Moving Forward
Investing in the Future of Your Practice

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This year's **Practice Development series** is dedicated to **building today's veterinary practice**. The goal of this series is to describe the many elements that impact the growth and success of your veterinary practice. This first installment examines the broader thought process of investing.

Dr. Smith graduated from veterinary school 10 years ago. A mother of 2 school-age children, she has worked as an associate veterinarian since graduation, and has reached a point where she finds herself wanting more out of her career. While Dr. Smith has spoken with her current employer about her desire to be an owner, the reality of a partnership is a long shot at best. After months of casually exploring options, Dr. Smith has come across a location outside of her existing non-compete agreement, with a landlord who is excited to have a veterinary hospital as a tenant.

***Dr. Jones** is the sole owner of a busy 3-doctor practice in a suburb of a major metropolitan city. He purchased the business as a single-doctor practice 15 years ago, and it has grown steadily most years. His practice is built on the foundation of good medicine, and although he has many of the latest clinical tools, Dr. Jones acknowledges that his current facility looks very much the same as it did the day he purchased it. His team constantly reminds him of the challenges of working in a cramped space—he knows a facility expansion is long overdue.*

While these 2 veterinarians are very different individuals at different stages of their careers, they are remarkably similar in one way. Both of these capable professionals have reached a decision point in their professional lives—to remain in the relative stability of the known or to invest in an opportunity to find greater professional success.

Both of these scenarios demonstrate the influential role strategic investments play in many veterinarians' lives.

DEFINING INVESTMENT

In finance, **investment** is the purchase of an asset with the hope that it will generate income or appreciate in the future to sell at a higher price. The term is typically used in reference to a long-term outlook, and is associated with taking some kind of risk. Investing is not just the process of committing money, but the factors associated with that commitment.

- Research
- Assessment of risks
- The decision-making process.

In veterinary medicine, we often loosely use the term *investing* to justify any expenditure. Similar to many other business processes, many decisions to invest in our practices are *reactive* to situations, such as broken equipment or end-of-year tax shelters, rather than *proactive*, strategic decisions with a stated goal.

STRATEGIC INVESTING

Strategic investing is the process of:

- Identifying a need or desire to grow your practice
- Evaluating the opportunities to create improvements
- Considering the costs, risks, and possible rewards
- Intelligently making financial decisions to commit resources to projects and initiatives that create the greatest financial, clinical, and/or operational value for your practice.

We invest in our practices for several different reasons, or a combination of reasons:

1. **Create something of value.** Whether buying your first practice or moving an existing practice into a new build-

ing, you want to build a business that has value. While you may not anticipate selling soon, eventually you will look to sell your business and be fairly compensated for the years you have committed to its growth.

2. **Revenue.** We invest to create a new business, a larger building, or more examination rooms. All of these goals are centered on growing our practices, which ultimately leads to further financial success for the practice.
3. **Control of your own destiny.** For many practitioners, the decision to transition from an employee to an owner is based on a desire to create a more stable life. As a practice owner, you may inherit more tasks, more chores, and occasionally more headaches, but one thing is certain—every day you wake up knowing your job is secure.
4. **Quality of life.** Many improvements in our practices are intended to make our professional lives easier. Increased working space, shortened radiograph processing time, and more efficient patient flow are all results of investments designed to improve the quality of our professional lives.

Regardless of the reason, investing in our practices is about moving forward medically, technologically, and professionally.

> As you invest in your practice, **engagement in strategic thinking** is one of the most important exercises for the practice team. The decision to commit resources and/or borrow money to expand, add, or renovate is a decision that will financially impact the practice for years to come.

TYPES OF STRATEGIC INVESTMENTS

Strategic investments take many forms, ranging from a simple equipment purchase to multi-million dollar renovations. Depending on the stage of your career, professional goals, and operational needs, most projects are investments in one or more of the following:

1. **New business.** The first investment for many veterinarians is business ownership. Whether a startup practice, a partner buy in, or purchase of an existing practice, every practice owner was once an associate who identified an opportunity to create his or her own business.
2. **Personnel.** The most common investment in personnel is the hiring of an associate doctor. Many practices in today's environment do not have the immediate client demand to keep a new full-time associate productive from day one; therefore, the addition of a new associate is more uncertain than 5 years ago. That said, personnel growth still remains one of the most significant drivers of revenue growth.
3. **Equipment.** As practices compete with the many external competitors to core elements of their business, many are investing in new equipment in order to provide the next level of service for their customers.
4. **Facilities.** Facility investments are often the most complex projects, with the highest financial consequences when executed without a clear strategy and purpose. Often, incorporating loans of thousands to millions of dollars, facility expansion projects require careful coordination of designers, builders, and contractors, as well as a real world perspective of which improvements create the most value.

> Despite the broader economic challenges and the prevalence of student debt among young professionals, **funding for veterinary practice purchases and improvements is readily obtained**—opportunities that are not available to small business owners in other industries.

RETURN ON INVESTMENT

So how does one determine what creates value? While many practices commit money and time to improvements, and many more incur significant debt for larger projects, very few begin a project with a clear understanding of its benefits.

TO ADD OR NOT TO ADD

A busy 3-doctor practice is considering adding a third examination room to accommodate more patients, reduce waiting times, and allow more time spent with clients.

- Each examination room is currently utilized at its maximum capacity, accommodating 10 patient visits per day.
- A third examination room would accommodate 5 extra patients per day without requiring an increase in personnel and only slightly reducing use of existing rooms.

TABLE. ADDING A THIRD EXAMINATION ROOM: RETURN ON INVESTMENT

Examination Rooms	Existing	Predicted
Room 1 (existing)	50 visits/week	45 visits/week
Room 2 (existing)	50 visits/week	45 visits/week
Room 3 (new)	n/a	25 visits/week
TOTAL	**100 patient visits/week**	**115 patient visits/week**

The **Table** evaluates the clinical ROI related to adding a third examination room. Based on its information, adding a third examination room will:

- Increase patient visits by 15%
- Accommodate up to 50% of future growth before requiring facility improvements.

This efficiency can be converted to a financial value by assigning a dollar amount to each patient visit. At an average client transaction of $100, **a 15% increase in patient visits is worth $1500 per week or $78,000 per year**.

If you look around at your practice:

- How often do you use your equipment? How does its current use compare to your expectations the day it was purchased?
- Are you taking more images with your new digital radiology machine?
- How many times do you use your ultrasound machine?
- Are you ahead or behind your expectations? Did you have expectations?

In finance, the term **return on investment** (ROI) is a principle that governs how and when a business spends money. ROI is a measure used to:

- Evaluate the efficiency of an investment or
- Compare the efficiency of a number of different investments.

To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

In veterinary medicine, many practices do not utilize revenue or profit margins as a sole decision driver. ROI can be measured objectively when adopted for clinical metrics, including number of new patients, improved patient compliance, reductions in client complaints, or greater efficiency per doctor. See **To Add or Not to Add** for an example of ROI use in practice.

PRACTICE INVESTMENT MISTAKES

Every day, *very smart* veterinarians make *very bad* decisions regarding their businesses. While there are many factors that result in bad experiences, the most frequent errors in practice investments are the following:

1. **Delaying strategic investments.** We can look around our practice and identify improvements that have been pushed off for years, sometimes decades. However, delaying an improvement project does not make the problem go away. In fact, by failing to stay up to date, practices cannot offer the highest quality of medicine, an optimum patient experience, or a productive work environment.
2. **Lacking clarity in reasoning.** We are human, and even objective medical professionals can find themselves justifying personal perks as valuable to the business. If you make the decision to build oversized personal office space for yourself because you have worked in a closet for 25 years, that's fine. Understand, though, that this expense will need to be funded by revenue created elsewhere in the practice. Be honest with yourself in the process.
3. **Identifying needs versus wants.** In planning for future growth, it is critical to separate needs from wants. I may

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HERE IN THE REAL WORLD: A CASE STUDY

Like many veterinarians in our area, my wife—who is also a veterinarian—and I had been looking for our next practice ownership opportunity for several years. We understood—similar to other veterinary families—that our best opportunity to create personal financial success was practice ownership.

For us, the decision to open a new practice was influenced by several factors:

1. **Experience.** My wife and I have been practice owners before; therefore, the premise of starting a new practice was much less daunting to us than to a first-time practice owner. We had existing processes, templates, and protocols that we were able to implement from day one.
2. **Local market knowledge.** We selected a local area that was familiar and well known. Over the previous 5 years, my wife had built a very busy relief practice, often working in and around this region. This allowed us to develop a very high comfort level with the standards of medicine, client expectations, and general pricing dynamics of the area.
3. **Limitation of choice.** We live in a very popular part of the country, and practices are sold less readily than in other markets. Corporate practice expansion has made purchasing quality practices a very competitive process.
4. **The diamond in the rough.** We did not embark on new construction but found an opportunity that best fit our strengths:

- We decided to lease a facility that was previously a veterinary practice (opposed to, for example, a strip mall location that had been a different business).
- The building had dated, but existing, examination rooms, treatment area, and surgery suite, which enabled us to focus on client-centered cosmetic improvements.
- Building from the ground up would have concentrated our energy and resources on months of design, zoning approvals, and construction.
- Our approach kept the time between beginning renovations and seeing clients to a matter of weeks versus months.

The right opportunity for us won't be right for everyone, but we were able to match our strengths and goals with the right investment opportunity. As this series continues, we'll continue sharing our insights into the practice "building" process.

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want the outside regulation sized basketball court for lunchtime exercise, but I really need 2 new examination rooms. The selection of one project doesn't necessarily preclude the other, but it will create a decision hierarchy when determining a budget.

4. **Building the Taj Mahal.** Many practitioners have spent years in cramped quarters and inefficient facilities. Once they have made the decision to invest in renovations or a new building, they build a facility far beyond their needs, assuming that "we'll grow into it." The end result? All too often these practitioners become overwhelmed by high debt payments and facility costs the practice cannot support.
5. **Embracing the "field of dreams" strategy—if you build it, they will come.** You are adding a new laser machine and ultrasound. How...

- Are you going to let your clients know about it?
- Are you going to train your staff?
- Can you ensure it gets utilized to the fullest potential?

Too many practices have very expensive pieces of medical equipment sitting dormant because of a failure to properly implement them into daily practice.

SMART DECISIONS

There are no certainties in life, but it is important that the financial investments we commit to new or existing practices move our practices forward. Every dollar we commit is a dollar that's not given to our families, our practice team, or ourselves; each dollar should be committed based on strategic investing. This process puts you in a position to make the most informed, appropriate improvements, ultimately maximizing the performance of your practice.

ROI = return on investment

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