

Veterinary Matters

Guiding your practice to lifelong prosperity

When will you retire?

Taking the decision to retire from your practice is one that will not be taken lightly. This could be through an internal sale or a sale to a third party. Whichever route is taken there are many factors to consider.

This is the first in a series of articles on retiring. In this article, we take a look at the typical considerations including the financial position of a veterinary practice owner who is planning to retire. In subsequent articles we will consider the sales process, valuation techniques and tax.

This article focuses on small animal practice although the principles considered apply equally to large animal, equine and mixed practices.

When making the decision to retire from your practice, there are a variety of matters that you will wish to think about.

- For many owners, their practice is their heritage and a life's work. You will wish to

ensure that you pass it on to a new owner who understands the ethos of the practice and will continue this into the future. You will also wish to ensure that you hand over the reigns of the practice with it in a "healthy state".

- Staff are the heart of any practice and you will no doubt have many loyal and long serving employees. It is therefore only right that you will be keen to ensure that they are treated well as part of a sale.

- Getting the best deal for your practice is not just about getting the best price. It is important that you consider your future income requirements so that you can be confident you will be able to enjoy life to the full after the sale.
- When planning to negotiate with potential purchasers, you should consider the overall "package" that you may receive from the sale (rather than focusing on one particular aspect) including:
 - the capital from the sale of the business, including whether you will receive all of the capital in one amount or whether there will be any form of deferred payment;
 - the rent that you will receive if you own the properties from which the practice trades following the sale;
 - your salary if you will continue to work for the practice following the sale;
- You should consider whether or not you want to continue working in the practice. Sometimes purchasers are keen for owners to stay on for a transitional period as an employee, to help ensure everything goes smoothly. It may also be that you would like to continue practising as a vet at the practice. In either case, it is important that you consider your preferences in terms of hours of work (be that on a full or part time basis) and your terms of employment, for example with regards to holidays and CPD.
- Considering how you will extinguish any liabilities that you may have, for example under leases or security on loans, is also important.
- Planning early for a sale will always be beneficial. Many practice owners leave the planning too late.

Financial considerations

Preparing thoroughly will help to ensure that you are in a strong position when it comes to negotiating with potential purchasers.

Continued overleaf...

Veterinary Retirement Workshop



See enclosed invite for information and booking details

Guildford, Surrey - Wednesday 28 March 2012

or register online:

www.hazlewoods.co.uk/events.aspx

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The ultimate "package" that you will receive from a sale will to a great degree depend on your practice's profitability. It does not take a "rocket scientist" to work out that improvement in profitability is likely to either come from growing sales, better cost control or a combination of both.

Sales

■ Maintaining sales/generating growth is very important prior to a sale to demonstrate that the practice is stable. This could come from:

- increasing client footfall or
- generating more from existing clients.

■ Take a **proactive approach** with your clients, rather than waiting for the client to engage with the practice. Using technology can help here, such as offering clients text and email reminders for vaccine and flea/wormer/food products.

■ Have a clear and appropriate **pricing** strategy in place and ensure work is **charged correctly**. Certain services such as vaccines and neutering are generally seen by clients as routine and market prices for your practice's area may well dictate these. However, often services which clients may perceive as higher value, such as operations, are undercharged. Setting a clear pricing structure for these can help.

■ Small changes can have a big impact as illustrated in the table 1 which shows the impact of poor pricing / undercharging:

Simply charging the expected fees would result in an extra £43,000 of income for this practice. With, for example, a gross profit margin of 73% and no changes in overheads, this extra income would boost profits before tax by over £31,000.

Gross profit

■ Review your **buying terms** with your wholesaler and buying group if you belong to one. Improvements here could boost your gross profit margin.

Staffing costs

■ Strive to ensure staff remain **motivated** by continuing to look after them.

■ Staff costs are usually the biggest outlay for a practice. Regularly review **staffing numbers/costs** and ensure that the mix of staff is **efficient**.

■ As a guide, our staffing cost "average" for a small animal practice shows total staffing costs as a percentage of sales (including

Table 1	Fee (exc VAT) £	Expected fee (exc VAT) £	Difference	Number per annum	"Lost income" per annum £
1st consult	21	23	2	5,000	10,000
Theatre per hour	250	300	50	500	25,000
External lab fee	15	25	10	400	4,000
"Free" consults	0	20	20	200	4,000
					43,000

market rate equivalent salaries for owners) to be 42.6%, broken down as follows:

Vets	23.1%
Nurses	11.5%
Support	8.0%
	<u>42.6%</u>

■ Monitor **locum usage and overtime** as these are common areas where costs can escalate.

■ When considering **pay rises**, the best bet is to be sensible.

Overheads

■ **Review all your overheads** and identify where savings can be achieved.

■ Keep **discretionary spending to a minimum** in the run up to a sale to avoid reducing profits.

■ Where leases and other contractual arrangements are in place, particularly with regards to property, review these early. If these will need to be assigned, speak with your professional advisors at an early stage to ensure that everything goes smoothly.

Debtors

■ **Good debtor management** is important for every practice. It is even more so when a practice is being sold. Chasing unpaid debts, perhaps using standing orders for slow payers, will help to minimise discussions required at a later date with the purchaser on debt recoverability.

Records

Closer to the time of the actual sale, the chosen purchaser will wish to undertake due diligence procedures, which are their investigations into the affairs of your practice. Ensuring your **practice's records are in good order and readily available** will help greatly. Areas to consider include:

- Financial records
- Contracts of employment
- Contractual arrangements, for example leasing/maintenance agreements
- Property leases

Summary

If you are considering retiring from your veterinary practice, start planning now.

Planning will give you time to pay attention to the areas that will enhance the practice and ultimately improve the price you obtain. Take guidance at an early stage from your advisers.



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