



Hitting the \$1,000,000 Mark

Not long ago in a mid-western town, the owner of Wylie Animal Hospital, a two-doctor practice called our office for help. The caller was an established Dr. Rudy Wylie whose companion animal practice had always been able to pay it's bills, give the staff their annual raises and maintain it's established client base. After he explained all of these things to me I wondered what exactly he needed help with. He lamented, "Well, that's just it, I'm stuck. We generate about \$700,000 per year but I want to move to the next level. I want to go from being a good \$700,000 practice to being a great \$1,000,000 practice. I don't want to just maintain the status quo. I want to be able to expand my facility, offer more to my staff and enhance my medical technology. What should I do?" And so began our relationship with Dr. Rudy Wylie and his journey to hitting the \$1M mark.

What are the characteristics of a \$1M practice, aside from the obvious increased revenue and higher practice value for sale purposes? The basis for a \$1M practice begins with being a Well-ManagedSM Practice (WellIMP). In a WellIMP, the owners enjoy practicing veterinary medicine and the patients' care always comes first. Beyond that, the practice runs more efficiently with well-trained staff and all in the practice enjoy a higher compensation. Leadership is visible and there is a mutual respect for doctors and staff. There are also more resources available to spruce up facilities and purchase medical equipment.

With a firm foundation, a WellIMP can take the next steps towards becoming a \$1M practice. The bigger your practice gets, the more people are employed and more structure is required to maintain the integrity of what you've accomplished. As a practice grows in size, structure and well-defined operating systems become mandatory. In the \$1M practice the foundational framework is financial management. This has to be in place in order to fund further development in other areas such as employee and client development. Let's take a look at how we helped Dr. Wylie achieve his goal of becoming a great \$1M practice.

Step One: Clarify your vision. When you don't know what you're aiming for, you can spend a lot of time wavering on the path to your goal. It's critical to have purposeful intention to guide you in your decision-making along the way. Think way back to when you first graduated veterinary school, or first entered it for that matter. Where did you want your career to take you? Would you be building a state-of-the-art multi-doctor facility with all of the latest medical technology? Would you practice in a mixed animal practice as an associate? Would you specialize in surgery? For Dr. Wylie it is practicing medicine in a way that says 'when a client wants the best medical diagnosis and hopes for a warm, welcoming medical staff, they will come to our practice.' In order to accomplish this goal, he needs top-notch technicians, a friendly reception staff and up-to-date medical technology. In order for Dr. Wylie to be able to offer a pay range to attract the top caliber technicians and receptionists in his community and to regularly invest in new equipment, he knows that his practice must be financially successful. His revenue must exceed his expenses and he must have a plan for growth.



Step Two: Establish effective documentation systems.

Why is this important? What does it have to do with hitting the \$1M mark? It helps you to measure your progress in reaching your financial goals. Dr. Wylie already uses accounting software to track his expenses and veterinary software to track medical service revenue and client activity. The next step for his practice is building a financial tool that provides all of the financial and statistical information he needs to manage his practice and make sound financial decisions. An example of this is the Management Statement™ (see Management Tools on this website) developed by Wutchiett Tumblin and Associates, which allows an owner, practice manager, or an accountant to enter the information from the accounting and veterinary software into a consolidated, useable format for monitoring cash flow and generating the financial information necessary to make sound business decisions. Cash flow is the lifeblood of veterinary practices and trying to use your Income Statement alone to guide your decisions can leave you feeling frustrated because it includes some non-cash items and ignores some cash outlays.

The Management Statement™ helped Dr. Wylie to view his revenue by service type and by provider and also to identify his expenses into key outlay categories. For the first six months, Dr. Wylie's practice manager, Allison, submitted the Management Statement™ and the practice financial statements to our office and we worked together to make sure that she was transferring all of the information correctly into the Statement. Eventually she was producing the Statement on her own for Dr. Wylie's use. When our clients begin to use the Management Statement™ they typically report: "What a world of difference to know at all times how much cash has come in, what we've spent or committed to spend, and what we have left for additional compensation or for reinvestment into the practice." Figure 1 illustrates Dr. Wylie's Management Statement™ along with the 2004 WellIMP targets.

Step Three: Establish a plan for revenue growth

In order to grow revenue, start with the key revenue components and identify the areas of opportunity for improvement. The components of revenue include fee structure, average doctor transaction, number of doctor transactions, service/product mix, service type, accounts receivable, active clients, client retention, client visitation & compliance, new clients and patient age distribution. We charted these components for Dr. Wylie's practice focusing on medical revenue. The two doctors produce \$550,000 of the \$700,000 of total revenue with an average doctor transaction of \$98 and 2,800 transactions, per doctor. The relationship of Dr. Wylie's revenue components, including the 2004 WellIMP targets, are illustrated in Figure 2.

Dr. Wylie's fees are on target given the level of medical care that he is providing. His area for improvement is in his service mix and his number of new clients. Figure 3 shows the 2004 WellIMP statistics for service types, and Dr. Wylie's service mix.



Dr. Wylie's practice provides a WellIMP level of examinations but diagnostic imaging, laboratory and dental transactions are well under what we expected to see for a practice of his size. Why? His generous heart goes out to clients when it comes to providing these services. He watches the bottom-line for his clients, and in doing so, he and his associate don't always offer services to clients that seemingly can't afford them. After reinforcing Dr. Wylie's original commitment to be an advocate for the patient rather than the client he confirmed, "Offering high level medicine for every patient and charging for every service, regardless of my perception of the clients' pocketbook, is important in achieving my practice vision of offering the best medical diagnosis while paying my staff well and equipping our facility with the best medical technology. "Once Dr. Wylie increased his diagnostic and dental services, his average doctor charge was \$118, much more in line with the WellIMP target for his practice. Note: With an Average Doctor Transaction of \$118, practice revenue will grow by \$112,000 if the number of doctor transactions remains unchanged. The next steps, increasing client visitation and adding new clients will require a facility expansion.

Step Four: Manage expenses for growth

Divide your operating expenses into seven categories: variable, fixed, staff compensation, facility, associate veterinary compensation, owner veterinary compensation and owner management compensation. Please refer to the 2003 WellIMP Study (available from Advanstar www.vmpgstore.com or 1-800-598-6008) for the detailed breakdown of expenses. After you have categorized your expenses, summarize the information to show the practice efficiency ratios, the amount available for reinvestment and the amount available to owners after all operating expenses and reinvestment dollars have been paid. Establish targets for each category and then monitor the variances between your targets and actual expenses to determine areas that need further attention. See Figure 1.

Dr. Wylie's practice expenses are higher than the 2004 WellIMP targets primarily because of lower medical revenue. As diagnostic imaging, laboratory and dental services increase, expense percentages will be more in line with WellIMP targets. The low facility costs reflect his over-utilized facility - a facility that needs an expansion. Adding exam rooms will allow doctors to see more clients. A larger reception area with one or two additional staff persons at the front desk will give receptionists time to give potential new client callers their full attention and help to build the client base.

WellIMPs typically allocate about 3% of revenue towards reinvestment. Reinvestment includes equipment leases, loans and purchases. There is a balance when spending for growth, and clients' perception of value can be correlated to the reinvestment into your practice. Your clients interpret the way that you treat your practice as the way that you will treat their pet. Reinvestment is important for taking your practice to the next level.



Keeping your practice modern while maintaining fiscal responsibility is often a challenging prospect. Dr. Wylie's reinvestment over the past few years was very sporadic and that sometimes negatively affected his cash flow. We recommended he allocate his reinvestment dollars in line with the 2003 WellMP Study guidelines: 1.9% of revenue for medical equipment and 1.5% of revenue on computer and office investments. Based on \$700,000 of revenue this means spending about \$13,000 on medical equipment and approximately another \$10,000 on computer

upgrades and new office technology. "But," Dr. Wylie said, "Shouldn't I spend the same percentages in relation to \$1,000,000 instead of \$700,000 since \$1,000,000 is where I want to go? That means spending \$19,000 on medical equipment and \$15,000 on office equipment. I know that I have those funds available by looking at my Management StatementTM." His point is a good one. To get to the \$1M mark, he must begin thinking like a \$1M practice owner. Reinvesting with his revenue target in mind will help him to achieve his goals of moving beyond his current status. Figure 4 shows how Dr. Wylie decided to allocate his investment dollars budget.

Hitting the \$1M mark doesn't seem quite as daunting of a task now, does it? Pieces of the puzzle can come together quite nicely once you clarify your vision, establish effective documentation systems, establish a plan for revenue growth and manage your expenses for growth. The picture becomes clearer and you are able to focus your energy and efforts where they are needed the most. So if your vision is to practice top-of-the-line medicine surrounded by satisfied co-workers and a strong client base, consider aiming high, about \$1M high.



Figure 1

Wylie Animal Hospital
Management Statement Summary

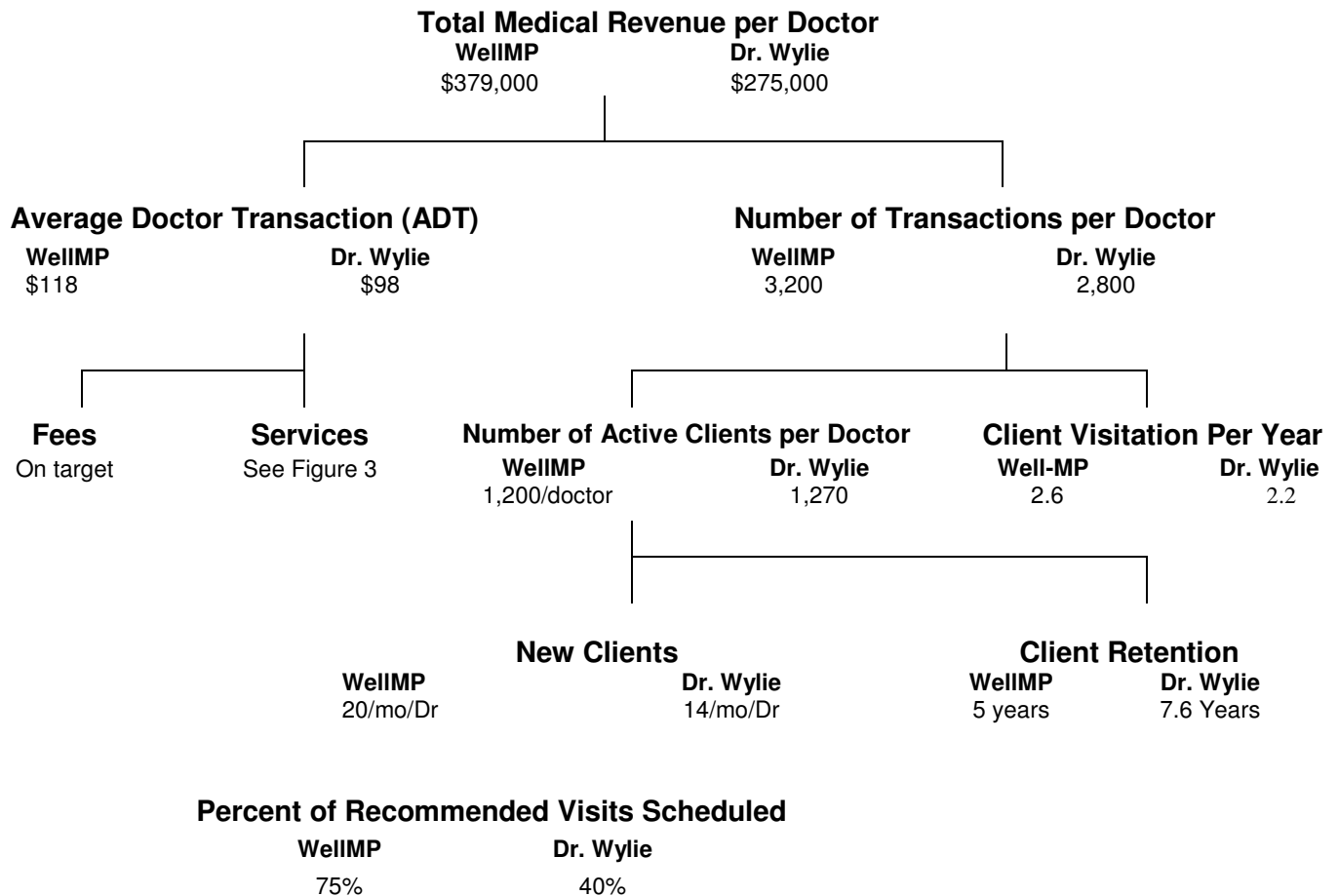
	<u>Actual</u>		<u>2004 WellIMP</u> <u>Targets*</u>
Total Revenue	\$700,000	100%	100%
<u>Operating Expenses (in relation to revenue)</u>			
Variable	\$161,000	23%	21%
Fixed	70,000	10%	8%
Staff Expense (non-veterinary)	175,000	25%	23%
Facility	<u>49,000</u>	<u>7%</u>	<u>8%</u>
Total Operating Expense	455,000	65%	60%
Amount Available for Veterinary Compensation	\$245,000	35%	40%
Veterinary Compensation	133,000	19%	19%
Owner Management Compensation	<u>21,000</u>	<u>3%</u>	<u>3%</u>
Total Veterinary and Management Compensation	154,000	22%	22%
Amount Available for Reinvestment	91,000	13%	18%
Amount Reinvested into Practice	<u>3,500</u>	<u>.5%</u>	<u>3%</u>
Remaining Amount Available to Owners	87,500	12.5%	15%

*Source: Wutchiett Tumblin and Associates



Figure 2

**Wylie Animal Hospital
Revenue Chart***



* Wylie Animal Hospital is a two-doctor practice. All amounts are stated per doctor.



Figure 3

Medical Service Revenue
(as a percentage of total medical revenue)

	<u>Dr. Wylie</u>	<u>2004 WellIMP Targets*</u>
Examinations	24%	24%
Vaccinations	12	8
Laboratory	12	18
Surgery/Anesthesia	10	14
Diagnostic Imaging	3	5
Dentistry	1	3
Medicine Dispensed	26	20
Other	12	8

* Source: Wutchiett Tumblin and Associates

Figure 4

**Wylie Animal Hospital
Reinvestment Budget**

	<u>2005</u>	<u>2006</u>
Revenue Target	\$800,000	\$1,000,000
Medical Equipment (1.9%)	15,000	17,000
Office Equipment (1.5%)	12,000	14,000
Facility Expansion Fund	20,000	20,000

To obtain additional information:

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