

The Right Stuff

Making the Transition from Associate to Practice Owner



Dr. S bought her suburban practice in April 1997. In 1996, it grossed \$255K. Last year, she grossed \$530K. Her philosophy: To care for each pet as if it was her own. Shortly into her practice, Dr. S. discovered that many of her clients wanted more services than they were offered previously. She expanded her service offerings and added new clients through selective external marketing and word-of-mouth (no doubt because of her appealing practice philosophy).

Dr. J bought his rural practice in January 1995. In 1994, the practice grossed \$286K. In 1998, he grossed \$538K. The previous owner had been very rigid about services and hours and also had health-related problems. Dr. J attributes his success to hard work, expanded practice hours and discriminating marketing.

Predictors of Success

You've been working as an associate for a couple of years and now you're ready to make the transition to practice owner. At least, you think you are. What skills do you need to manage and grow a practice? Are there predictors of success—individual characteristics that increase the likelihood that a practice will thrive? What are they? And, how can you get them?

Our firm has been performing practice transfers for the past seven years, the majority of which have been solo practices. Of particular interest to us is the success of our doctors—after the sale. We measure success on two levels: achievement of financial goals and personal satisfaction. Our research shows that no single factor determines practice success. Instead, the most successful practice owners possess a number of traits. We've identified eight specific characteristics common among the successful, private-care doctors we studied.

Traits of Highly Successful New Practice Owners

Besides the obvious skill of technical competency, a successful practice owner possesses the following:

- Good work ethic & energetic enthusiasm for the job
- Willingness to make decisions
- Ability to remain open & flexible
- A solution-oriented focus
- Good mental, physical & emotional health
- Willingness to take risks
- Well-developed people skills including the ability to relate properly to both clients & staff
- Sound business management skills

As the last bullet point alludes, the practice of veterinary medicine today is as much a business as it is a profession. In addition to providing top-notch patient care, today's veterinarian has to worry about profitability, personnel issues, insurance, taxes, marketing and more. To gain the requisite business skills, some doctors attend courses in business management, some work with management consultants, while others actively recruit and hire that intelligence into the practice. Most seem to "learn as they go". One self-proclaimed "reluctant buyer" had previously owned a practice and vowed to do it differently the second time—or not do it at all. Her solution was to bring a hospital administrator on board from the beginning and delegate most of the administrative tasks to her. She is quite satisfied

with her practice and managerial choice. And, is now successful both in terms of her financial goals and personal lifestyle goals.

Doctors who have been an associate have gained great insight and experience through a period of indoctrination. They have witnessed first-hand what works and what doesn't work in a veterinary practice. Many associates put that knowledge to work and go into private practice for themselves; others, however, seem to be stuck in the rut of "perpetual associate". They want to break out, but cannot overcome their fear. Fear is present to some extent in all buyers. For most, it is a motivating force; for others, however, it can be crippling. Fortunately, most buyers realize that fear is a normal emotion and that planning and forward movement can go a long way toward quelling fear. In the big picture, financial failure is very rare. Buyers can take comfort in the fact that nationwide, lenders tell us that less than two percent of veterinary practice loans fail. Buyers also should realize that commercial lenders, and sellers, who agree to finance their own practice sale, would not make the loan if they didn't believe in the ability of the new owner to repay it.

The Right Match

After you have decided you have the "right stuff," what about the "right match"? When looking for the right practice there are many factors to take into account such as location, demographics, profitability, philosophy, physical plant, equipment and staff. All of these factors are important and each individual will place an emphasis on certain factors. The most critical initial factor is to match the income needs of the buyer to the expected income of the practice. For example, if the buying doctor and his or her family require \$100K in yearly pre-tax income, then the buyer should not purchase a practice which will only yield \$60K— unless he or she has another source of income. However, if the \$60K

income practice can generate \$100K in income the first year after the sale, then there still may be a match. This requires the acquired practice to grow with reasonable assumptions for the expected growth.

To make a financial match, the buyer must start with a personal budget.

In this case, the individual or family living expenses are figured on a monthly and yearly basis. School loans, even a significant amount, are not viewed as a negative. And, personal cash reserves can be very minimal as long as you are buying a practice with a good match of your personal income needs to the current or projected income of the practice. Lenders will frequently fund all of the purchase price for a practice plus working capital, if the deal makes sense.

Even though limited personal assets and school loans will not count heavily against a borrower, a poor credit report will disqualify a buyer from a loan. It is imperative to maintain a clean credit report. If there are credit blemishes with extenuating circumstances, you must "tell the story" in writing to the lender. A progressive lender will listen to unique situations. Overall, though, your credit report should be kept clean.

If an acquired practice has to grow to meet your income requirements, sales projections must be based on reasonable and quantifiable assumptions.

For example, one practice seller was a charter pilot who was absent from the practice a minimum of six weekdays a month. It was reasonable to assume that the practice's gross revenues would increase proportionally to the increased doctor days.

Although, we appear to be comparing practice qualifying income with personal income, there is a big difference in the two. A business has expenses such as depreciation and amortization, which are non-cash expenses. A business has other expenses such as automobile, travel, meals, entertainment, continuing education and others which reduce

pre-tax income. As an employee, these charges do not reduce taxable income. In other words, the same apparent income from a business when compared to personal wages, results in less income tax for the business income and greater discretionary income for the business owner. In spite of recent tax law changes, there are still tax benefits to business ownership.

Once the financial requirements are met, the next, very important consideration is matching practice philosophy and style. For example, if the current owner is a very aggressive practitioner who has a doctor productivity charge of \$150 or more per transaction, a buying doctor, who has a much lower production figure, may not be able to duplicate the seller's numbers. Such a transition could result in a huge drop in income (often causing the buyer to suspect the practice income was misrepresented). In production-mismatch cases, the buyer may be better off with a practice more suited to his or her production. Although a practice will usually adapt to a different philosophical style, the buyer may not survive the transaction without significant cash reserves. On the other hand, if the average client charge is low, the opposite is true. Most doctors can readily duplicate it and many will be able to increase it easily.

Stepping into private practice is not without its challenges—but new owners of veterinary practices can take comfort in the fact that the odds of success are greatly in their favor.



Ellie Wattles, DVM, graduated from Colorado State University in 1968. She has been a full-time veterinary practice transition specialist since June 1992. She and her husband, Rick Wattles, DVM, University of California, 1973,

a veterinary practice appraiser, own and operate Pacific Professionals Inc., which is based in Fillmore, California. They can be reached at 805.524.3195, PacProInc@aol.com or www.pacificproinc.com.