SIMPLE BENCHMARKING- “HOW DOES YOUR PRACTICE MEASURE UP?”

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Introduction

A benchmark is defined as “a standard against which something can be measured or assessed.” In my paper titled, Demystifying Financial Statements, I asserted knowledge is power. Assessing your practice’s performance against financial benchmarks can reveal a range of insights into how you operate and highlight areas for change or improvement, however, there is always a need to approach benchmarking data with caution.

The purpose of this paper is to provide an overview of benchmarking, including how to use benchmarks as a catalyst for improvement and what to be wary of.

Availability of Benchmarking Data for Veterinary Practices

The most widely available source of benchmarking data for veterinary practices appears to be that produced and commercially available through FMRC Benchmarking, to which I am a subscriber. In some industries and professions, the data is compiled by the peak associations and another option is for a group of trusted colleagues to come together to share financial and practice operating data for their mutual benefit.

Using Benchmarks Appropriately

It is always important to approach benchmarks with caution and not merely accept them at face value. Consider:

- How were they compiled?
- How many practices have provided data?
- How is the data stratified into different sizes, locations, structures and types of veterinary practice?
- In what ways might your practice operate uniquely or differently to the benchmarked practices?
- Is the particular measure relevant to your practice?
- Does the particular difference cause concern and, if not, should it?

If you are “under-performing” to any great extent in certain areas, it is usually of considerable value to devote energy into those areas and use the gap as a catalyst to make changes or improvements. I would also add that, if your practice is outperforming the benchmark, take the opportunity to understand why and how and aim to increase the out-performance. It should not be an excuse to rest on your laurels!

I am a strong believer in practice clinical, financial and practitioner lifestyle objectives being built from the ground up and practitioners largely running their own race, independently of what the averages say you should be doing. In reviewing benchmarking data, it is therefore important not to lose sight of what you are trying to achieve and also to acknowledge at what stage you are in the practice life-cycle, from start-up practice in a new subdivision to established inner-city or regional practitioner with “pillar of the community” status.
I also believe if you are going to benchmark your practice, then you should compare yourself and aspire to perform as well as the top performing groups of practices rather than necessarily those you are most aligned to.

Benchmarks may be accurately compiled and with the best intentions and intense scrutiny, but rely on the integrity of the data supplied, which can be prone to inconsistent accounting treatment of items, improper understanding and input of data, misallocation of different types, sizes and locations of practices and can sometimes deteriorate into a meaningless average of averages.

An important opportunity for the use of benchmarks is more in the area of forward planning/scenario analysis. Particularly in areas where the practice is underperforming the standard in some key areas. Your focus can turn to “what difference would it make to the performance of the practice if we could ratchet things up to the level indicated in the benchmark statistic?” What would have to change? By way of example, if you had a city or suburban practice, turning over $1,000,000 per annum, incurring employee salary costs of $350,000 (35% of turnover) and generating net profits before principal’s salary of $150,000 (15% of turnover), you might be interested to investigate the changes that would be required increase turnover to the average of $1,134,549, to reduce the level of employee salaries to the average of 27.29% of turnover and the average net profit before principal’s salary of 20.64%. The potential “before and after” picture would be as follows:

<table>
<thead>
<tr>
<th></th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>$1,000,000</td>
<td>$1,134,549</td>
</tr>
<tr>
<td>Employee Salaries</td>
<td>$350,000</td>
<td>$309,618</td>
</tr>
<tr>
<td>Other Practice Costs*</td>
<td>$500,000</td>
<td>$567,274</td>
</tr>
<tr>
<td>Net Profit (bps)</td>
<td>$150,000</td>
<td>$234,171</td>
</tr>
<tr>
<td>Improvement ($)</td>
<td>$84,171</td>
<td></td>
</tr>
<tr>
<td>Improvement (%)</td>
<td>56.11%</td>
<td></td>
</tr>
</tbody>
</table>

* increasing revenue while keeping other costs the same or at least only increasing in proportion to revenue increase

There are a host of potential strategies that could be identified and implemented towards achieving this marked increase in the financial success of the practice. If the statistics suggesting the average practitioner is doing better than you provide sufficient motivation, then you will readily uncover the changes needed to be made to your practice, which could include:

- Pricing review;
- Improving service & product mix;
- Reviewing staffing mix and productivity
- Increasing average transaction and average number of client visits
- Review of areas of waste in the practice, including duplication of effort, excess capacity, low staff productivity, excessive use of consumables, failure to recover costs for drugs, etc

The point is, spending time and energy on these sorts of practice issues, even if only in response to a wake-up call provided by the benchmarking data, is where I see the main benefits in the whole benchmarking process.

1 Based on data from FMRC Benchmarking, Veterinary Practices (2003 to 2006), reproduced with kind permission.
FMRC Benchmarking Service

FMRC Benchmarking provides some useful benchmarking data and analysis in a spreadsheet based application which enables you to key in your own data to produce comparison reports and also to play with the “What ifs”.

The veterinary practice data is grouped in various ways, including:

- By location and type of practices, including city & suburban, non-metro locations, small animal practice, large animal practice and firms up to 1 full-time equivalent employed vet;
- By annual practice income, ranging from below $500,000 to $2 million or more;
- By net profit per principal, ranging from below $65,000 to $180,000 or more.

Figures and ratios provided and available for ready comparison include:

- Total income;
- Various overheads as a % of Total income, including advertising, interest, bank charges, premises costs, vehicle costs, employee salaries, drugs & supplies, equipment, insurance, subscriptions & professional development;
- Net profit before principal’s salary;
- Total practice income per professional; per professional work hour (highly important) and per person;
- Net income per professional; per professional work hour (in my view one of the most important measures) and per person;
- Personnel numbers (full-time equivalent) and split between principals, employed vets, nurses and other staff;
- Days debtors (accounts receivables)
- Hours worked per principal

During the course of the presentation I will take delegates through the benchmarking data provided and am otherwise unable to hand out this information due to copyright restrictions. I understand you can subscribe to a single category/professional group’s benchmarking data for around $165 per annum.²

Spotting Opportunities for Improvement

Within any practice there is generally an opportunity to take a fresh look at each of these types of indicators on a regular basis and monitor performance on a monthly basis. For example, if your debtors days are higher than average, consider reviewing credit terms, requiring payment at time of consultation, ensuring all acceptable payment modes are available; developing a follow-up system for unpaid accounts; considering discounts for on the spot or prompt payment.

If you find the majority of your expense ratios exceed the benchmarks, this will be a strong indicator that the pricing of your services and products is in need of a major overhaul. I note that the net profit per principal work hour ranges from a low of $19.98 to a high of $110.43. Where do you want to be?

If a few are higher than average, these should be investigated further and, where possible, involve other members of your team to analyse why and what changes can be implemented. It is important to prioritise and review the variances and rank them in the following terms:

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Impact on overall profitability;
Ease of Improvement;

Other Sources of Data

In many professions, groups of colleagues within particular geographic areas often get together formally or informally to “discuss their numbers”. If this is possible and appropriate amongst your colleagues and peers, and is done on a confidential and non-competitive basis, it can provide you with an invaluable insight into the different ways of owning and operating a veterinary practice. This type of forum brings you directly in contact with the “creators” of the data who can work with you to identify and explain the differences in their numbers to yours and vice-versa. I would be delighted to assist in establishing, guiding and/or mentoring groups of veterinary practitioners in this important exchange of management ideas and information.

Summary

Use benchmarking data with caution and as a positive catalyst/excuse to generate practice improvement, with the view to aligning the practice more closely to your own clinical, financial and lifestyle goals.