The six step action plan to grow your practice profit and the value of your practice by 50%

Session 6 – Become your own ‘corporate’
Why?

- who are the ‘corporates’?
- what do they have that I don’t have?
- what can they do that I can’t do?
- what can we learn from the ‘corporates’?
- should I consider the ‘corporate’ option in my strategy for retirement?
What is a veterinary ‘corporate’?

- In the UK, veterinary practice regulated by RCVS.
- Prior to 1997, traditional stance on veterinary practice ownership but.
- For some time a number of veterinary practices had been operated as limited liability companies – with some equity held by non veterinarians.
- Now increasing number of practices operating as ‘limited liability companies’ and LLP’s for tax reasons.
Consider a number of ‘corporate’ models identified in RCVS guide as:

- organisations providing veterinary services direct to the public, where the business (or charity) is predominantly managed by non-veterinary surgeons
- the RCVS requires that the organisation will:
  - recognise the professional responsibilities of the veterinary surgeons (to the RCVS)
  - appoint a Chief Veterinary Surgeon to director or equivalent status
  - agree that he or she has overall responsibility for professional matters including clinical policy guidelines, procedures by which medicines are obtained, stored, used and disposed and procedures for addressing clients' complaints on veterinary issues.
Currently the corporate models include

- local/regional consolidators
- local/regional extended partnerships
- national consolidators
- joint venture opportunities
After ten years?

- some failures
- some successes
- plenty of change
- plenty more to come
- what will be the position after 15 or 20 years
- what about mixed, large animal and equine practice?
- who are the potential investors in veterinary practice (My Pet Stop? Banfield? who else?)
So what are strengths of corporate practices?

- ready access to management expertise
- access to capital investment – at a price (not just financial)
- concentrate on building shareholder value
- purchasing power – economies of scale
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- access to capital investment – at a price (not just financial)
- concentrate on building shareholder value
- purchasing power – economies of scale
- board members primarily businessmen – clear about commercial objectives and outcomes
- recognise value of management skills and tools
- greater career development options for clinical and managerial staff
But a number of corporate weaknesses including:

- easy to acquire, much more difficult to integrate
- IT transition and investment
- practice leadership issues
- management from afar
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- management from afar
- can be slow to understand the key drivers of practice success – service to clients
- management more cumbersome
- slower decision making
- HR management and motivation issues – ‘them and us’ problems
All of these suggest strengths of independents

- understand the key drivers of practice success – service to clients
- management more flexible
- management on the spot - rapid decision making (in theory)
- HR management and motivation issues – potential for building highly motivated practice team
But growth of ‘corporates’ has highlighted some of the weaknesses of independent practices?

- many veterinarians suffer from self doubt and don’t value their contribution to animal and human health
- under-estimate client needs
- under-utilise their professional and support staff
- most veterinary practices are owned by professional clinicians with no training or background in management
But growth of ‘corporates’ has highlighted some of the weaknesses of independent practices?

- Price on basis of ‘we love our profession, our main concern is welfare and we just want to charge a ‘fair’ and an ‘affordable’ fee’ (Ross Clarke DVM)
- As a result - low levels of profit, poor ROI and shareholder value
- Practice owners do not separate their role as clinicians from their investment and ownership responsibilities. Their management decisions are influenced by their personal role as clinicians.
- When business decisions are needed, they are made by clinicians.
Is there some sort of action plan which independent owners could initiate to address weaknesses, build on strengths and achieve the professional and commercial objectives expected by the corporate investors?
Yes – first invest in management and understand the link between:

- practice turnover
- what more effective management might achieve - the financial impact on practice performance and
- the costs (financial and time) of a greater investment in management skills.
Here is the illustration we covered in Session 5

- A salary package of £25,000 represents 2.5% of a £1m (4 or 5 vet) practice and
- 6.0% of the total staff costs (say £420,000)
- 14% of the total support staff costs (say £180,000)

So if management efforts result in an overall margin improvement from say 5% to 10% or from say 10% to 15%, then the costs of 2.5% might be a worthwhile investment

- Particularly so if you can demonstrate that part of that salary package can be paid for by savings elsewhere in the budget
I am confident that:

- great opportunities for independent practices to learn from the corporate models, to grow and thrive and continue to own the majority of veterinary outlets in the UK if:

- their owners:
  - remain flexible
  - are prepared to change
  - build on their strengths
  - recognise and address their weaknesses
  - seek help and
  - work together for mutual advantage
Working together for mutual advantage

- Veterinary Study Groups Inc (US)
- MyVet Projects Limited and
- MyVet Network (Ireland)
- XL Vets
- etc etc
A strategy for retirement

- beginning to think about retirement strategy
- the enthusiasm is fading
- stress of clinical or management burnout
- anxious about the value of the business
- anxious about pension provision
- anxiety about finding a potential business partner who might take over some of the burden
- beginning to dream about the time to devote to family, hobbies, holidays and/or an alternate lifestyle
So what are the options?

- find a veterinarian partner and follow traditional exit route
- find a non-veterinarian partner (partnership or corporate structure) with exit plan
- sell all the assets to a colleague, neighbouring practice or other veterinarian
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- sell all the assets to a colleague, neighbouring practice or other veterinarian
- sell the business and retain the property
- sell to a regional or national consolidator
- retire as a clinician but retain ownership of the business as an investment
In any event you need to have an indication of the current value of your practice in your marketplace
The market for selling/buying veterinary practices in the UK

- traditional approach to value individual components (tangible assets and goodwill) then negotiate
- goodwill valued on a number of ‘weird and wonderful’ formulae and rules of thumb
- 1998 – change of stance by RCVS about practice ownership
- trend now to exclude properties (which are sold or leased separately) from the business valuation
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- trend now to exclude properties (which are sold or leased separately) from the business valuation
- current valuation approach based on multiple of EBITDA or similar measure of profit
- multiples range from less than 2x to more than 4x
- may or may not include equipment and stock
Current situation in the UK (cont)

- might have expected values to decline with tough economic marketplace and ease of access into the market
- in fact the practice acquisition market for good practices seems to be buoyant.
  - regional and national consolidators
  - corporate acquisition of £1m plus practices
  - corporate acquisition of small practice units in existing catchment areas
  - JV ‘corporates’ also now interested in acquisition
  - independent practices expanding in area
  - individual veterinarians and partnerships acquiring nucleus for expansion
Current situation in the UK (cont)

- some have noted evidence of a three tier goodwill valuation
  - admitting a new partner at a discount
  - private sales to individuals
  - corporates competing for large practices
But – and its an important but!

- the key for the ‘corporates’ lies in identifying ‘good’ practices
- demand for small animal practices with spacious modern premises, good parking and out-of-hours arrangements
- some buyers like to buy low priced unprofitable practices with potential
But – and it’s an important but!

- others prepared to pay high price for practices generating immediate return
- large profitable specialist equine practices likely to be corporate targets in future BUT
- owners of smaller, unprofitable and poorly managed practices who have given insufficient attention to a well planned retirement strategy have found little interest in attracting incoming partners or buyers
Selling to a corporate – some of the pro’s and con’s

- are you looking for a continuing role?
- but change from employer to employee can be difficult
- potential for ongoing investment as landlord
- availability of resources to negotiate a great deal
Selling to a corporate – some of the pro’s and con’s

- but the due diligence process can be irksome and frustrating
- how and when are the staff brought into the picture
- talk to former practice owners, vendors and employees
- seek independent advice
- doesn’t happen in a hurry – many a slip!
Consider the value of a 4 vet practice generating £750k

- Assume goodwill value assessed at a multiple of 4 x EBITDA
  - At a margin of 5% (EBITDA) value of the business is £150k
  - At a margin of 10% (EBITDA) value of the business is £300k
  - At a margin of 15% (EBITDA) value of the business is £450k

- Which business is more likely to attract investment (new partners or a purchaser)?
- Which business would you prefer to manage or to own?
Consider the impact on your family, your staff and your clients

- inadequate management results in poor profits
- inadequate profit means poor salaries, poor re-investment and poor ROI
- inadequate profit results in a low business valuation
Consider your practice - have you accepted poor profits for ‘quality of life reasons’?

- in your role as owner/investor, be clear about your business objectives, determine a strategy, prepare a plan and expect it to be delivered
- in your role as clinician, take account of your work / lifestyle balance and expect to be remunerated accordingly
- BUT DON’T CONFUSE THE TWO!
Thank you for participating in this series of on-line seminars

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- If not – then your feedback is even more important!
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