MONEY MATTERS

How Average Are You?

Don't automatically fear the worst if your practice defies industry benchmarks. You might have good reason to be where you are.

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I'd bet no one believes they work at an average veterinary hospital. Like most of us believe we are better-than-average drivers, most veterinary practice owners and managers think their hospitals are above average in the quality of patient care, compassionate customer service and treating doctors and employees fairly. But since you are clearly above average, why do I ask, "How average are you?" Because when you compare your practice to industry benchmarks, you see averages. While the word "benchmark" can mean "best practices," the numbers we see published reflect the average of many responses.

There's nothing wrong with being average in that sense. Too often, we dismiss benchmarks as irrelevant, not because they don't represent the practice but because we don't like being below average. Situations exist where your veterinary practice won't follow the benchmarks.

Let's look at a few examples.

Specialty Practices

As a quick refresher, the cost of goods sold, or COGS, is driven by the services you provide and the products you sell, as well as their combination. The average companion animal practice derives 72% to 75% of its gross fees from services and 25% to 28% from product sales. The same practice will spend 24% to 26% of gross fees on COGS.

Practices that derive more than 68% of gross fees from professional services will have a lower COGS because they sell proportionately less "stuff" than the average hospital. This explains why emergency and many specialty practices have a lower COGS than their primary care counterparts — they don't sell a lot of food, heartworm and flea/tick preventives, shampoos, collars or leashes. Instead, the bulk of revenue at emergency and specialty practices comes from professional services. A client might go home with a small bag of therapeutic dog food or a single preventive dose, but refills would come from the general practitioner.

That's one end of the spectrum. Now, let's consider mobile vaccination clinics, which have no facility costs other than storage or a garage. They don't provide imaging, anesthesia or surgery. Instead, their focus is on tangible things — vaccines and preventives. At the vaccination clinics I assisted, COGS represented nearly 45% of gross fees. Remember that a higher COGS is associated with practices that provide more products to clients than the average practice. No one would expect a vaccination clinic to represent the average practice. Does this mean vaccination clinics are doing something wrong? No. It just means they are different.

Boarding Facilities

If you do a lot of pet boarding at your hospital, your numbers won't fit nicely into the benchmarks. Boarding requires a relatively small amount of staff time, very little product and a lot of space. What impact would boarding have when you compare your practice to the average practice, where boarding represents 3% of total fees? First, your COGS is probably lower because the boarding revenue does not require the purchase of additional "stuff." Fewer products used should result in a lower COGS. Staff compensation as a percentage of gross fees might not differ much. The additional staff and hours to support boarding are offset by the boarding revenue.

The most significant difference here involves facility costs. Boarding requires space. In general, the space isn't terribly expensive compared with a surgical or dental suite. Still, that average practice you compare yourself to doesn't need as much space. Expenses such as rent and utilities might be higher in dollars and a percentage of gross fees at the practice doing a great deal of boarding.

New Practices

Another model that won't fit the usual benchmarks is the startup practice. COGS should track reasonably well there, but staff wages and rent will be considerably higher than the average clinic. A startup needs a doctor and employees on hand and ready to respond to walk-ins and last-minute appointments. The employees are paid whether or not appointments are scheduled.

Facility rent is much different at startups. The rent at the average companion animal practice is 4% to 6% of gross fees. Rent can be as high as 15% at a startup, not because the amount paid is higher than average but because the gross fees are so much lower than average. Rent might not approach the 4% to 6% range for several years. But, again, the startup isn't doing anything wrong; it just needs time to grow.

The same things happen after a hospital expansion or a move to a larger facility. All that extra space is nice to have, but the practice might not be busy enough yet to put all the space to use generating fees. In the short term, rent as a percentage of gross fees increases and profitability and cash flow are low. As the practice grows into the additional space, the expense returns to average levels.

HOW DO YOU COMPARE?

Check out these benchmark resources:

Financial and Productivity Pulsepoints, 10th Edition
AAHA Press
bit.ly/3iJ1RsO

The 2019 Well-Managed Practice Benchmarks Study
WTA Veterinary Consultants
bit.ly/3gOCQax

Economic State of the Veterinary Profession
American Veterinary Medical Association
bit.ly/2DInDbM

AVMA & AAEP Economic Report
American Veterinary Medical Association and American Association of Equine Practitioners
bit.ly/3CMc1k2

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Employee Compensation

Finally, I've heard people say that because new employees are hard to find and wages are rising to attract those people, staff compensation benchmarks don't mean anything anymore. They say the benchmark should be higher to represent the "new normal." I don't see it this way. Yes, wages have increased at many veterinary practices. And what do wise hospital owners and managers do when the cost of something rises? They raise their fees. The business cannot absorb higher costs without increasing income. Otherwise, profitability suffers, owners don't receive a return on their investment, and money isn't available for new equipment or pay raises.

If you pay higher wages, you must increase your fees, improve efficiencies and reduce missed charges to ensure your profitability doesn't decrease. Should you toss benchmarks out with the bathwater since they aren't an exact fit for your hospital? No! Not unless you want to throw profits out the window, too. Just because you are busier or pay employees more doesn't mean historical numbers have no place in understanding the present or the future.

Where does your practice fit along the continuum from mobile vaccine clinic to multispecialty hospital? From startup to mature practice? Take your situation into account when you compare your practice to benchmarks. Review where you are above and below the average, and honestly critique the results.

Few people want to be average. However, once you understand how your practice is different from the hypothetical average practice, you can make informed decisions about when you need to be above average and when below average is OK. TVB