



Merry Christmas

Happy New Year

BUSINESS PLANS... COMMON SENSE NOT ROCKET SCIENCE!

Why should an accountant write about Business Plans?

Simple! Businesses that undertake this process have some idea of where they are going and inevitably they are more profitable as a result. You may have a good idea what your goals are and where you want to end up but a Business Plan is simply a document which describes your goals then maps out a proposed course of action so you arrive at the correct destination. The best Plans are the ones that are firstly simple, secondly are in writing, and thirdly are taken out, the dust blown off and then reviewed and reassessed at least every year.

Looking at the Plan and considering how you have gone is important. Even if all is not well, hopefully reviewing the plan will get you back on track and if things have changed, then change the Plan. The whole idea is to proceed through your business and professional life with some purpose and direction, rather than drifting around like a rudderless boat hoping that a fair wind will blow you into a good harbour.

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- Fee setting & fee discounting

Before you can sit down to establish a Plan you must have a clear vision of what you expect to achieve in your business. You may want a certain type of practice, a certain income, a lifestyle, new building and equipment or you may want a Partner – whatever you decide, form a clear picture in your mind then write it down and ideally share it with your family and your team. Once you have a clear vision you can then sit down to sort out a Plan.

The most important step in establishing a Plan is the starting point; that way you can measure your progress toward achieving your goals. Another important thing to do is to speak with other people about how you can achieve your goals. Veterinary practices have been around for a while so why would you try to reinvent the wheel? At whatever point you are in the life-cycle of your business, someone is probably doing it a bit better and often they will



DIRECTOR'S COMMENTS

Dr Tony Thelander
BVSc, MBA, CMAVA
(Director ValuVet)

Year past trends: As 2011 draws to a close I can reflect on the diversity of the practices and locations we are asked to visit. In the past year, Hugh and I have visited all states (except the NT) and many of our practices have been located in provincial and rural areas. We have consulted on the full range of practices from companion animal, mixed, equine and specialist facilities. Having a broad industry knowledge makes our work challenging but easier to understand each individual business. Despite Global uncertainty, cyclones and floods I am pleased to report that the majority of practices we have visited are currently holding their own and many showing good growth over last year.

Invest in own business: Often as we assess and value practices we see evidence of a lack of re-investment into the business (be it in CE, equipment, marketing or in HR). In the majority of cases the practice is the only or major source of income for all members of the team so it makes sense to make every practice as profitable as it can be. A big mistake is to take all the profit home and leave nothing to develop the business and the team. These practices are unable to offer a full range of services to their clients, have higher staff turnover and are consequently less profitable. If you need some ideas or need to know where best to reinvest your capital, have your practice assessed by an external consultant. I am always amazed how easy it is to turn some practices around – often with only 1 or 2 good ideas.

Conferences & CE: CE is an integral part of professional life, so much so that when valuing practices, we always apportion some annual practice expense to education of the staff. Our observation is that practices that progressively educate their team are invariably more profitable than those that do not, simply because the practice is more up to date and inevitably has more skills so the practice can offer a wider range of services to its clients. The CE culture of a practice depends on the leadership of the owners and should involve ALL team members. What is your budget for staff CE for 2012?

Strategic planning: All businesses have a life cycle (startup, consolidation, maturity and decline) and the art of staying at the top and continuing to grow through time requires periodic strategic analysis to search for new avenues of income in order to provide job security for the team and succession for the owners. The old saying of 'fail to plan then plan to fail' is all too true. Practices that have regular 'retreats' to blue sky the future and to try to see the 'big picture' will prosper and endure far longer than those that do not. Strategic planning is for every sized business (not just big corporations) and although not rocket science, it always pays dividends to seek assistance (dare I say it) from an external consultant.

Guest contributor: Once again I have invited that well known practice management consultant, Tom Catanzaro to write on 'valuations and practice value'. Tom expounds briefly on the 13 factors that affect practice value. I hope you enjoy Tom's article.

Web page: After months of planning and hard work behind the scenes, the ValuVet Website is about to be relaunched so by the time our next newsletter reaches you, I hope you will be able to log on to www.valuvet.com.au and have a look. Whether you wish to buy or sell a practice; bring in a partner, find a position or sell some equipment; it will all be there in one location. Websites are a window to your business – they must be user-friendly, up to date and informative to create the best impression to your clients – how does yours stack up?

be happy to share with you. Even if your practice is established and going well there will be things to improve and ideas to explore. You build your plan based on ideas so it makes sense to develop a course of action based on what has worked for other people before. You need to see what works and what does not; what suits you, and what does not.

In order to arrive at a starting point for your Plan, you need to ask the following questions:

What is the value of your practice today?

What have you got to work with?

What is my current financial situation?

If you do not have all the information to move forward, you need to consult your colleagues, your partners, your staff, your accountant and consider using an appropriately qualified consultant to get a starting point for your Plan. This way you will start with a business plan full of proposed changes that are feasible and that have worked elsewhere.

Get some basic commonsense ideas first up on changes that will improve the value of your business and help you achieve what you want from your practice. There are often simple things that can be done that will increase the profitability, value, salability and enjoyment value of a practice that you may not have considered.

Finally the real benefit of a Business Plan is that it provides a forum to regularly review what you are doing and what you can do to improve your practice. A good business plan will allow for an outside consultant to review your practice every 3 to 5 years. ValuVet is available to assist with the formation of a business plan and to provide an unbiased opinion of how your practice is performing, its current value and also to give you a direct insight into what other similar practices are doing to achieve their goals.

Sound business planning will result in happier, more satisfied practice owners who are able to develop better and more valuable practices which will reap financial returns to the owners when it comes time to sell. ■



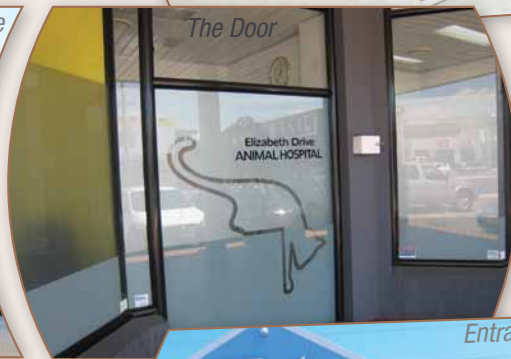
David Sharp B Econ, ACA
Director DFK Richard Hill



YOUR FRONT DOOR

Your practice entrance and your front door is the window to your business in your clients' minds.

It is one of the 'moments of truth' as your clients enter your practice and subliminally gives that important first impression.



How many of us walk past a business just because it does not look inviting from the outside?

Be sure to check your entrance DAILY, clean the door glass, paint the architraves, sweep the path etc..

Note that glass panelled doors are much more inviting to enter than solid blank doors.



Good Doors



Not so Good Doors



The photos illustrated tell their own story – what impression does your entrance create?

VET'S PRACTICE MARKET PLACE

BUYERS

These buyers have all signed confidentiality agreements and are genuine buyers in their preferred areas and may be reached by contacting ValuVet on 07 3831 5555

EASTERN SEABOARD

- Buyer 407: **Capital cities/ major regional centres** 2 vet SA
- Buyer 415: 2 hrs of **major regional centre or metro** 2-3 vet SA
- Buyer 432: **Capital cities/ major regional centres** 2-3 vet SA
- Buyer 450: **VIC / Southern States** 2-3 vet SA/Mixed
- Buyer 458: **Capital cities/ major regional centres** 2 vet SA

QUEENSLAND

- Buyer 287: **Gold Coast/Sydney** 1+ vet SA
- Buyer 409: **Sth Brisbane/Gold Coast** 2+ vet SA
- Buyer 425: **Gold Coast** 1-2 vet SA
- Buyer 426: **Brisbane metro area** 2-3 vet SA
- Buyer 428: **SE QLD/Northern Rivers NSW** 2-3 vet SA
- Buyer 433: **Gold Coast** 2-3 vet SA
- Buyer 445: **Brisbane metro area** 1-2 vet SA
- Buyer 447: **Sunshine Coast** 2-3 vet SA
- Buyer 451: **Gold Coast** 1-3 vet SA
- Buyer 453: **Nth Sunshine Coast** 1-3 vet SA
- Buyer 457: **Sunshine Coast** 1-2 vet SA
- Buyer 459: **Gatton** 1-2 vet SA
- Buyer 463: **Kingaroy/Nanahgo** 1-2 vet SA/Mixed
- Buyer 464: **Brisbane/Gold Coast** 2-3 vet SA

SOUTH AUSTRALIA

- Buyer 441: **Adelaide southern suburbs** 1+ vet SA

WESTERN AUSTRALIA

- Buyer 454: **Perth Metro** 2 vet SA

NEW SOUTH WALES

- Buyer 309: **Syd metro area** 2-3 vet SA
- Buyer 342: **Syd metro/Canberra** 3-4 vet SA
- Buyer 394: **Syd/Central Coast** 2-3 vet SA
- Buyer 418: **South Coast** 1-2 vet SA/Mixed
- Buyer 430: **Hunter/Syd/Gold Coast** 3+ vet SA
- Buyer 431: **Syd metro area** 2 vet SA
- Buyer 436: **Syd metro area** 2-3 vet SA
- Buyer 438: **Central Coast/Hunter** 2-3 vet SA
- Buyer 442: **Sydney** 2-3 vet SA
- Buyer 460: **Syd metro area** 1-3 vet SA
- Buyer 462: **Sydney South** 1-2 vet SA
- Buyer 465: **South NSW to Gympie** 1-2 vet SA/Mixed

VICTORIA

- Buyer 176: **Melb SE Suburbs** 2-3 vet SA
- Buyer 220: **Melb metro area** 2+ vet SA
- Buyer 300: **Melb NE Suburbs** 1-2 vet SA
- Buyer 424: **Melb and surrounds** 1-2 vet SA/Mixed
- Buyer 427: **Melb metro area** 1-2 vet SA
- Buyer 429: **Melb metro area** 2-3 vet SA
- Buyer 439: **Melb metro area** 1-3 vet SA
- Buyer 443: **Geelong area** 2-3 vet SA
- Buyer 444: **Melb metro area** 1-3 vet SA
- Buyer 446: **Outer East Melb/SA/QLD** 1-2 vet SA
- Buyer 448: **Melb metro or Large Regional** 2-3+ vet SA
- Buyer 449: **Melb/Cairns/Brisbane** 1-3 vet SA
- Buyer 452: **Melb metro area** 1-3 vet SA
- Buyer 455: **Geelong area** 1-3 vet SA
- Buyer 461: **NE Melb** 2 vet SA

TASMANIA

- Buyer 456: **North West Tasmania** 2+ vet Mixed

SELLERS

These practices are for sale and information is available from ValuVet by calling 07 3831 5555

- ♣ ValuVet valuation available
- ★ Excellent facilities
- ✱ Website Listing
- ✓ Valuvet report available
- ▲ Purpose built facility

QUEENSLAND

- Seller 178: **Central QLD** – 3 vet Mixed practice ✱
- Seller 183: **Sunshine Coast** – 1+ vet SA ✱
- Seller 189: **Wide Bay area** – 1+ vet SA ✱
- Seller 203: **Cairns** – 1.5 vet SA ✱
- Seller 208: **Brisbane Metro** – 1.5 vet SA ✱
- Seller 215: **Brisbane Metro** – 1 vet SA ✱
- Seller 218: **Magnetic Island** – 1 vet SA
- Seller 224: **Roma** – 3 vet Mixed practice ✱
- Seller 225: **West Brisbane** – 1.5 vet SA ✱

NEW SOUTH WALES

- Seller 195: **Warners Bay** – PETstock vet clinic ▲
- Seller 204: **Central Coast** – 1/2 vet SA ✱
- Seller 226: **North Rocks** – 1.5 vet SA

VICTORIA

- Seller 196: **Bendigo** – PETstock vet clinic ▲
- Seller 201: **North Melb** – 1 vet SA ✱
- Seller 207: **NE VIC** – 2 vet Mixed practice
- Seller 220: **Geelong** – 1 vet SA ✱

TASMANIA

- Seller 210: **East Coast TAS** – 1 vet Mixed practice ♣ ✱

SOUTH AUSTRALIA

- Seller 139: **Port Lincoln** – Premises for Sale or Lease ▲ ✱
- Seller 228: **Adelaide CBD** – 1 vet SA ✱

WESTERN AUSTRALIA

- Seller 200: **Perth** – 1 vet SA
- Seller 212: **North of Perth** – 1 vet SA ♣ ✱
- Seller 217: **Busselton** – Premises for Sale or Lease ▲ ✱

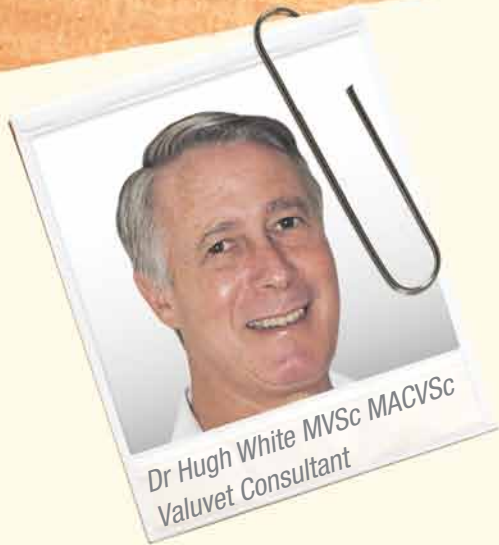
LEASE

These practices have premises to lease, for further information please visit profiles on the website.

- SA** Seller 139: **Port Lincoln** – Premises for Sale or Lease ▲ ✱
- WA** Seller 217: **Busselton** – vacant premises – for Sale or Lease ▲ ✱
- VIC** Seller 219: **Ballarat City** – Veterinary Hospital for Lease ▲ ✱
- NSW** Seller 187: **Upper North Shore Syd** Centrally located specialist centre

See website advertisements on www.valuvet.com.au

CASE REPORT



It is very gratifying when we see an immediate and positive response to our valuation visits. Recently, I had the opportunity to visit a practice in a large regional city, where the owner wanted a practice valuation with a view to sale of the practice and retirement.

This well established practice had an excellent location, good facilities and a strong loyal team but had operated basically as a one vet practice since inception. The profitability of the practice was quite low and this was reflected in the valuation figure for goodwill. During the course of our normal practice evaluation, it became apparent that the principal was on a treadmill, charging low fees, discounting excessively and had lost much of the early enthusiasm which had previously driven the practice.

Sacrificing the practice at a low value and subsequently passing all the profit generating opportunities on to the buyer did not make a lot of sense since our client, although a little jaded, was not ready to fully retire. As a consequence of our

practice evaluation we were able to identify many areas of opportunity by which the business could be turned around. The alternatives were put to the client who readily accepted the challenge.

As a result of our visit, fees have been raised, all procedures are now being charged out, discounts have been discouraged and the owner now has a new sense of purpose with a plan for the future. There is now a drive to turn the practice around, increase profitability, employ more veterinary help and to take a long-overdue extended holiday to recharge the batteries.

With this new sense of purpose has come a realisation that before our visit there was little of value to sell at the time, but with a few more years of better management, better marketing and practice development, there would be scope to attract new employees and ultimately potential purchasers. With the proposed changes, the practice value should increase dramatically, lifestyle will improve and there will be a tangible benefit when retirement approaches.

At Valuvet we see many practices in a similar situation, where the owner has put in years of hard slog but has become tired and lost the drive and vision for the practice. Long hours and professional isolation take their toll and it is easy to get stuck in a

rut. Good facilities and staff are not sufficient on their own to sustain a business. It needs strong and energetic leadership, which can only be sustained with regular holidays and periodic objective assessments of how things are going.

A Valuvet visit is not just about valuing the practice. We know the success factors of well run practices all over Australia and can recognise the problems inherent in practices that have lost their way or are marking time. If your practice growth has reached a plateau, or even worse is in decline, what steps are you going to take to avoid the slippery downwards slope?

Practice Assessments

Have you recently had your practice valued?

Were you disappointed with the value?

If you would like some assistance to increase the value of your practice, have your practice examined critically by an independent outside consultant.

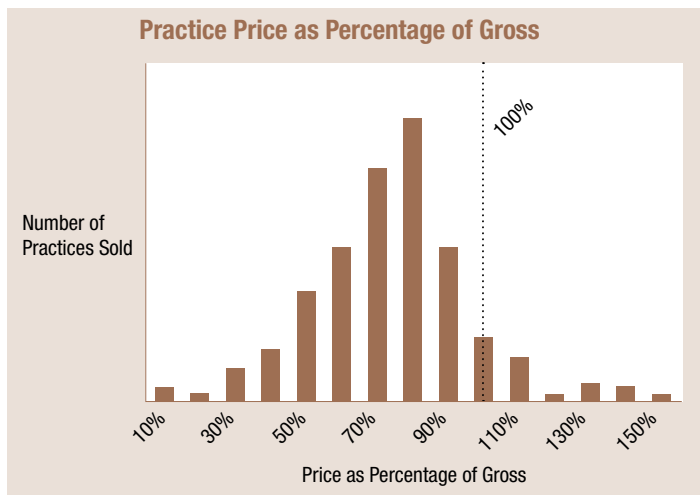
Call Valuvet about a Practice Assessment!

07 3831 5555

IS MY PRACTICE WORTH ONE YEAR'S GROSS?

This is probably not a brand new concept to everyone, especially those who graduated more than twenty years ago! 'One year's gross' is an old wives tale that can no longer even come close to being the truth in veterinary practice valuations. In the dark and dusty past, our profession routinely tried to tie practice value to gross income; the old rule of thumb was the last three years of gross turnover divided by three to give us a basic practice value (that included building and land also). That was before the time of high student debt, real estate escalations, increased competition and the current level of business savvy that we see in today's veterinary practice valuations. There are many, many factors that create value most of which have little to do with the gross revenue of the practice. Below is a chart showing the selling price of USA veterinary practices as a percentage of gross income. It doesn't take long to see that there is virtually no correlation between the two.

What determines practice value?



The impact of gross income is mostly psychological because many people STILL try to correlate it with value. If a practice is priced above a year's gross revenue, there is artificial market resistance. Conversely, if it priced at a small fraction of a year's gross there may be a false perception that it is a "good deal". It is **net profit** that forms the foundation for determining practice value, because these are the dollars available to pay for the practice. **Practice growth** contributes an intangible value as does **geographical location**. If **competition** is stiff or if there is no competition, it must be considered as an influential part of value. **Tangible asset value** is the value of the equipment and the inventory. It is **income** that buyers want, not "stuff". Of course a certain amount of equipment is

necessary, but too much equipment does not increase value. Long term, loyal, skilled **employees** add value, as does a reasonable transition period by the selling doctor. A small, "high touch, **boutique**" practice has a more loyal clientele than does a high volume, "**low cost**" practice. A practice in a **permanent location** as opposed to a mobile practice will have more transferable goodwill because the clients will more easily remain with a fixed-location practice, hence, more value.

In the USA, a skilled group of veterinary practice valuation experts (within the AVPMCA, later to become Vet Partners) assembled and developed a list of 13 Risk Factors which lend to the establishment of the capitalization rate. This effort took the Task Force five years, and then they went to weighting the factors, which took another 2 years to get consensus. Interestingly, 8 of the 13 factors are ones that can be addressed to improve practice value so if you are contemplating succession, plan ahead and work on these factors over three years before placing the practice up for sale.

Averaging the last 3 years.

Most savvy practice appraisers use the average numbers from the past three years (as reported for annual taxes not internal bookkeeper numbers) firstly for comparison purposes and secondly in some valuation scenarios. This works if the three years are essentially similar, but if the practice is growing or shrinking to a significant degree, that method is dangerous and very inaccurate. **Weighted averages** that give more weighting to the most recent years are a much more accurate method of determining value.

Value and marketability are not necessarily the same thing. Simply because a practice has a certain calculated "value", does not mean it will sell for that price. For example, mixed practices in undesirable areas with no emergency service available, are extremely hard to sell and usually will require a very steep discount in order to entice a buyer to purchase. Practices in sought-after areas with good facilities and all the "bells and whistles" will often sell at a premium.

Apart from the entry and exit of partners, a savvy practice owner will have their practice valued by a reputable veterinary consultant firm (one which uses the 13 Risk Factors) every three years; first for insurance adjustments, second for business valuation, and third for operational knowledge of which factors need to be addressed to improve the marketability at some future date. ■



Dr Tom Catanzaro
(veterinary practice consultant)
Ph: 0416 285 975

FEE SETTING & FEE DISCOUNTING

When valuing or assessing veterinary practices I sadly observe that over 90% of the practices we see have one, two or three of the following problems regarding fees:

- A low fee scale
- chronic discounting or
- a failure to apply fees (missed fees)



It seems that compared to other professions, we vets are entrenched with a feeling of low worth or we lack the business acumen or leadership to focus on this vital part of practice. Reduced (discounted) turnover dictates directly to the bottom line, reducing net profit which then starts the cascade of reduced return to the owner, reduced re-investment in the business, reduced service offering, HR problems (staff dissatisfaction & turnover..) which in turn further reduces net profit and ultimately the value of the business. Fortunately most vets are able to keep their heads above water and not go broke but a month to month existence of just surviving is no fun for anyone.

In order to deal with the first problem (above) and to rectify the problem of low profitability we need firstly to focus on the pricing of veterinary services and goods. Most of us are not so good at this and when in doubt we tend to guess or charge a bit less than the practice down the road. There are four main types of pricing:

1. **Cost based pricing** – where prices are set according to what the service actually costs to produce, thereby allowing for an acceptable margin of profit. Most veterinary fees should fit into this category.
2. **Competitive pricing** – where prices of goods and services need to compete in the marketplace. Shopped items such as vaccinations, desexings and merchandise may fit this category.
3. **Variable or promotional pricing** – where pricing is used to guide behaviour in boosting turnover in slow times of the day, week or month. You may wish to offer a discount consultation for pensioners who come in (say) from 2pm to 4pm during the quieter time of day or a 'bundled discount' on lab fees for a dental promotion etc..

4. **Value-based pricing** – where you can charge a premium for specialised knowledge – behaviour consultations and any specialised service that attracts referrals from your colleagues would fit this category.

On the subject of discounting (most of us are really good at this); it is important to recognise that in broad terms that there are 2 types of discounts:

- **Legitimate discounts** – This should be a deliberate marketing strategy where you decide who gets a discount, what it is for and when they can get it. You must quantify the financial gain you expect and you must try to offset that discount with sponsorship where possible. These discounts might include promotional discounts such as bundling of products or services; volume discounts (careful) or perhaps compassionate discounts (careful). If you are offering compassionate or hardship discounts you MUST have a written down policy to follow or else the rules get made up as you go along.
- **Non-legitimate discounts** – these discounts are spontaneous, ill-justified and amount to theft of the business. Vets are by far the worst culprits here since in most practices it is the vets (often the owner) who make up the invoices. Cardinal sins such as prejudging the client's ability to pay, not referring to a fee scale and missed charges (see above) are commonly seen.



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So how do you turn things around?

Let us start with pricing.

Ideally, one should do cost based pricing on every fee item but unless you are methodical and skilled in this area I find it is best to start with a fee survey to find where your common fees are in relation to your colleagues. You can choose to charge whatever level of fees you wish but our experience repeatedly shows that those practices that set their fees around the 75% quartile are invariably profitable and growing businesses. Fee setting takes courage and leadership and as you can see in the table below, you can sometimes lose clients but often they are the ones you are better off without anyway.

You will see various figures stated but the following scale will fit most businesses such as ours:

If you are already 'charging to the market' (only about 10% of vets do) you will MAINTAIN your current profit if you –

- Increase fees by 5% and you may lose 8 – 9% of clients
- Increase fees by 10% and you may lose 25% of clients
- Increase fees by 15% and you may lose 33% of clients
- Increase fees by 20% and you may lose 40% of clients

This assumes that there is NO value-adding to existing services as the fees are raised. Remember that most of us are charging well BELOW the market so most practices will actually GAIN profit before they lose any clients at all.

If you are considering discounting as a strategy to gain market share and you intend to MAINTAIN current profit; if you –

- Reduce fees by 5% you will need to gain 14% more clients
- Reduce fees by 10% you will need to gain 50% more clients
- Reduce fees by 20% you will need to gain 200% more clients

Boy! All that extra work for no extra profit! If you dropped you fees by 20% do you really think you could attract three times the number of clients? In our experience there are very few practices that can discount successfully and match the profitability of practices that make a positive attempt to set their fees to market in a methodical and structured way.

Fee setting and fee collection remain a difficult area for most veterinarians even though they are at the core of turning a decent profit; being able to feed the family; reinvest in the business to allow growth and to add value to the business. Positive pricing or discounting – you choose! ■

Dr Tony Thelander (Director ValuVet)

valuvet.com.au Check out our website for:

- Practices for Sale • Practice Buyers • Equipment for Sale • Career Positions



- Practice and Equipment Valuations
- Practice Assessments
- Partnerships
- Career Advice
- Benchmarking
- Practice Marketing and Strategies

VISITING SCHEDULE

In order to defray travel costs, our visiting schedule will allow clients to co-ordinate with our interstate movements.

DEC	QLD & NT	MAR	SA & WA
JAN	VIC & TAS	APR	QLD & NT
FEB	NSW	MAY	VIC & TAS

Regardless of the proposed schedule, our consultants are available at all other times as the situation demands.

CONTACT US

12 Victoria Park Rd
 Kelvin Grove QLD 4059
 T **3831 5555**
 F 3831 5555
 E mail@valuvet.com.au

www.valuvet.com.au