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Starting Your Own Practice
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Introduction

A goal for many veterinary students is to open their own practice sometime in the future. As a new graduate, the most powerful deterrent to starting your own practice is the lack of clinical experience and confidence. If you get out on your own too soon, you're likely to find that analyzing illnesses and making diagnoses without proper guidance can be frustrating, unrewarding, and even deadly - and that is no way to build a practice. A great deal can be learned by working with an experienced practitioner. Even learning how not to run a practice, is still a valuable lesson. We have all heard the common and true expression, "You learn more during the first year in practice than during the four years in vet school". Most students figure that they should work for someone else for a few years to develop their clinical and managerial skills before either buying into a practice or starting their own.

Starting your own practice is a challenge. Even after you develop the clinical knowledge and confidence, there are other challenges you must consider in order to start on the right track. Writing a comprehensive study on what is necessary to start a new practice would take a complete book. It is the purpose of this article to give the veterinary student an introduction to opening his/her own practice.

Looking within

First you must look within yourself to determine what you really want. It is imperative that you determine your needs and motivation and be true to them. Dr. Larry Thirloway, a veterinarian with a masters in business administration, warns that you must recognize the difference between getting away from an unfavorable situation and moving towards a new one.15 If you want to start a practice simply because you want more money or more vacation or a better quality practice or a more favorable climate, you might not have the right reasons to start a new practice. If your needs analysis appears to be filled mostly with reasons to leave what you have, then instead of trying to start on your own, try to adjust your current situation to rectify the problems. If you can, you solved your problem with no large investment of time or money. Most likely, however, your needs can't be met with a simple adjustment. The bottom line is that you must determine where your needs can best be met. If your needs analysis reveals the desire to design and operate your own building, coordinate staff needs, handle client relations and cash flow, be solely responsible for every case, and so on, then perhaps owning a practice is the best move.15 Be honest with yourself. Starting your own practice should grow from the desire to begin, not a need to escape.

Getting started is not easy. CPA and veterinary consultant Cynthia Wutchiett says, "Buying your own practice calls for a commitment of time and energy unmatched by any other".20 As a practice owner, you'll no longer be responsible only for yourself and your family; you'll also hold ultimate responsibility for every client, patient, and member of your staff. Although the practice may not be the most important aspect of your life, it will certainly demand the most time.

Now that the right motives have been determined, what else must you consider before opening your practice?

Choosing a community in which to practice

Many personal and economic factors influence the selection of a site for a new practice. Travel experiences, family ties, and climate preferences may dictate the choice of region. Financial consideration may take precedence over other factors.3 Although a
profitable practice can be established in any state, income levels may be higher in certain areas than in others. Some veterinarians place a high priority on earning the greatest possible income and may therefore choose to practice in large metropolitan areas. Others may be interested in a particular area with less potential, for specific reasons (e.g., family), even if it means earning less money.

Your practice site should meet your professional and personal needs. No matter how good the business climate, you have to like the overall situation in order to call the place home. Remember, you are likely to spend more time in your practice than at home! It is important to take the time before you begin your search to determine the kind of practice you want to build and the type of lifestyle you want to maintain.

Begin with your personal goals. When selecting a location, you should decide how much money you need to save each year to accommodate your plans (e.g., retire at the age of 50). You will then need to find a site where people are willing and able to pay the prices you’ll need to charge to meet your objectives.

Regional Economics

Michael Strausser, president of Economic Consulting Associates in Temple, AZ, recommends looking for a stable and growing area with population characteristics that closely match those found among your projected clients. For example, an AVMA study shows that pet ownership is more prevalent among households whose members earn $30,000 or more, own their own homes, and live with two or more other people. Mr. Strausser indicates that to choose from among the cities that interest you, you’ll need:

- Population counts and number of households reported in the last census, including current estimates and five-year projections of these statistics.
- Household income distribution.
- Median household incomes.
- Average numbers of persons per household.
- Age distribution.
- Percentages of home owners versus renters.

The best place to get this information is from organizations that provide custom demographics. Such businesses include private companies, and in some cases, public agencies. Once you have this information, compare areas with each other to identify expected population and expected growth. Compare population counts, growth rates, and projected growth rates. Give lower priorities to any areas where population has decreased and is expected to decline further.

The Competition

Once you have established the location in which you want to get started it’s time to look at the competition. Michael Strausser recommends starting in a location where the veterinarian to household ratio is high. You need to study what the competitors’ hours are and what kind of services they provide, e.g., are they full-service hospitals? 24-hour services? Then determine what services the public needs the most and try to provide them. Competing veterinarians should also be observed to see how busy they are. If all of them are working to capacity, the outlook for an additional practice in the area is favorable. Spend some time researching how successful your competitors have been at their locations. You can gain a sense of how well a practice is doing by looking at the length of stay at one location, efforts to expand, and purchasing history from suppliers and laboratories. For incorporated practices, view the financial statements on file with the State Corporation Commission.

Studying the Site

During 1990 it was reported to the AVMA that nearly two-thirds of pet owners said they chose a veterinarian based on convenient location. Being near or on the way to other services will help a veterinary practice, as will being within easy, timely reach of clientele.

Your practice should also be visible. Traffic is a good indication of visibility. Seek an area with high traffic, i.e., 15,000 cars/day. You can obtain traffic counts from the city Traffic Engineering or Public Works departments, and for rural areas, sometimes from police stations.

Give priorities to sites that are away from congested intersections and to those that provide safe turn lanes for your clients. Stay away from locations with speed limits greater than 40 miles per hour. Also, avoid locations with not enough parking space.

Now that you know how to find the right location, let’s look at what it will cost to start a new practice.
What will it cost?

The answer to that question will differ in every situation. It is important to determine the start up cost, operating expenses, and the practice's revenue potential before attempting financing. By doing so, you'll avoid problems such as running short of cash by borrowing additional money to compensate for an inadequate first year income.

Cynthia Wutchiett recommends the following steps to determine what it will cost to open your own practice:

1. **Calculate start up costs.** Major start up costs are listed below:
   - **Facility.** First, it needs to be determined whether you want to build, buy or rent. If you want to build, consider all costs necessary to put the facility into operation. These include land acquisition, conducting and satisfying EPA audits, architectural planning and design, construction management, material and labor cost, interior and exterior finishing, landscaping, signage, and interest to be paid.
   - Costs must also be considered if you plan to buy an existing facility. These costs include land and building acquisition, remodeling, and interest to be paid.
   - If you plan to lease a facility and finance the leasehold improvement personally, include the cost of the improvement as an acquisition cost. Don't include this cost if the building owner is financing the improvements and passing the cost to you via higher monthly rent.
   - **Equipment and furniture.** This cost will depend on the size of the facility, the type of practice, and the availability of used equipment.
   - **Drugs and hospital supplies.** Again, the starting cost depends on the type of practice and the number of practicing doctors. Prepare a detailed list of items to be purchased, plus initial quantities and cost.
   - **Office supplies and promotion.** A list of the office supplies should also be included. Promotion is one of the most important determinants of success for new veterinary practices. Take it seriously, don't take shortcuts, and don't be afraid to hire professional help.

2. **Operating expenses.** To calculate such expenses you should estimate the cost of:
   - **Variable expenses or those affected by the number of patients seen.** Including drugs, hospital supplies, outside lab fees, pet food, and other retail items.
   - **Fixed expenses.** Such expenses are not directly affected by the number of patients seen. They include telephone, utilities, office supplies, postage, professional organization's dues, license fees, promotion, continuing education, maintenance, advisor fees, property taxes, and insurance.
   - **Staff payroll.** This depends on the amount and type of staff assistance planned. Take into consideration the number of doctors; the time to be spent on outpatient appointments, and in surgeries, and the hours the hospital will be open. Include all the staff compensation costs, including base salaries, employee benefits, and your portion of the payroll taxes.
   - **Rent.** For a leased facility include the annual rental amount.

3. **Determine your compensation.** Your needs in terms of salary and benefits have to be determined realistically. Don't underestimate what it takes to cover your personal expenses!

4. **Calculate revenue requirements.** Add together the first year payments on your start-up cost, operating expenses, and owner compensation. The total will tell you how much revenue you'll need to cover your first year in business. For this Ms. Wutchiett recommends looking at revenue in terms of average charge per transaction (ACT) and the anticipated number of transactions.
To determine your projected ACT, you must consider population demographics, including income, age, family status, plus trends in population, construction, traffic, competition, and the quality of medicine you plan to practice.

The bottom line is that you need to determine how many transactions of your ACT you need to cover the first year payments and expenses. For a more detailed description of this process, please see the references at the end of this paper.

5. Secure start-up working capital. It was already mentioned that there are many practice expenses that go on whether or not you see a single patient. Therefore, you must have enough money to cover your operating cost until your practice begins to make money.

Working capital may be included in your financing package, but it’s likely that some of the initial capital will come from your personal savings. A six-month working capital reserve should be enough to carry you through the start up.

Now that you know how much it costs, let’s look at some options on how to find the necessary money.

Financing a New Veterinary Practice

Most likely, unless you were born rich or you saved a large sum while going to college (very unlikely), you will need a loan to start your own practice. The last part of this paper attempts to explain how to apply for a loan to build the practice of your dreams.

First, make sure to apply for the amount of money you need, nothing less. As mentioned before, you might need to include in your financing package additional money to compensate for an inadequate first year income.

In order for the bank to lend you money, it needs to trust you. You must be prepared to show the banker that you are credit-worthy. If you are a good risk, it won’t be hard to prove.

You must be prepared before walking into the banker’s office. Mr. Michael Strausser indicates that before going into the banker’s office, you must have your objectives determined - both, short term, e.g. gross $75,000 in year 1 and net 5 percent, and long term, e.g. gross $500,000 in year 10 and net 10 percent.

Before asking for the money, anticipate questions and have answers. Consider what the loan would do for you and for the lender, but also be your own devil’s advocate. Try to anticipate potential problems, such as unexpected capital cost, low sales and high expenses. Figure out what you can do to avoid those problems, and figure out how would you deal with them if they happened.

When applying, first meet informally with your lender to assess his/her interest in lending you money and to obtain feedback. Show the lender your business and personal financial statements, how much of your own money you would put into the proposal and what collateral you can offer. If your lender isn’t encouraging during this meeting, find out why. If you can’t remedy the situation, try another lender. If the lender wants to see a loan proposal, assemble one.

Now you are ready to present a written package with financial information and a copy of your plans. The following financial information should be submitted:

- The amount of the loan requested and the purpose for which it will be used.
- An estimated balance sheet as of the day the business starts. Include the amount you and/or others have to invest.
- A projection of your first year’s earning and expenses. A monthly cash flow is recommended.
- A current personal financial statement from yourself and anyone owning 20 percent or more of the practice. List the collaterals to be offered as security for the loan.

If your lender is unwilling to provide financing directly, ask if he/she will do so with a Small Business Administration (SBA) guarantee. Most likely, the banker wants to provide the loan; however, your application may not be strong enough, perhaps due to the lack of collateral. The SBA is an agency of the federal government that is designed to help small business owners. The SBA offers a lower interest rate than most other sources and is insured by the federal government in case of default.

Financing a practice can pose a major hurdle for the prospective practice owner. Bankers and
the SBA are only two of the sources available to provide the funds needed. The prospective owner should consult bankers, attorneys, and accountants to determine what form of financial assistance will best fulfill his or her needs. The financial terms chosen in the end can have a profound impact on the financial success of a veterinary practice.

Conclusion

This paper is not meant to be a comprehensive look at what is necessary to start your own veterinary practice. The reader must realize that there are many other options when starting on his or her own. For example, you don't need to start a practice from scratch; you could invest in an already established practice, or for that matter buy into the practice where you have been working for a while. Each of these options has its own positive and negative considerations. Moreover, there are zoning laws and local regulations that will influence your decision for a practice location. Neither of these were considered in this document.

Starting a practice is an endeavor that requires complete commitment of mind and energy. Future practice owners should realize that they will need all the help they can get. Therefore, create a team, including financial and management consultants, accountants, bankers, and lawyers who will give their professional advice.

New practice owners must be technically competent, good with people, and confident in their abilities. Furthermore, they need to have knowledge of the business of veterinary medicine. If they have all these ingredients and do their homework before launching their own practice, they are bound to be successful in building the practice of their dreams.

References


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