

MONEY MATTERS

How Much Profit Is Enough?

How you spend excess money is your decision, not your adviser's, but make sure you set goals and have a path to attain them.

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Not that long ago, many veterinarians considered profit an unworthy goal. After all, they had a higher purpose: a calling to care for animals and prevent and alleviate their suffering. Profit was not a priority. As long as there was enough money to keep the lights on, things were fine.

Keeping the lights on, however, did not translate to practice value, and many veterinarians reached retirement age only to discover that their hospitals weren't worth what they needed to retire comfortably. Over the last 15 years, perspectives have shifted as more emphasis is placed on profit. Fewer people see serving animals and creating a profitable practice as mutually exclusive.

What Is Profit?

Even though profit is essential to business success, it won't show up on any report you can run quickly from your accounting or practice management software. And it's definitely not on your tax returns! Tax accountants use their knowledge of tax law to help their clients pay as little as possible. The strategies span both business and personal tax returns and might include reductions in owner salaries or facility rent in exchange for larger draws or distributions.

True profit is the money that remains after a market-rate owner salary, fair-market rent and other legitimate business expenses have been paid. If you are a working practice owner, you should receive standard compensation for your clinical duties, if you are a veterinarian, and for your management responsibilities. True profit equals the money left over after normal compensation and rent have been paid.

Why Profit Is Important

Profit is money that business owners can use as they see fit. Profit can be reinvested in the business, retained for future use or distributed to the owners. When you first buy or start a practice, the profit is used to pay the debt service on your investment. As the business grows, profitability increases, and gradually, more money will remain after vendors and the lender are paid. The owner can take home this additional money or reinvest it in the business. Honestly, owners deserve to spend the money however they wish. After all, they assume a substantial risk and money is one of the many rewards.

Profit is a necessary part of a successful business. A profitable business creates its own ability to grow, hire more doctors, and secure financing for a new building or remodel. Profitability gives you a competitive advantage because you have the money to hire the best and brightest employees and

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afford the education and equipment required to offer increasing levels of care. It also allows you to be a generous benefactor to the causes that matter to you. And yes, it pays for bigger homes, new cars and regular vacations.

If the business isn't profitable, good employees leave because money for raises is absent. Maintenance is reduced, which can shorten equipment life. Software isn't kept current. Owners are paid less and might need to invest more money to sustain the practice. Inevitably, the practice stagnates and loses business to competitors.

As a business owner, you create wealth within your community by providing jobs, utilizing local service experts like plumbers and electricians, and paying taxes to support the construction of schools and roads. As a veterinarian, you safeguard families by prescribing appropriate treatments for infectious diseases and parasites. In other words, your community relies on you and your practice to be profitable enough to remain a viable piece of the neighborhood for years to come.

Benchmarks

Small animal hospitals typically generate a profit of 10% to 15%, while specialty and emergency practices often earn 15% to 25%. The higher the profit, the more valuable the practice will be at selling time. Does that mean your practice profit needs to be in the 10% to 25% range and that you are a failure if it is not? Of course not.

National benchmarks can serve as markers for whether a veterinary practice's profit is considered high, low or average. However, benchmarks are merely indicators of what other practices do and should not be viewed as your goals. All practice owners have a unique set of characteristics and experiences that will shape their professional and financial goals.

Perhaps you want to maximize your

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- ▶ "Six Profit Indicators to Consider When Valuing Veterinary Practices": bit.ly/36BdFaMVet
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profit and practice value, reaching your investment's maximum financial return. In contrast, maybe your emphasis is on providing higher-than-average staff wages and benefits. You might want to deliver low-price services to your community, or you might run a high-end practice. There is nothing wrong with any of these scenarios.

How Much Profit Is Enough?

No one gets to tell you how profitable your practice should be — not your tax accountant, attorney or a family member. Your advisers should talk about how your business can improve, but you have the right to choose your path. Understand the pros and cons of your decision. Your advisers should focus on helping you reach your goals. Comparing benchmarks and setting goals based on what your peers or consultants tell you is easy. We encourage you to let your values and financial goals be the primary factors motivating your definition of practice success.

Since the time of Dr. James Herriot, when adoring clients often paid with cigars and slices of cake, the profession has undergone a sea change. Today's veterinarians are saddled with educational debt and are unwilling — rightfully so — to be available at all hours of the day and night.

Veterinarians and hospital managers must understand two things: their practices' true profitability and how to improve the bottom line should they desire to do so. It is not anyone's job to tell you how profitable your practice should be.

Owning a profitable business is one of the best financial investments you will ever make. You have the opportunity for job security and ongoing financial profits as well as the ability to build equity in the business and realize it at the time of sale. Some will have the opportunity for real estate investment as part of their practice ownership.

Work with a financial planner to determine how much money you need to generate normal compensation and receive distributed profits to fund your lifestyle and retirement needs. Use these goals as your benchmark for practice success, and turn to trusted advisers for help if your practice is not generating the level of profit you need to reach those goals. **TVB**