Consultants do not care how much you spend on coffee or paper clips, because no matter how closely you manage those paper clip costs, there is no impact to overall profitability. You should focus on where your money comes from and your four largest outlays: doctor and staff compensation, drug and supply costs, laboratory costs, and vehicle expense. These expenses likely represent >75% of the costs in your practice. Don’t agonize over other expenses until you have these under control. Author’s address: Summit Veterinary Advisors, LLC, 10354 W. Chatfield Avenue, Suite 103, Littleton, Colorado 80127; e-mail: Leslie@SummitVeterinaryAdvisors.com. © 2010 AAEP.

1. Introduction

With volumes of reports at your finger tips, from income, expenses, production by service code, production by doctor, inventory on hand, payroll summaries, and how many Coggins’s tests you ordered last year, you are inundated with data about the minutia of your practice. Improvements in technology and the availability of real-time reporting mean that there is almost no end to the data available to use to manage your practice. Whether you’re a practice owner or manager, you need a way to focus your attention on what really matters. What are the key figures on your income statement? What trends are occurring in production by doctor? Are your fees keeping up with the rising costs of people and products? What is staff compensation as a percentage of total revenue? Is that percentage climbing or is it falling? What do you really need to know from month to month to run your practice profitably? What would an outsider focus on?

2. Covering the Topic

When I analyze practice profitability, I look for trends and any sign that something has changed or is starting to change. How can you look at your practice through the eyes of a consultant? Begin with a review of gross income. Is it increasing or decreasing over time. If it is increasing, is it because the doctors are working harder or are they working smarter? When was the last doctor hired and what was the impact on income? Does the growth in revenue outpace fee increases?

Who is the most productive doctor? Do all doctors charge similarly? Do differences in areas of emphasis account for differences in total charges? Do the doctors charge the same amount for the same services, or does one “forget” to charge something in an effort to reduce the client’s bill?

Who are the practice’s biggest clients? How has that changed over the past 3 years? Why? If a large barn is spending less, is this an early indication of dissatisfaction?

Next, evaluate owners’ compensation. How are the owners paid in relation to other doctors? Do the owners receive any pay for managing the practice? If the practice owners also own the facility, how much does the practice pay in rent? How does that compare to a
fair market rate? If no rent is paid, are the owners able to take enough money out of the practice in other ways to make up the difference? Finally, are the owners taking all of the money out of the practice or are they reinvesting in new equipment, technology, and staff training?

How are associates compensated? Are they paid a fair amount in comparison to what they produce? Does this ratio increase or decrease profitability?

Review drug and supply costs. How is it that these are changing as a percent of total practice revenue? Is the quantity of inventory on hand steady, increasing, or decreasing? If more and more inventory is accumulating in the trucks and on the shelves, the money could be spent more wisely elsewhere.

How much debt does the practice carry? What portion of it is related to equipment and facility costs compared with debt on credit cards or lines of credit? What level of receivables is due from clients and how old are the receivables?

Evaluate other expense categories and identify what is changing over time, either for the better or worse. Are the changes expected or unexpected? If you understand the reason for the change, you have a better chance of correcting it, if necessary.