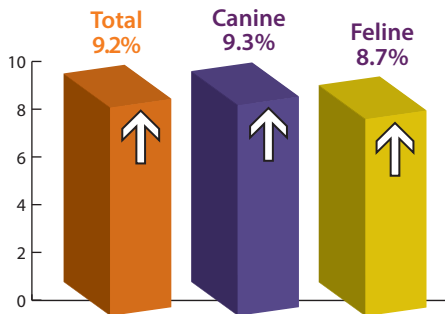


The Insider's Insight Benchmark Report is a publication provided by the Veterinary Hospital Managers Association (VHMA). The report tracks key economic indicators to determine how VHMA member practices are performing, as well as results from VHMA surveys on issues impacting the profession. There are approximately 800 VHMA member practices who contribute to the data for the key economic indicators. Data is representative of companion animal practices only.

April, 2019 vs. April, 2018

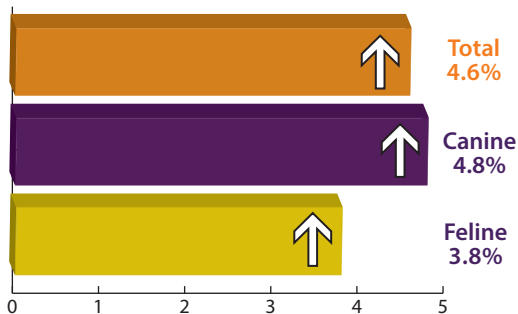
Revenue Growth
 April, 2019 compared to April, 2018



Revenue Growth

Companion animal practice revenue for the 725 VHMA practices included in this month's study showed very strong growth of 9.2% from April, 2018 to April, 2019; however, part of this is due to one additional workday in April of 2019 compared to April of 2018. Canine revenue growth was 9.3% and feline revenue growth was 8.7%. Year-to-date growth for 2019 is 4.9%; which is higher than 2018 growth of 3.4%. This growth continues to be stronger than the overall growth seen in the US economy.

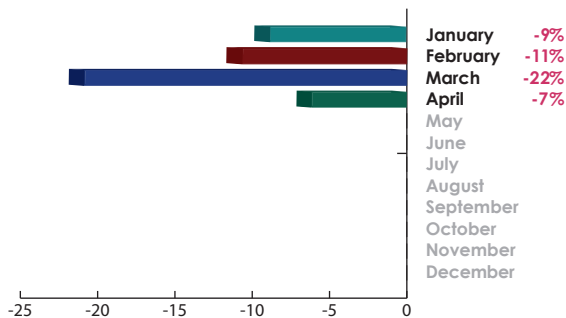
Patient Visits
 April, 2019 compared to April, 2018



Patient Visits

Total unique patient visits for the same period, April, 2019 compared to April, 2018 increased by 4.6% with canine visits up by 4.8% and feline visits up by 3.8%. As noted above, however, there is one more workday in April, 2019 compared to April, 2018 which likely accounts for some of this increase. Total visits for year to date 2019 are up 0.3% compared to a 0.6% decline in 2018. (Note that the term "visits" is defined as unique purchases of either products or services for an individual pet.)

New Client Growth
 April, 2019 compared to April, 2018



New Client Growth

New client numbers in April, 2019 compared to April, 2018 declined by 7%; the year-to-date 2019 decline is 13.1% compared to a 12.6% decline for the full year of 2018. This continues to be a discouraging trend as these numbers have declined almost every month of the last four years.

Remember that the above figures represent averages across all the practices in the study; in order to understand what is going on in YOUR practice, you need to look not only at what your revenue growth was during these months (and going forward) but also at the drivers of growth in YOUR practice such as changes in invoices, visits, ATC, fee increases, new clients and client retention. This will give you the information to make intelligent decisions about where to focus your time and efforts to increase growth.

Purchasing Practices

by *Karen E. Felsted, CPA, MS, DVM, CVPM, CVA PantheraT Veterinary Management Consulting*

Many factors are essential to the practice of quality medicine and surgery including having an appropriate range of high-quality equipment for both diagnostics and treatment and the right medications, supplies and food to use in-house or send home with clients. The process for purchasing and replenishing these items varies from practice to practice and May's Monthly Management Survey asks about that process.

The first question in the survey asked: ***"When making practice product and service purchases, who makes the final decision?"***

1. "When making practice product and service purchases, who makes the final decision?"

	Practice Owner	Medical Director	Practice Manager	Practice Team
Medical equipment (including lab diagnostic equipment)	75.80%	4.57%	9.59%	10.05%
Medical Drugs and Supplies	38.03%	14.08%	29.11%	18.78%
Food and special diets	30.62%	13.40%	32.06%	23.92%
Management software and organizational technology	59.26%	1.39%	31.02%	8.33%
Computer hardware	54.76%	0.48%	41.90%	2.86%

Responses 224

No surprise, the practice owner (typically a veterinarian) makes the final decision in 75% of the purchases of medical equipment and about 55%-60% of computer hardware and software purchases. This makes sense due to the higher cost of this equipment and the long-lasting impact of the decision on practice finances and medical care. The practice manager and practice team are more involved in the drugs, supplies and food purchase decisions. Those respondents who answered "other" typically said that a combination of these team members were involved in the final decision or that others not listed here (associate DVMs, inventory manager, IT person, corporate office) were involved.

The next question asked: ***"When you need a new product or service, what or who is your first go-to resource?"***

2. "When you need a new product or service what or who is your first go-to resource?"

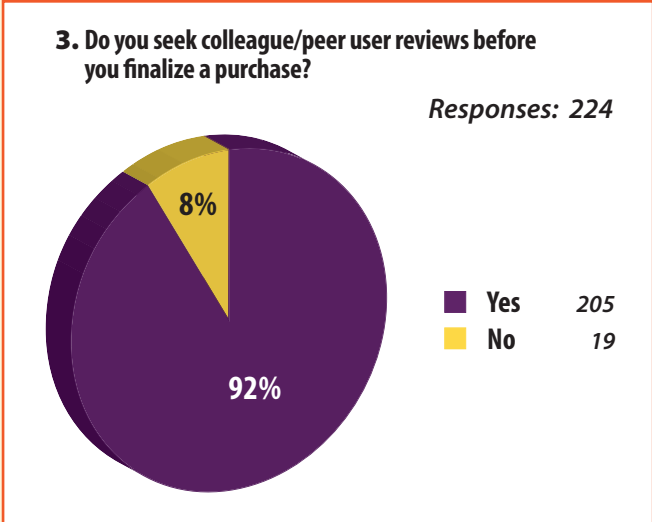
	Industry buyer's guide	Industry trade show	Industry buyer's group	Network of peers	Internet search
Medical equipment (including lab diagnostic equipment)	9.09%	7.66%	14.35%	59.33%	9.57%
Medical Drugs and Supplies	10.26%	3.59%	23.08%	52.82%	10.26%
Food and special diets	15.38%	3.08%	22.56%	49.74%	9.23%
Management software and organizational technology	11.76%	8.14%	8.60%	61.54%	9.95%
Computer hardware	14.36%	2.13%	9.57%	45.21%	28.72%

Responses 224

Peers are the most common initial go-to resource for all purchase categories although practices use many resources to gather information before making a purchase. Resources listed in the "other" answers included company sales reps, VIN, VMG groups, VHMA boards, the internet, corporate headquarters (if a corporately owned hospital), and the veterinarians in the practice. The almost unanimous resource for IT purchases was the practice's IT consultant.

Purchases are made for different reasons and it must first be understood what the goal of the acquisition is before gathering information and making a decision. Will the new equipment, supplies, food or medications improve patient care? For example, the purchase of an ultrasound machine may allow for more accurate diagnoses. Will the new equipment lower the operating costs related to the provision of services? A new blood chemistry unit may lower the direct costs incurred in running a blood profile because less maintenance is required for the unit. Will the new equipment, food or medications increase revenue? Or will it allow the practice to offer a more affordable diagnostic or treatment alternative? Often, more than one of these goals is met with the acquisition of a single piece of equipment or change in medication protocols. For example, an IV fluid pump will often reduce staff costs related to monitoring fluid administration as well as improve patient care by more accurately insuring patients receive the volume of fluids needed. Purchases aren't usually made just to increase revenue; the revenue is a happy consequence of providing better patient care.

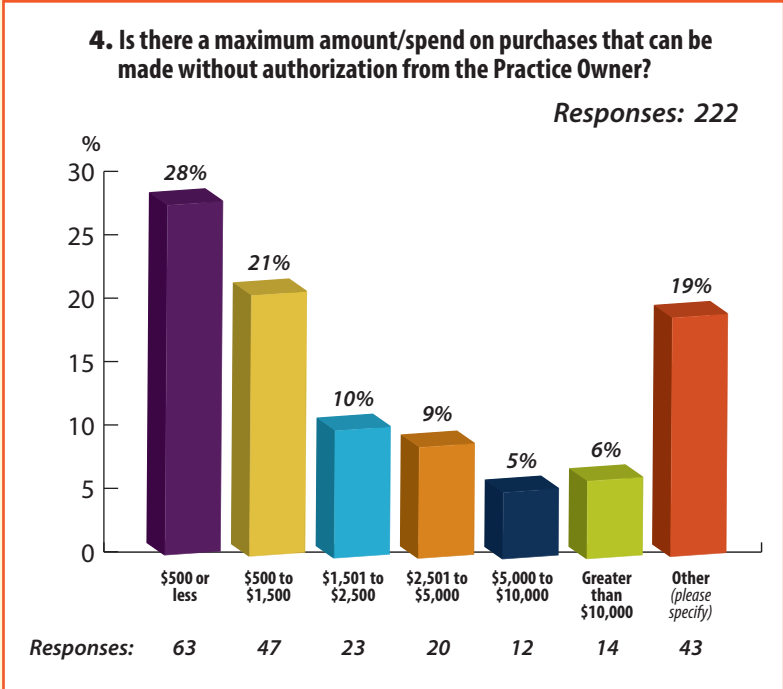
Colleagues and peers have a lot of influence on purchases. The above question showed that they are the initial resource consulted for 45-60% of practices; this next question shows the full amount of influence, however. This question asked: **"Do you seek colleague/peer user reviews before you finalize a purchase?"**



There is a broad range in how much financial authority managers have in purchasing; this question asked: **"Is there a maximum amount/spend on purchases that can be made without authorization from the Practice Owner?"**

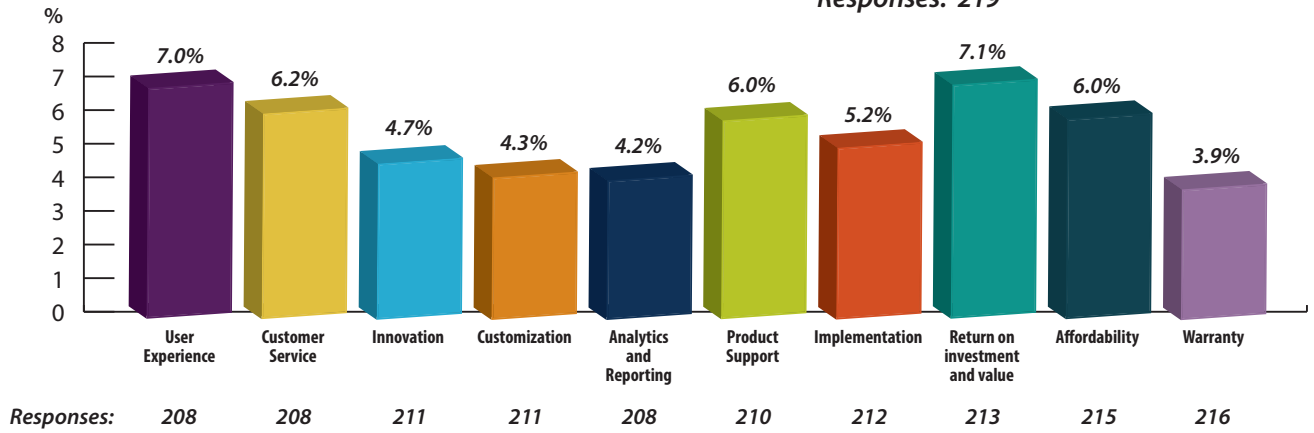
About 50% of the respondents can spend up to \$1500 without owner approval. Common answers in the "other" category included:

- Depends on the type of purchase
- No limit
- No limit, but the person responding has their own guidelines for when they want to seek owner approval or input
- Limits vary by supervisory level (practice manager, hospital manager, supervisors)
- All large purchases discussed at regular staff meetings



5. What factors go into your decision making when you consider new products and services (rank the factors in order of priority)?

Responses: 219



Many factors go into the selection of a piece of equipment; the next question focuses on which are most important to practices. Specifically, the question asked: **“What factors go into your decision making when you consider new products and services (rank the factors in order of priority)?”**

The two factors that are ranked as 1, 2 or 3 over 50% of the time are “User experience” and “Return on investment and value.” “Affordability” is included in the first 3 rankings 38% of the time and “Product support” and “Customer service” are included about 1/3 of the time. Other factors are less important.

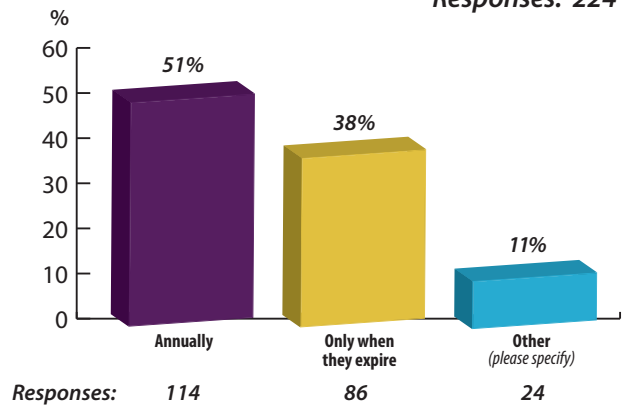
The last question is about the service contracts that practices often buy for some pieces of equipment and asked: **“How often do you review your service contracts?”**

Just over 1/2 of the respondents review their contracts annually and almost 40% look at them when they expire. Comments in the “other” section included:

- Not often enough
- When not happy with the service and want to change
- A few months prior to expiration so can look into other options
- When needed (i.e. to see what is covered, etc.)

6. How often do you review your service contracts?

Responses: 224



Equipment Purchase Analysis

The financial ramifications of equipment purchase mistakes can be significant; much greater than drug order mistakes. If a practice buys a piece of equipment that doesn't meet one of the goals discussed above, the purchase usually falls into either the coat rack or toy category. The first category includes all the equipment purchased which is never used, sits in a corner, gathers dust and is used to hang coats on. The second category

includes all the equipment purchased and used occasionally, but never consistently or profitably. Coat rack equipment purchases are a failure in all regards. Toy equipment may provide much enjoyment and satisfaction to the purchaser and is not necessarily a bad decision, but the purchaser must understand that instead of making a profit-generating business decision, he or she is instead using part of his or her profits to

purchase a fun item, much in the same way as they might use those profits to purchase a lake house.

There are many considerations, financial and managerial, associated with planning and implementing the purchase of assets of this kind. The decision to purchase some capital assets (i.e. those with a useful life of over a year) may be an easy one—for example, it may be clear that the practice needs a new anesthetic machine and even though this is a long term asset, its cost is not too great and the practice already uses this type of equipment daily therefore the decision is clear cut.

The purchase of more expensive assets and those not previously used in the practice, however, requires more planning and forethought than does the purchase of equipment or supplies with a much shorter life. Because the cost of certain capital assets is high, the positive results may not be seen immediately and other aspects of a practice may also be impacted by the purchase, the risk associated with their purchase is much greater. Clearly, a \$500 piece of equipment that sits in the corner and gathers dust is not nearly as much of a problem as a \$15,000 such item. For example, a veterinary practice may want to purchase a CT scanner costing over \$100,000. This clearly is much more expensive than an anesthesia machine and if this is the first such scanner to be owned by the practice, it may not be clear if there will be enough usage to justify the purchase. Many questions need to be addressed.

- What kinds of cases will benefit from a scan?
- Are all the doctors in the practice committed to using the machine?
- How will the doctors be trained in its usage?
- Will outside interpretation of the images need to be made during the early months of usage? How much will this cost?
- Will additional support staff be needed if the scanner is used frequently?
- How will clients be educated as to the benefits of the new diagnostic tests?
- How will the machine be financed?
- Are there timing issues to consider in the acquisition?
- What fees will be charged for the imaging?

There are a number of capital budgeting techniques that are extremely useful in analyzing the purchase of new equipment. These techniques can be used in contem-

**As with any analysis,
good data is critical
to good results.**

plating the purchase of just one asset (for example, the scanner) or in comparing the benefits of two different assets (for example, a CT scanner vs. an ultrasound.)

As with any analysis, good data is critical to good results. A number of variables will be used in these calculations such as the cost of the equipment, the additional annual costs associated with the asset (such as a service contract or supplies), the expected cost savings to be obtained from usage or the anticipated increase in revenues. If these items are not accurately estimated, the results of the acquisition analysis may be erroneous. For example, cost of equipment

does not just include the sticker price. Other components of cost include tax, installation, training, and interest costs if the asset is financed.

Some of the more commonly used financial techniques are payback period analysis, breakeven analysis and net present value calculations.

The **payback period** is the number of years necessary to breakeven on the purchase of the asset. After this point, the practice will start to realize a profit on the acquisition assuming the figures used in the analysis are accurate and reality conforms to the assumptions made in the analysis.

The payback period is calculated as:

Total purchase price

Annual net income

(i.e. revenue minus operating costs for a year)

The payback period is not the only tool that should be used in analyzing an asset purchase. Acquisitions with the shortest payback period may not be the ones that are ultimately the most profitable to the practice. It is also important to remember that the time value of money has not been factored into this calculation.

Breakeven analysis is a very useful tool for studying the relationships between revenues, fixed costs, and variable costs. It is particularly helpful in analyzing the consequences of starting or expanding a business or when acquiring significant pieces of new equipment.

The breakeven point is the level of sales that will just cover all costs, both fixed and variable. Variable costs are those that fluctuate directly with revenue. For example, variable costs in a veterinary practice would include anesthesia, drugs and supplies. If no patients are seen, none of these items are used and there is no associated cost.

continued on pg. 6

Fixed costs are those that do not fluctuate with revenue over some range of this revenue. For example, the rent paid to lease the building a veterinary practice is located in is a fixed cost. Even if no clients come in the door and no revenue is generated by the practice, the business still has to pay rent. Very few fixed costs, however, are fixed forever over the life of the business. A 2-exam room veterinary hospital may spend \$1500/month in rent payments for the facility. This amount will be the same whether the practice generates \$300,000 or \$600,000 in revenue per year. There will come a point; however, at which the building is simply too small to accommodate any more clients or any more revenue growth. In order to continue growing the business, facility expansion will have to occur and this cost will increase. Rent is a fixed cost over a very wide range of revenue (in this case from \$0 to perhaps \$900,000) but at some point the cost will change. It is important to recognize that if there were no fixed costs, there would be no breakeven point. A practice would have no costs if it had no revenue.

Some costs that don't fluctuate directly with revenue but must be increased over shorter ranges of revenue than an item like rent are often called semi-variable costs—staff salaries would be an example in a veterinary clinic.

At the breakeven point:

Revenue = fixed costs plus variable costs or

Revenue = total costs.

While breakeven analysis is very useful in understanding the relationships between transaction volume, prices and costs, it does have some weaknesses. As with all analyses, reasonable estimates are essential. The linear assumptions made may not hold true in all cases; for example, as the volume of transactions increases,

variable costs may increase or decrease on a per unit basis.

Net present value (NPV) analysis estimates the total cash outflows involved with the purchase of an asset compared to the total inflows. A positive outcome equals a profitable purchase. NPV analysis also incorporates the time value of money into the calculations.

It is important to recognize that if there were no fixed costs, there would be no breakeven point. A practice would have no costs if it had no revenue.

While this calculation gives more accurate information, it is also more difficult to do and many small business owners will enlist the aid of their accountant or financial advisor in performing this calculation.

This analysis could be performed over the full expected life of the equipment in order to estimate the total profitability. If this were done, any amounts expected to be realized from the sale of the

equipment at the end of its life should be recognized as an inflow and any costs of disposal should be recognized as an outflow. This is a useful calculation when comparing the potential profitability of two or more pieces of equipment.

This analysis isn't done commonly in veterinary medicine; it would be more useful for really costly pieces of equipment with long useful lives and when interest rates are high.

The expected revenue and expenses related to the purchase of equipment should also be incorporated into the practice's budget; this allows the practice to analyze the effect of the equipment purchase on the practice as a whole.

Tax effects and alternative financing can also be included for even more precise analysis if the impact is expected to significantly alter the decision made.