Budget Evaluation is Key to Financial Health During a Recession

By Amy L. Grice, VMD, MBA

Recessions are scary because as unemployment rises, consumer confidence falls, and those who are not independently wealthy cut back on spending. Some horse owners will struggle to pay for veterinary care, especially in the event of an emergency. Practices in some hard-hit areas of the country could see a 10-20% reduction in revenue, or more. To weather this period of uncertainty, having a financial plan can help to reduce anxiety and increase security.

Creating a Budget

Forming a financial plan requires looking at your practice's expected revenue and ongoing expenses on a monthly, quarterly, and/or annual basis. In QuickBooks, you can export the End of Year (1/1/2019 to 12/31/2019) figures in your profit and loss statement to an Excel workbook to form the foundation of a budget document. Once that column of figures from last year's revenue and expenses is entered, you can create your projected revenue and expense figures for 2020, perhaps with different scenarios for slight growth, no growth, slight loss, or moderate loss. Each of the scenarios could even be a separate worksheet. If you don't use an electronic bookkeeping system, you can still create a budget by entering your revenue for the period and then all of your associated expenses for the practice. If you are not able to use Excel, you can still do this exercise longhand. Once these figures are entered, you will subtract expenses from revenue to have a forecast of your potential financial position.

Analyzing Expenses

If you find that your "bottom line" is worrisome, you'll need to evaluate your expenses. The expenses of running a practice can be fixed or variable. The variable costs are those related to drugs and supplies (cost of professional services), employee costs (wages, benefits, payroll taxes), credit card merchant fees, and some of your ambulatory vehicle costs. These are the costs that change depending on how much work you do. The fixed costs stay the same no matter how many services you provide. For example, your license fees, professional liability insurance, accounting costs, utilities, and cell phone bills are all fixed costs. And remember, if you are using your P&L to generate your budget, any loan payment obligations will not appear there, as they are paid from your profit, so you will need to add them to your budget.

As you might guess, you have much more control over your variable expenses than your fixed expenses. If your revenue decreases, you must take a hard look at where you can cut costs. Minimizing your inventory, returning supplies that are overstocked, and being careful to bill for everything you dispense, will help. But because employee costs (including wages for all veterinarians) are the largest component of most practice's expenses, ranging from 35-45% of revenue in most practices, if your revenue drops you will need to make adjustments to the number of employees you have, or the number of hours they work, or the compensation that you as a practice owner take, in order to bring your budget into balance. It may also be necessary to limit the practice's contributions for health insurance and retirement plans. If you must take

away these benefits, it will feel very difficult, but your budget will allow you to see if this kind of medicine is critical in order to keep the patient (your practice) alive.

Evaluating Office and Vehicle Expenses

If you rent an office space or facility, you may need to decide whether the expense for having it can be sustained in hard times if you are solely an ambulatory practice. Seeking a smaller or less costly space, or even utilizing your garage or barn at home temporarily may be prudent. Your office staffer, if you have one, can almost always work remotely from their own home.

The vehicles of an ambulatory practice can be a significant expense for maintenance, tires, and fuel. Do consider whether a smaller, less expensive vehicle could save expense, but do not put off needed maintenance on any of your vehicles. Instead, reduce the car washes and detailing that may be part of your normal routine.

Thinking Ahead with Scenario Planning

Your budget will allow you to try different remedies in advance and see their impact. By going through the exercise to look at what your practice finances will look like in certain different scenarios, you can plan ahead for the steps you might need to take, and be ready emotionally for what might be difficult decisions. Although it may seem frightening to look at the consequences of a severe economic downturn on your practice's financial health, you are likely to find a sense of calm in determining how you would react if this came to pass. Having a plan in the event of catastrophe is simply good business.

Dr. Grice of Virginia City, Montana, is a veterinary business consultant and a member of the AAEP Wellness Committee. She previously served on the AAEP board of directors.