hourly Compensation | | \$54.88 | | | \$38.16 |
| FTE Compensation (2000 hrs) | | \$109,766 | | | \$76,328 |

| Non-DVM Staff | Your Staff Hours per DVM Hour | Average Staff Hours per DVM Hour | Your Hourly Compensation | Average Hourly Compensation |
|-----------------------------|-------------------------------|----------------------------------|--------------------------|-----------------------------|
| Receptionist | | 0.6 | | \$13.42 |
| Practice Management* | | 0.3 | | \$21.80 |
| Credentialed Technician | | | | \$15.54 |
| Non-Credentialed Technician | | 1.1 | | \$13.19 |
| Kennel Assistant | | 0.5 | | \$11.53 |
| Groomer | | | | |
| Student | | | | |
| Other | | 0.3 | | \$12.76 |
| All Non-DVM Staff Combined | | 3.7 | | \$14.72 |

* Practice Management includes Office Manager, Practice Manager and Hospital Administrator
 There was insufficient data to break practice management into VHMA Classifications

TEAM PRODUCTION

| | Your Hospital | Average | Top Performer |
|--|---------------|----------|---------------|
| Revenue per Veterinary Hour | | \$201.83 | \$247.75 |
| Revenue per Team Hour (all staff hours included) | | \$54.31 | \$61.25 |

IMPROVING PRODUCTIVITY

If your Revenue per Veterinary Hour or Revenue per Team Hour is lower than average, there is either not enough revenue or too many staff. See the section on Client Statistics for information on increasing revenue. If the problem is too many staff, steps should be taken to determine the next strategic step for the hospital. Consult an accountant or an appropriate professional for more information on appropriate staffing levels for your hospitals.

GROSS REVENUE AND EXPENSES

| | Your Information | Your % of Gross | Average % of Gross | Top Performer |
|--|---------------------|--------------------|-----------------------|------------------|
| Gross Revenue | | | | |
| Expenses | | | | |
| Drugs and Supplies | | 18.2% | 20.5% | 18.0% |
| Wages | | 23.1% | 25.3% | 22.5% |
| Wages Other (associates) | | 4.2% | 8.4% | 6.9% |
| Specialists | | 2.4% | 0.9% | |
| Rent | | 11.8% | 7.4% | 4.0% |
| Office Supplies | | 2.8% | 1.5% | 1.1% |
| Accounting and Legal | | 1.3% | 0.5% | 0.2% |
| Bank Charges | | 2.1% | 2.7% | 1.3% |
| Depreciation | | | 1.8% | |
| Utilities | | 2.5% | 1.9% | 1.3% |
| Repair & Maintenance | | 1.5% | 1.5% | 0.9% |
| Laboratory | | 5.0% | 3.2% | 2.1% |
| Professional Dues | | 1.5% | 1.1% | 0.6% |
| Other | | 0.3% | 0.1% | |
| Advertising | | 0.9% | 1.4% | 0.8% |
| Equipment Rental | | | 0.2% | |
| Bad Debt | | | | |
| Vehicle | | | | |
| Grooming Expense | | | | |
| Continuing Education | | 0.2% | 0.6% | 0.1% |
| Insurance | | 0.8% | 1.9% | 0.9% |
| Total Expenses (including associates) | | 79.6% | | |
| Total Non-DVM Expenses | | 75.4% | 72.6% | |
| Net Income (owner(s)) | | | | |
| Adjusted Net Income (all DVMs) | | 24.6% | 27.4% | |

Comments:

Sources of Revenue

| | Your Information | Your % of Gross | Average % of Gross |
|--|---------------------|--------------------|-----------------------|
| Total Revenue | | | |
| Professional (non-retail) services | | 78% | 75% |
| Companion animal food sales and retail | | 2% | 5% |
| Drugs and medication sales | | 20% | 21% |
| Other | | | |

FEES

COMPARING YOUR FEES

The most important determinant in driving hospital revenue and net income is the level of fees. The table below provides information on the level of fees in your hospital along with the Average and a comparison to Top Performing Hospitals in the United States.

Information on the level of your fees in your hospital was taken from the sample procedure fees listed on your Practice Benchmark Survey. For comparative purposes, the level of shoppable and non-shoppable fees is summarized as an index. 100 represents the fees for Top Performers. A value of less than 100 would indicate your fees are less than the top performers and a value that exceeds 100 indicates your fees were in excess of the top performing hospitals.

| | Your Fee | Average Fee | Top Performer |
|---|----------|-------------|---------------|
| Examination | | 47.47 | 50.08 |
| Length of Examination - minutes | | 23.33 | 30.00 |
| Vaccination (feline adult annual) | | 75.13 | 84.53 |
| Vaccination (canine adult annual) | | 80.35 | 89.09 |
| Feline Orchidectomy | | 137.82 | 178.04 |
| Feline Ovariohysterectomy | | 242.60 | 305.88 |
| Canine Orchidectomy-fee for 30 lbs. | | 256.60 | 331.30 |
| Canine Ovaiohysterectomy - fee for 30 lbs. | | 286.14 | 363.95 |
| Blood Collection Fee | | 39.79 | 42.61 |
| Urine Collection Fee | | 70.43 | 108.45 |
| Urinalysis | | 43.65 | 50.18 |
| Heartworm Test | | 39.79 | 42.61 |
| Complete Blood Count | | 45.98 | 53.14 |
| X-Ray (set up and 2 view) | | 149.43 | 167.01 |
| Anesthesia (induction plus 30 mins of gas) | | 124.12 | 166.88 |
| Non-Elective Surgery (hourly surgical rate) | | 302.50 | 402.00 |
| Dentistry (prophalaxis) | | 237.20 | 309.15 |
| Hospitalization (night) | | 23.17 | 53.50 |
| Euthanasia | | 105.42 | 143.13 |
| Fluid Therapy (IV set up and maintenance) | | 86.00 | 152.65 |
| Dispensing Fee | | 7.10 | 11.15 |
| Prescription Markup (cost X) | | 2.1 | 2.5 |
| Pet Food Markup (cost X) | | 1.4 | 1.5 |

HOSPITAL FEE INDEX

| | | |
|--|----|-----|
| SHOPPABLE FEE INDEX (vaccines, elective surgery) | 84 | 100 |
| NON-SHOPPABLE FEE INDEX (all other procedures) | 84 | 100 |

There may be an opportunity to increase revenue through fee increases.

By increasing shoppable fees to match top performers, you may realize more net.

By Increasing non-shoppable fees to the top performers, you may realize more net.

PRACTICE VALUE ESTIMATE

Your CVMA Practice Value Estimate is based on information from the practice financial statement and Practice Diagnostic Survey to give you an estimate of the veterinary practice worth based on cash flow.

Practices may be valued using one, or a combination of three valuation approaches:

- Market Approach (comparison to other practice sales)
- Asset Approach (placing a value on all practice assets including goodwill)
- Income Approach (value based on cash flow)

The CVMA Practice Value Estimate will provide an estimate based on an income approach only. This method is based on the assumption that, like any other investment, the price a purchaser is willing to pay for a veterinary practice is determined by the size of the anticipated financial return. The magnitude of the return, the potential for growth and the risk of return all drive the value of a veterinary practice. The term estimate is used because the Practice Value Estimate will focus only on the magnitude of return – the value of the future income available to the practice owner.

The estimate of practice value determined is limited by the following:

1. Information and assumptions used in adjusting the financial statement: These limitations may result in an estimate of value that is different than that determined if the research and process were more thorough (i.e., a complete valuation performed by a qualified veterinary practice appraiser).
2. Assumption of an average level of risk for a hypothetical purchaser. Several practice attributes could materially influence the risk associated with a practice purchase and in turn influence the value (e.g., location, client demographics, facility, etc.)

The VHMA Practice Value Estimate is designed to give you an estimate. A more accurate practice value can only be determined by a qualified practice appraiser. For purposes of third party financing, a valuation report completed by a qualified appraiser will be required.

Your Practice

Gross Revenue
Adjusted Non DVM Expenses
Income to all DVMs (including owner)

Less Associate DVM Salaries
Less Owner's Salary (\$50 per hour)

Adjusted Profit

Adjusted Profit as a percentage of Gross (max 25%)

Practice Value Estimate

Practice Value Estimate as a percentage of Gross

Your Practice Value Estimate does not take the following factors into account. Analysis of these factors by a qualified practice valuator may create a more accurate practice value.

GROWTH IN ADJUSTED PROFITABILITY

Assessment of this practice attribute requires the evaluation/consideration of the following: pattern of growth in adjusted profitability, net income after owners' adjusted compensation customary practice benefits, employment taxes, and management duties.

ABILITY TO EFFECTIVELY TRANSFER PRACTICE GOODWILL

In order to assess this practice attribute one must evaluate the risk associated with the practice's and the seller(s)'s ability to effect a change of ownership unperceived by clients, or perceived as a neutral or a positive event, with an uninterrupted flow of services. The sale includes the time and the method to secure the bonding of the clients to the new 'owner'. This includes the expectations that the practice is not in a state of contraction, losing clients, or facing a threat of collapse in the near term. The ability to transfer practice goodwill assumes appropriate non-compete covenants or equivalent agreements with the seller, associates and key personnel are in place.

REVENUE GROWTH

In order to assess this practice attribute one must evaluate the pattern of growth in gross fees. It is also crucial to analyze whether the practice's fee schedule is keeping pace with rising costs and to analyze the source of growth in gross fees. One must determine whether a practice with low fees represents an opportunity to a buyer or represents more inherent risk. One must discern whether growth in product sales, boarding and grooming exceeding growth in professional services makes a practice more vulnerable to non-veterinarian competition.

LOCATION

In order to assess this practice attribute one must estimate the risk associated with the physical location of the practice facility within the trade area. One must give consideration to the visibility or exposure of the facility, the quality of highway or street access to the facility, and the ease of ingress or egress directly into or from the facility.

QUALITY OF STAFF

In order to assess the risk associated with staff, one must determine the risk associated with the presence and transfer of the practice staff. The following are important attributes to look for: staff demonstrates enthusiastic involvement in practice and community; staff shows palpable pride in practice coupled with long tenure (>2 years); staff are well-trained and able to organize past schedules and routines (decreases likelihood of losing staff members and, concurrently, goodwill through decreased client satisfaction and loyalty and/or the risk of poor day-to-day operations after ownership transfer).

FACILITY

One must assess the quality of the practice facility, reflecting on such characteristics as: modern, appealing, architecturally well-designed, no known or recognized environmental/zoning problems, on a large lot for expansion, and in overall good condition.

Your Practice Value Estimate does not take the following factors into account. Analysis of these factors by a qualified practice valuator may create a more accurate practice value.

DEMAND FOR SERVICES

In order to assess the demand for services, one must determine the risk associated with the types of services being provided relative to their ability to persist and support the income stream under new ownership. One must assess the scope of services provided and the likelihood of erosion or loss of the ability to provide a particular service in the practice's environment. One must evaluate the risk associated with revenue streams that are particularly vulnerable in the practice or anticipated to change as a result of a change in ownership.

DEMOGRAPHICS

Assessment of this practice attribute must be made by determining the risk associated with demographic factors such as changes in population numbers, income levels, type of economy (single sector or diverse), unemployment trends, movement of population in practice neighborhood as well as in community, levels of education attainment, mix of household types, and presence of a significant transient/nonresident population (e.g. vacation community).

EFFECTIVE MANAGEMENT SYSTEMS

One must address the risk associated with management information systems and risk management in order to assess this practice attribute.

VETERINARY COMPETITIVE ENVIRONMENT

This practice attribute is assessed by estimating the risk associated with the loss of clients, and therefore goodwill, as a result of competition from currently existing or potential veterinary practices. Analysis of this risk should include both the quantity and quality of competing practices, with additional consideration given toward the positive impact of a cooperative veterinary environment.

PRACTICE STABILITY

Assessment of this practice attribute gives consideration to the consistency and permanence of a practice and its earnings, taking into account employee stability, length of time in the community and at this location, and consistency of growth trends in gross fees and net income as a result of adding new services and products as appropriate.

LEASE TERMS

Assessment of this practice attribute requires an analysis of the risk associated with leasing the practice facility and includes consideration of the following: the components of the lease (e.g., price per square foot, length of the lease, options to continue the lease, shared costs or CAM charges), the renewability of the lease, the existence of provisions for leasehold improvements, and the presence or absence of use services/ use restrictions. The ability of the current owner of the practice to transfer/assign the current lease to the buyer or the ability of the buyer to secure a new lease with favourable terms from the current lease holder is also an important consideration.

-- NOTES --

Sample