

## CORPORATE AND PRIVATE VETERINARY PRACTICE: BUY/SELL/BENEFITS AND PITFALLS

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The landscape of veterinary practice is definitely changing, with corporate buyers investing heavily – and this isn't a brand new trend. In fact, DVM 360 offers up these examples from 2007:

- Summit Partners, a private equity and venture capital firm, invested \$128 million in National Veterinary Associates (NVA); at that point, NVA owned the most freestanding veterinary hospitals in the United States: 99 of them in 29 states.
- VCA Antech, Inc. bought Healthy Pet Corp. and its 44 hospitals for \$152.9 million, bringing their holdings to 450+ clinics in the country.

By 2016, approximately ten percent of practices are corporately owned.

Some people, upon hearing these stories, have rung the death knell for single-doctor practices. DVM 360, in the 2007 article, begged to differ, pointing out that VCA Antech – after more than 20 years of being in business – still only owned approximately 450 hospitals out of the country's 31,000-plus practices.

So, is it possible for you to continue to maintain your own practice, and even compete with the corporate giants? Definitely. Although the percentage of corporately-owned practices has increased, in 2016 there are still 90 percent that are NOT owned by corporations.

The bigger question, really, is *how* to compete. Before we share strategies, here are reasons why veterinary practices are being seen as attractive investments, and why practice owners sometimes decide to sell to corporations.

### Behind-the-Scenes of Corporate Decisions

Reasons that investors like veterinary practices include:

- Veterinarians get paid at time of service, unlike human medicine, where doctors need to wait for insurance reimbursement.
- Malpractice insurance costs are significantly lower than in human medicine and emotional damage payments are still much lower.
- The veterinary industry has grown steadily for more than 40 years, even during five recessions.

Lest this seems like a slam dunk for corporate buyouts, consider this: investors need to buy approximately 50 hospitals before they benefit from consolidated infrastructure. So, even if they were to buy one hospital a month, it would still take more than four years to reach that tipping point.

### Selling Your Practice to a Corporate Buyer

Some practice owners, of course, willingly sell to corporate buyers. Advantages of selling include:

- Being offered a good price: if a veterinarian sees an excellent way to maximize profit – and corporate investors often offer top dollar – then it may make sense to sell.
- Speed of transaction: whereas an associate buy-in can take several years, corporate investors can close a deal much more quickly.
- Reducing the challenges of management: if a veterinarian just wants to practice medicine and dislikes business aspects, selling can make good sense.
- Having necessary capital to upgrade facilities and equipment
- Receiving the benefits of collective wisdom

Other potential reasons for selling range from the increasing numbers of baby boomers who are ready to retire without an associate ready to buy to young veterinarians with plenty of student loan debt who don't want to go even further in debt by buying a practice.

### How to Compete

If you don't want to sell your practice, there are numerous ways you can bolster the strength of your practice to compete with larger practices. At a high level, the answer is to conduct assessments that ensure you're reducing expenses and maximizing revenue whenever possible. Remember that, although streamlining costs makes sense, your ability to reduce expenses is finite, whereas increasing revenue does not have a ceiling.

Also, review what corporately owned practices do and implement similar procedures at your practice, whenever it makes sense. Here are multiple strategies to consider.

### Products and Services

First make sure you're offering the products and services your community needs. Do you find yourself being asked for a particular service that you don't offer and are consistently needing to refer potential clients to competitors? If so, should you consider overhauling what you offer?

Is there an under-filled niche service in your community? If so, how feasible is it for your practice to fill that niche? Possibilities include rehabilitation medicine, radiology, ambulatory services, alternative therapies such as acupuncture and much more.

### Pricing

What about your pricing? What are similar practices charging in your area? Unless you offer higher-end services where clients see and appreciate the differentiators, charging more than competitors may cause you to lose business. You don't want to undercharge, though, because that equals lost revenue and profits, and a discouraging bottom line.

### Vendors and Bulk Purchasing

Review your vendors. How "hard" have you negotiated your arrangements? Are you getting the best value possible? Are there early pay options that would provide you with a discount? If not, consider price comparing with other companies that offer similar products and services.

When possible, are you buying in bulk? The Veterinary Cooperative was formed to build purchasing power for independent veterinary hospitals. Members of the cooperative can purchase name brands at a discount because the cooperative negotiates with pharmaceutical companies, equipment manufacturers and more to obtain price breaks available to corporate practices. There are no minimum purchase requirements and the cooperative also issues dividend checks to members.

#### Personnel

Take a look at your staff. Do they work efficiently? Is each person doing the job that best fits his or her abilities? Does each person treat clients with respect, causing them to want to come back – and to recommend your practice to their friends and family? Does your staff recommend products that you sell? What performance-based incentive pay can you offer your team when they serve your current clients exceptionally well? For them to help get new clients for your practice? When they come up with an excellent expense reduction or revenue enhancing idea?

#### Processes

How efficient are your processes? Consider conducting time studies where you identify bottlenecks that are reducing efficiencies and costing your practice money.

#### Promotion

How do you promote your practice? Is it effective? If so, how can you capitalize on this? If not, are you targeting the right audience? Using the right media? Are your current clients evangelizing for your practice, encouraging others to choose you? If not, why not? How can you partner with local adoption groups and other worthy charities to highlight your practice to your community?

#### Education

How well are you educating your clients about the importance of regular wellness checks? How much are you empowering your practice team to provide this education to clients? DMV 360 offers literally hundreds of free handouts to give to clients.

What kind of training do you offer your practice team? “Group practices,” shares DMV 360 in *Feeling Squeezed by Corporate Competition?*, “often have their own online training, and these courses are a great way to ensure that everyone is well versed on all aspects of their job—covering topics ranging from OSHA compliance to pet restraint and anesthetic protocols.” Training programs are available for individual practices, not just the big ones, some free from “vendors, consultants or education companies.”

#### Personal Assessment

If you own or manage a practice, take a good hard look at your own strengths and weaknesses. Is financial management one of your strong points? If not, how can you hire, train and/or delegate so that your support staff can bolster parts of the practice that aren't your strengths? How can you increase your own skills in crucial areas of financial management? In staff management?

## Financial Statements

If you have a mortgage on your building, are you getting the best rate possible? If not, what would it take to refinance? Compare options for financing, including rates, closing costs, ability to pre-pay and more. Are there options to reduce utility bills? Internet rates?

## Worried about Corporate Competition?

If so, use that fear as fuel to give your practice a thorough checkup, as described above, to streamline expenses and optimize revenues. Remember that there are significant benefits to independent practices, including having the owner on site, providing the personal touch. Promote those benefits in your marketing and in your interactions with clients.

## Wanting to Buy?

Finally, let's look at the other side of the equation. How can you possibly compete against corporate competition if you want to *buy* a private practice? Well, your chances of success are clearly higher if the seller likes the idea of his or her practice staying in private ownership. In that case, you can share with the seller how you would continue providing the quality personal attention and service that his or her clients are used to receiving.

As far as financing, it's possible that your seller will allow you to make payments for a pre-determined amount of time to eliminate the need for immediate bank financing. This is similar to a land contract arrangement that some home buyers and sellers create. If you can make this arrangement, you will be building up equity in the practice, which will help when you ultimately need to finance the practice; this equity may count as your down payment, at least in part. Having equity in the practice may also help to convince a bank to agree to a longer-term loan when you do finance, which will reduce your payments. It's possible that the Small Business Administration can provide financing, especially with a practice in a rural area.

Also consider going in with multiple associates to buy a practice together. This will allow you to offer the seller a better price, reduce the amount of your personal financial investment, and otherwise spread the risk and workload.