

Practice ownership – is it the right path for you?

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Abstract

Practice ownership has long been an expectation in large animal medicine. However, with student debt loads, increasingly high ownership is something that new graduates are giving serious thought to prior to moving forward toward ownership. As animal agriculture continues to grow and evolve, young veterinarians need to consider their own ambitions in ownership, personal goals in both veterinary medicine and business, as well as if the practice they are looking to purchase aligns with these ambitions. Careful evaluation of a business's culture, atmosphere and leadership can aid in making the decision if ownership is the right path for you. While the financial considerations are substantial and important, taking the time to have the right conversations regarding the future of the business and partner goals is just as important in creating a successful partnership and long-term practice ownership.

Key words: practice ownership, financial statements, goal setting, practice culture

Introduction

Many young veterinarians are encouraged to consider practice ownership within the first 5 years of practice. Historically, many veterinary clinics have operated this way to establish loyalty and consistency in service to clients while avoiding the high costs of frequent turnover. As student debt loads have continued to climb, many young veterinarians are pausing to consider if ownership is a component of practice that they are interested in. To best determine one's interest in ownership, it is important to consider your personal goals both for your professional career and family alongside the goals and mindset of your practice. Having a solid understanding of what success looks like for you will make it clear to many whether practice ownership is the right choice for you. Of course, it is necessary to consider the business financials prior to making a large investment. Understanding historical trends in profitability can paint a clear picture of the direction a practice is headed and your future return on investment with little to no intervention.

Personal goals

Understanding your own personal motivations and goals is an excellent starting point to determining your interest in practice ownership. A careful evaluation of what you would like your role in practice ownership to look like can help determine not only if you are interested in owning a practice, but what type of practice you are interested in owning. For example, the ownership responsibilities of a small 2-5-doctor practice are going to look very different from that of an 8⁺-doctor practice. With the same type of thinking in mind, you should also consider what you stand to gain and to lose from practice ownership. If you are considering buying into a small practice where business-related responsibilities are going to take up a large portion of your time, consider if that is something that interests you and aligns with your professional goals. This track of thinking can

be a bit unclear as a lot of autonomy in your goals related to veterinary medicine can be tied to practice ownership; however, in the right practice ownership does not have to be the only way to autonomy if you truly are not interested in it.

Business structure and culture

Considering your own personal ambitions evaluation of the practice you are looking to buy in both a physical and abstract sense will help determine whether that practice is the right fit for you. First, consider the size of the business. Are you looking to be actively involved in the day-to-day management? Then perhaps a smaller business is the right fit for you. If you are instead looking to hand off those day-to-day tasks and focus only on future planning and long-term decision making, then a larger practice group may be a better fit for you.

With differences in size comes variability in demographics. Consider the makeup not only of the practice, but of the clientele. Do the current client needs align with your personal goals? If not, consider not only why but if they are a good fit for your own ambitions. When considering the makeup of the practice, consider the ownership/associate proportions and responsibilities. Consider how the support staff is utilized and what the interactions are between these groups. For example, how do these groups communicate? Are tasks variable and clearly defined between each group? Do the responsibilities given to each group make sense and lead to efficiency? Finally, when looking at the structure of the business, consider what exactly it is that you are buying. In doing this, consider the location of the practice and mindset of the clients and if these 2 things align with your personal goals. Having a solid understanding of agriculture and the producers in your area can help determine if the physical location of the practice is going to hinder your personal ambitions. For example, a dairy practice in western Wisconsin is going to look very different from a dairy practice in the southwest United States. Some tasks will overlap between them, but what your day-to-day and week-to-week look like is going to be very different outside of seeing dairy cows every day. Outside of the physical location of the business, consider what type of business you are purchasing. Purchasing an ambulatory practice is going to look very different than purchasing a mixed animal practice with multiple locations and a wide variety of specialized services. Understanding what it is exactly that you are purchasing, and what exactly your expectations in ownership and involvement is in each unique area, is helpful in determining if this practice is the right practice for you.

After evaluating the structure of the business, considering the more abstract culture is just as, if not more, important. Giving thought to the atmosphere of the practice is just as, if not more, important than considering how the structure of the business aligns with your personal goals. When evaluating a clinic's culture, consider whether or not the atmosphere is comfortable or tense, if there are significant issues that need to be addressed, and if there are, why they may not have been addressed.

Along the same vein comes communication. How well are co-workers communicating with each other, are needs being met, is the practice efficient and pleasant to work in? Is there a clearly defined mission statement and values that the whole team understands and is striving toward? If not, does there need to be? Understanding what the current leadership truly values and is working toward is something important not only to consider when looking for the right job, but when looking at buying into a practice. It is one thing to work in a business that is loosely on the same track as your own personal values, but a very different thing to be a partner in said business. Finally, consider the expectations of clients and whether their realized and unrealized needs align with your personal ambitions. Educating on and demonstrating the value in new services can be effective in aligning your personal goals with your clientele; however, consider how far these clients would need to come in meeting your personal goals. Taking these areas into consideration will help you decide if the culture of the business aligns with your own personal culture and ambitions.

Evaluation of current leadership

Next, consider the current leaders in the business. How are they doing as leaders and do their ambitions align with yours? Are they in a growth mindset looking to invest into the business and propel the business forward, or are they in a maintenance mindset happy with how things are now and not looking for growth and expansion? Is the current leadership happy with the culture of the business and what are they doing to contribute to impact that culture? For example, if current leadership addresses employee issues in a timely and efficient manner, the culture of the practice is going to look different than if employee issues are left to work themselves out. As a portion of this, consider the personality types of the current leadership and how your own personality type will fit in with them. Are all members of the leadership team considered equivalently, or are there dominant and passive leaders within the team? If there is a combination of more dominant and passive personalities, are all their needs being met resulting in a pleasant camaraderie reflected within the team? Along the same lines, how are business management tasks divided among the current leadership? Understand how their compensation may be impacted as they have taken on more business management tasks as opposed to directly revenue-generating veterinary services. Understanding your future business partners' needs and goals is essential for establishing a long-lasting and enjoyable relationship as an owner.

Practice history

If you are looking to buy into a group practice that has been established in an area for decades, your buy-in will most likely be handled differently than a practice with a single owner who is looking to phase into retirement or looking to bring on their first partner. Understanding how the practice has historically handled buy-ins and whether that will fit with your financial situation is something that should be determined very early on in ownership discussions. It can be tricky to evaluate what is fair to buy and sell in service-based businesses as there is a fair amount of abstract value added to client lists, potential for future income etc. Some practices utilize routine third party assessments to establish the value of a practice, others choose to only buy and sell physical assets leaving the "blue sky" out of the sale. Having a handle on what exactly you will be buying early on is very helpful in determining if the sale process is not only fair, but if you will be able to reach an agreement with the

current leadership team and should be evaluated early on. In larger practices, where buying and selling of the business happens at a relatively high frequency there is likely an established process for sale that may leave you with little room to negotiate, however, the right practice will be willing to work with you and your needs to have you as an owner.

Understanding how financing will work when buying into the business is another very important step in the purchasing process. Are you expected to find third-party financing and hand over a check on day one for the entirety of your portion of the business, or will the sellers be financing your purchase resulting in loan payments to your partners on a monthly basis. There are advantages and disadvantages to both types of financing and both can be a very good fit for the right group of people. Especially in group practices, understanding exactly how the buy-in process is handled and what your expectations are as a purchaser early on will make the entire process more enjoyable for all involved.

Financials

The nitty gritty of all business decisions, the financials. For all financial records to be evaluated when purchasing a business, they can only provide you with a snapshot of time. Obtaining several years of records will truly paint a picture of how the business is doing now and historically. Evaluating the trends within the financial data is the only way to understand the direction your business is headed outside of current leaderships goals. Financial records to be evaluated are: balance sheets, profit and loss statements, accounts receivable and aging summaries, and accounts payable. The balance sheet will provide a single point-in-time reference of what a business owns and what a business owes. This sheet will always balance the assets and liabilities to zero, as the name implies. However, looking at balance sheets for multiple time points i.e., 3-5 years will demonstrate how the liquidity of assets and trends in how money is spent and what cash is available. A profit and loss statement will provide a summary of revenue, cost and expense for a specific period in time.

Like the balance sheet, you are going to want to look at multiple time points to evaluate the future profitability of the business and understand how that business has the potential to be profitable. For example, does the business have the potential to increase its profitability by increasing top-line profit, reducing costs or a combination of both. Next evaluating the state of accounts receivable. Accounts receivable is all unpaid invoices/money owed to your business. The aging summary breaks this out in what is current debt, less than 30 days, and what is outstanding debt, greater than 30 days, broken down in 30-day intervals. As a general rule, the longer debt is outstanding, the less likely you are to see that debt paid off. Understanding how efficiently a business collects on their debt can not only give you an idea of what your potential income may look like, but can help identify any bad debt that you may not want to purchase from current leadership.

Finally, accounts payable. Accounts payable simply means the amount of debt your business has to other vendors and suppliers. Examples of this would be diagnostic labs, utility companies, animal health product suppliers, etc. How a business handles accounts payable on a monthly basis is a helpful thing to understand. For example, are all bills paid monthly or is there some outstanding debt that is carried from month to month. Perhaps more important is understanding how

accounts payable will be handled in the buy in/out process. In many practices, all debts are paid prior to a buy in so as the new owner will not be taking on any debt/expense accrued before they had financial stake in the business.

Conclusion

The decision to become a veterinarian owner is not one to be made lightly. As students continue to graduate with record-setting student debt, the old held standard of buying into a business after a few years' experience is becoming more and more difficult for young veterinarians. In the process of deciding if ownership is the right path for you, young veterinarians should consider their own personal and professional goals, and how these goals align with the structure and culture of the business in which they are considering ownership. An alignment of this vision and goals is paramount in long-term success as a practice owner. Finally, after consideration of the more abstract aspects of a business comes evaluation of the physical financials. Understanding exactly what you will be purchasing, and the financial trends of the business, will make it clear whether becoming a practice owner in the practice you are considering is a wise long-term investment.

