



PROFIT – HOW MUCH IS ENOUGH?

October 2020

A large part of our work at Summit Veterinary Advisors revolves around profit: what it is, how much your practice generates, how it contributes to practice value, and how to get more. We frequently talk about national benchmarks and use these figures as markers for whether a practice's profit is "high," "low," or "average." It is essential to understand, though, that benchmarks are just indicators of what other practices do - they should not be viewed as goals for your practice.

It is certainly our job to help veterinarians and practice managers understand their practices' true profitability and help them find ways to improve the bottom line, should they desire to do so. It is not, however, our job to tell you how profitable your practice should be!

A business's profit is the money that remains after all legitimate expenses of the business have been paid, including normal salaries for the owners, facility rent, etc. If you are a working owner of a practice, you should receive standard compensation for your clinical duties (if you are a veterinarian) as well as your management responsibilities. Profit is derived from the money that is left over AFTER this normal compensation has been paid.

Profit is money that the practice owners can use as they see fit. Profits can be reinvested in the business itself (leasehold improvements, equipment upgrades, etc.), they can be retained for future use or distributed to the owners. When you first buy or start a practice, the profits are often used to pay the debt service on your investment. As the business grows, profitability will increase, and gradually there is more money remaining after paying vendors and your lender. The only way to continually offer better medicine or increase staff wages and benefits is by running a profitable business.

So, how much profit is enough? Small animal hospitals typically generate 10-15% profit, while specialty and emergency practices often generate 15-20% profit. The higher the practice profit, the more valuable the practice will be when it comes time to sell, so there is an advantage to having a healthy bottom line. Does that mean your practice profits need to be in these ranges, or that you are a failure if they are not? Of course not!

Every practice owner has a unique set of characteristics and experiences that will shape their professional and financial goals. Characteristics such as race, gender, ethnicity, cultural background, nationality, religion, upbringing, and life experiences will all contribute to your individual perspectives and help you define your goals as a practice owner.

Perhaps you will want to maximize your profit and practice value, reaching the maximum financial return on your investment. You might want to provide low-price services to your community, or you might be a high-end practice. Your emphasis may be providing higher-than-average wages and benefits for your staff. There is nothing wrong with any of these aspirations!

At Summit Veterinary Advisors, our focus is on helping you reach your goals, not telling you what your goals should be. We help you understand what your profits really are and how your practice expenses impact the bottom line, but the ultimate profit goal should be yours and yours alone! It is often easy to compare to benchmarks and set your goals based on what your peers or your consultants tell you they should be. We would encourage you to let your values and individual financial goals be the primary factors motivating your definition of practice success.

Owning a business is probably the best - and the biggest - financial investment you will ever make. You have the opportunity for job security, the benefit of ongoing economic profits as well as the ability to build up equity in the practice, which you can realize at the time of sale. For some of you, there is also the possibility of real estate investment as part of practice ownership. We encourage you to work with your financial planner to determine how much money you need to generate in personal compensation as well as distributed profits to fund your lifestyle and your retirement needs.

We would love to work with you to help you better understand your practice profitability. If your practice is not providing your desired return, we can work with you to develop an improvement plan. Whether you are reaching for a specific amount of profit distribution (i.e. \$200,000 per year) or are shooting for a particular percentage of gross revenue, we can help you get to where you want to be.

As veterinarians, you work with all types of pet owners who have different approaches and goals when it comes to veterinary care. You customize individual care plans that best meet the client's capabilities and needs while looking out for their pets' well-being. Similarly, a good consultant will develop an individual "care plan" for your practice that considers your specific philosophies and practice goals, while also looking out for the overall health of your practice!