

THE TRUTH ABOUT BENCHMARKS

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My fur baby recently had lab work done. When the results were back, the report showed actual values as well as normal reference ranges for each test administered. Anything outside the reference ranges was highlighted as something of which to take notice. Similarly, industry benchmarks provide normal or “average” operating values to use to compare your practice with other practices across the country. Anything falling outside of the reference range requires further investigation. It does not always mean something is wrong, but you should take some time to consider WHY the values are outside that range and if something needs to be done to change them.

In business, benchmarking is defined as a standard or point of reference against which things may be compared or assessed. Benchmarks are measurements in the form of ratios, percentages, or raw numbers that help you understand the performance of your business compared to other similar businesses. Benchmarking helps identify where your company is now compared to where you want it to be. If you are looking at improving any process in your practice, benchmarking is a way of determining where to focus.

There are several excellent sources for published benchmarks in the veterinary profession. Keep in mind even these numbers are usually one or two years old by the time they are published. They reflect conditions that may no longer exist. With the unusual situations we have seen since the COVID pandemic, what was “normal” then no longer reflects current economic events. Here are some broad ranges of benchmarks for a few important KPIs that we have seen so far this year with our clients across the country.

- Profit Margins (Profitability) = 12% - 22%
- Total Compensation (gross wages only) as % of total revenue = 40% - 48%
- Total COGS as % of total revenue = 19% -25%
- Full-Time Equivalent (FTE) Staff to FTE DVM = 2.5 – 5.5
- Transactions per FTE DVM = 4,000 – 5,500
- Average Client Transaction = \$135 - \$250

Those are pretty wide ranges, aren't they? Which numbers are the “right” numbers for you to use? That depends. Many factors affect these numbers, and there is no absolute right or wrong number. Remember, just like with individual animals, every veterinary practice is different. Industry benchmarks are not one-size-fits-all! You would not compare normal lab ranges for a horse if you were treating a kitten. Likewise, veterinary business benchmarks vary for different kinds of practices. For example, a mixed animal practice in rural Kentucky would have completely different numbers than a small animal practice in Manhattan, NY. Similarly, a practice that works closely with a practice management consultant or is managed by a professional management organization will have different results from those that are self-managed, which will be different from those where little to no attention is given to the financial statements. Even more, two very similar practices will have different benchmarks if their bookkeepers record transactions into different categories.

Honestly, rather than relying on published benchmarks, the best, most accurate benchmarking is done by comparing your practice to itself! This allows you to observe where the numbers are improving and where you may be losing ground. It also helps you measure the impact of practice initiatives and specific actions to increase profits or decrease spending.

Make sure your financial numbers are complete and accurate before you do anything else! You must understand “behind the scenes” of your financials, what makes up the numbers and why. Then, instead of using other “average” practices’ data as goals, measure key performance indicators of your own. This guarantees apples-to-apples comparisons and reliable conclusions.

Benchmarking is not a quick tool nor a one-time-and-done exercise. Instead, it's an ongoing process to identify possible performance issues. First, review your benchmarks each month, quarter, and year and look for trends or variations. Then investigate those variances. Focus on improving the ones you don't like. Then TAKE ACTION! And watch how the performance within your practice quickly improves!

Use benchmarks as an integral part of your overall business plan to frequently monitor performance and help your practice grow and thrive.