

# Getting from strategy to success: Evaluating, developing and implementing new opportunities in practice

Brian K. Reed, DVM, MBA

Agricultural Veterinary Associates, LLC, Lititz, PA 17543

## Abstract

Success of a veterinary practice relies not only on successful medical and surgical skills, but also on skills related to management of the veterinary business. One area of business management important to veterinarians is evaluating, developing, and implementing new opportunities in practice. Understanding and implementing a strategic planning process can help practices to achieve long-term success and help serve their communities, clients, and employees. This presentation will explain the strategic planning process, outline the importance of growth to any business, and explore several financial evaluation techniques. Implementation of these concepts should help a veterinary practice team to be successful in the long term.

**Key words:** veterinary practice, practice management, strategic planning

## Résumé

Le succès d'une pratique vétérinaire s'appuie non seulement sur des compétences médicales et chirurgicales compétitives mais aussi sur des compétences associées à la gestion de l'entreprise vétérinaire. L'évaluation, le développement et l'instauration de nouvelles opportunités dans la pratique sont des aspects importants de la gestion de l'entreprise pour les vétérinaires. La compréhension et la mise en œuvre d'un processus de planification stratégique peuvent aider les pratiques à avoir du succès à long terme et servir leurs communautés, leurs clients et leurs employés. Cette présentation expliquera le processus de planification stratégique, soulignera l'importance de la croissance de n'importe quelle entreprise et explorera plusieurs techniques d'évaluation financière. La mise en place de ces concepts devrait aider l'équipe d'une pratique vétérinaire à avoir du succès à long terme.

## Introduction

Success in veterinary practice is dependent on many different factors. Medical and surgical skills, data analytical abilities, problem solving skills and interpersonal communication skills are all important attributes that contribute to success. Demographic characteristics, including both companion animal and production animal populations and

scale of operations, are also important factors. In addition, a broad mix of business management skills including planning, budgeting, finances, human resource management, marketing and operations management are all important for the success of a veterinary practice, especially as the practice grows and develops more complicated systems. To become and continue to be an indispensable part of your community strategic planning, evaluation of opportunities as well as implementation of your plan is fundamental to your success. A well-managed veterinary practice that meets the needs of the community it serves, regardless of the size of the practice, can be an indispensable part of that community for many years. This presentation will discuss strategic planning processes and evaluation tools to help veterinarians to implement and incorporate new ideas into their practices.

## Strategic Planning

According to Wikipedia, strategic planning "is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy." Every organization necessarily does this at some level, although the process may vary from a solo entrepreneur or professional all the way up to a multinational corporation. For a solo ambulatory practitioner, this may occur primarily internally, although writing it down and sharing with others increases the likelihood of success. This process could most likely be improved upon by dedicating specific time and energy to the process, hopefully using some planning tools in the process. For a larger and more complicated veterinary practice the process could be more structured, comprehensive and inclusive of multiple stakeholders. The process still revolves around a few basic questions, regardless of the size of the organization.

Most strategic planning cycles analyze and consider some basic questions.

1. Where are we now? This step takes a critical look at the present situation of the organization. Through qualitative and quantitative measures, the organization considers what it does well, where it needs improvement, what factors are influencing it and how it compares to peers in the industry. Benchmarking against peers is important for some quantitative factors, however qualitative factors including internal operations, employee satisfaction and turnover and customer satisfaction measures are also important.

One common method for helping organizations assess the present is to do a situational analysis, or SWOT analysis. The SWOT analysis is shorthand for Strengths, Weaknesses, Opportunities and Threats. By breaking down the present situation and recent past performance into these categories an organization can recognize what they do well, where there are opportunities to improve, what opportunities exist in their outside environment that they may be able to exploit and what market forces and environmental factors may be detrimental to them over time. A well done situation analysis should be inclusive, honest and based on any data and benchmarking available. When completed it should give the organization a comprehensive evaluation of the present state of affairs facing them.

2. Where do we want to go? Once an organization is aware of their current situation, it is then important to figure out what they want to change to become the organization they want to be in the future. This should be based on a recognition of their overall mission and vision. This should incorporate their organizational core values and give them a sense of what their purpose in their market and community really is. During this phase, desired outcomes should be identified. Wherever possible, quantitative values for specific goals should be developed. This allows for tracking success or failure and allowing the organization to measure future performance towards their goals. It is important for a veterinary practice to explore specific services, techniques, technologies, market segments and areas of interest that may offer them opportunities to become indispensable to their client base and community. In the process, this phase should give the veterinary practice a sense of direction, and if done in an inclusive way, should align team members towards a common vision of the future.
3. How do we get there? This phase of the planning process looks at the desired outcomes or goals developed in the second phase and breaks each down into strategies or steps to achieve the desired outcome. Your organization plans for specific steps to get from your present situation to where you want to be. In a veterinary practice, this phase may involve planning for advanced training and skill development, investments, marketing, hiring, changing of internal operations, merging and acquisitions, etc. This phase should include timelines, budgets and assign responsibilities to specific individuals to allow for tracking as well as a way to hold people accountable. At the end of this phase, everyone involved should have an idea of the direction of the organization over the next 1 – 3 year period. Some steps will take longer than others to implement and

achieve results. Realistic expectations are important so as not to overwhelm the organization with change, while still trying to achieve day-to-day workload to meet client desires.

4. How are we doing? Once a plan is put in place that has a timeline and specific steps outlined, periodic review of both qualitative and quantitative factors is vital. A strategic plan is not to be put on a shelf for a few years until a new plan is developed. The plan itself should serve as the basis for ongoing evaluation, focus of day-to-day efforts and investments and holding management accountable by tracking progress whenever possible. The specific targets, measures and financial parameters will vary somewhat depending on the organization and goals, but revisiting the plan to evaluate progress on a regular basis provides direction and holds people accountable. In many larger organizations, evaluations of management level employees are tied to objectives and metrics outlined in the strategic plan, assuring organizational focus and direction. The same concept can be utilized in veterinary practices of any size as a basis for individual evaluations as well as group meetings.
5. How can we improve? Strategic planning is ideally a cycle, not a static, one-time event. Many plans are created with a 1 – 3 year time horizon, as this period gives time to develop and implement various components of the plan while still looking at a reasonable period for planning purposes. Over the period of the plan, complications, roadblocks and changing circumstances may lead to adjustments to the plan. Conversely, unforeseen opportunities, new technologies and abilities and new insights may offer unplanned for opportunities to advance the organization. Either way a strategic plan should be viewed as a living and breathing thing that serves as a general roadmap, but needs to be adaptable to situations as they arise. In addition, as specific goals are achieved, it is important to replace them with new goals to keep the organization moving forward in a focused and productive way. Many organizations find it useful to go through the entire process again every 3 years. This timeframe can vary depending on such factors as turnover at the management level, rate of change in the industry and success in reaching goals from the current plan. As an example of this concept, consider the leadership structure of AABP. Considering the timeframe of district directors, committee members and officers, after 3 years, over half of the leadership of the organization has changed. It is important for current leaders to feel they are a part of the plan and being a part of the process helps build a sense of ownership of the plan. In veterinary practices, the same concept is true with changes in

ownership, retirements and additional employees. Everyone wants to feel the organization they are a part of has a direction and a shared vision.

### Planning for Growth

Growth is an important component for any business that hopes to remain viable, relevant and indispensable to their customers over the long-term. Growth allows a business to build intrinsic value, attract and develop key personnel, take advantage of economies of scale and expand the influence of the business in their marketplace. Specific to large and mixed animal veterinary practices growth can lead to better on call schedules, more long-term ownership options from within and more opportunities for in house expertise, mentoring and cooperation. These are situations that many potential employees are desiring, thus some larger practices find recruitment to be easier than their colleagues in smaller or solo practices. There will always be a place for solo practices, but even then it is important to plan for growth in services and/or clients to offer long-term stability and prosperity.

For growth to occur, new increases in products and services must outweigh products and services that are lost. New increases can come in many ways, but can include new clients in the existing area of focus, expanded geography, expanded species and production type, new or improved services for existing clients and potential new clients looking for expanded services. Growth could potentially come from new arrangements with clients that better meet their needs for products and services. Financial growth of a business can also involve adjustments to fees, how services are charged and improvements in operations such as inventory management, billing policies or human resource management.

These increases in services and efficiencies must be greater than net decreases in other areas. These decreases can include clients leaving the practice, services no longer desired by clients, turnover or retirement of professional staff or a backwards slide on operations, cost containment or billing policies. It is the difference between the growth areas of the practice and the decreases in other areas that lead to overall net growth or reduction. It is important to keep an eye on this value over time.

When combined with the same concept as compounding interest, it is easy to see how some practices grow over time while some do not. To illustrate this concept and its importance while doing practice planning we will consider the "Rule of 70". The "Rule of 70" shows that by dividing 70 by a given compounding interest rate, the resulting answer is the number of years for a doubling of the value of the initial investment. For example, an investment of \$100,000 will double in 10 years if a 7% compounding interest rate can be obtained ( $70 / 7\% = 10$  years). If a 3.5% interest rate is obtained, the doubling would require 20 years ( $70 / 3.5\% = 20$  years). This concept is also useful to understand while

planning for retirement or considering other investments in your life.

When considering veterinary practice growth over many years or a career, applying the "Rule of 70" is useful. If one practice starts as a \$300,000/year business and just keeps up with inflation, assumed to be 2% for this example, in 20 years it will still be a \$300,000/year business when adjusted for inflation. If a second practice grows at a 3.5% growth above the inflation rate (5.5% per year unadjusted for inflation), this practice will have a scale of \$600,000 per year, adjusted for inflation, in 20 years. If a third practice grows at a 7% growth rate above the inflation rate, that practice will have a scale of \$1,200,000 per year, adjusted for inflation, in 20 years. With all three examples, it is important to maintain profitability throughout this period, but it is easy to see that additional value is created for the faster growing practices that can fund additional expertise, necessary equipment or other investments, opportunities for buy-in(s) and retirements. Along the way, student debt and mortgages can be paid off.

This discussion does not mean every practice needs to focus on rapid growth. That is up to the individual practice and tied to their mission, vision, values and opportunities in their demographics of their area. However, it is important while planning for their future and serving their community in the long-term to be an indispensable asset to their clients, that this concept is considered. At least considering some growth targets forces the planning to look at some big picture financial issues.

### Evaluating Opportunities

An important part of the strategic planning process is to evaluate opportunities and potential changes that are identified in the process. At this conference, for example, we are exposed to many new ideas, procedures and products that may help us become indispensable to our clients and improve our businesses and personal lives. We probably can't implement every idea and buy every new tool that we are exposed to at this conference when we return home, especially when we are faced with the busy day-to-day demands of meeting our clients' expectations of us. The question then becomes how to evaluate all the myriad of opportunities and pick the changes we would like to make within our practices? What tools are available to help answer this question? This presentation can only touch superficially many of these concepts due to time constraints, but a listing of some tools will be outlined so the reader is aware of them and can pursue a more in-depth knowledge on their own.

Capital budgeting tools include breakeven analysis, marginal analysis, payback period and internal rates of return. These tools to evaluate investments are especially important with projects requiring larger capital outlays versus changes to a business that may focus more on skill attainment, training and operations management. Examples

may be building projects, practice mergers and acquisitions and expensive medical or practice vehicle or handling equipment. The overall concept is that these investments should return more in income to the practice than the corresponding expenses associated with them, thus being a net gain to the practice. It is important to consider all changes to income and expenses that can be foreseen from the investment, not just the initial cost.

The break-even point in units for a product or service is the fixed cost divided by the contribution margin per unit. The contribution cost per unit is the sales price per unit minus the variable cost per unit. For illustration purposes, assume the purchase of a laboratory piece of equipment is being contemplated. The cost of the equipment is \$10,000. The tests will be charged out at \$40 per test, while variable costs including reagents, labor, and maintenance of the machine equals \$15 per test. The breakeven point in units would be equal to  $10,000 / (40 - 15) = 400$  units. Knowing this number helps give an idea of the feasibility of the proposed investment. If estimates are that only 100 tests will be performed in this business in the relevant time, obviously this investment doesn't help the financial situation of the business under the given assumptions. It should be stressed this analysis as presented calculates the breakeven point only, not a profitable level. As the goal of a business is not to break even, but rather to be profitable, to decide if this is an appropriate investment, the breakeven point analysis should have a built-in profit margin to determine if it should be pursued.

Marginal analysis is a budgeting tool of assessing the impact of a given change to the overall profit of a business. In agriculture, it is commonly called a partial budget. The assumption with a partial budget is that there are income and expenses that are in the system already and only changes to the status quo are relevant. Therefore, all changes to both income and expenses are estimated for the given change that is being analyzed. The net change should reflect how the change will affect the overall business, in a positive or a negative way from the status quo. Important considerations when using this tool include the certainty and inclusiveness of all associated income and expenses. With all capital budgeting tools, overly optimistic projections and assumptions can lead to projections that may not reflect actual performance.

This is an appropriate point to stress the importance of an individual business analyzing a given opportunity for themselves instead of relying entirely on others' experiences and projections. In a veterinary practice situation, one practice may be able to incorporate a new procedure or capability into their operation using existing equipment, personnel or overhead while a second practice considering the same options may require considerable additional investments of capital and personnel, leading to very different outcomes while considering the same new product or service. Scale of the business will also be an important factor, increasing or decreasing costs per unit.

Payback period is a fairly simple capital budgeting calculation. This calculation is simply the cost of the capital project divided by the net annual cash inflow. This technique first requires calculation of the net annual cash inflow. For this example, a partial budget is prepared that does not use the cost of the capital expense item in its' calculation. Instead the cost of the capital item is divided by the annual net cash flow estimated by the partial budget to arrive at payback time in years. If a \$50,000 piece of equipment is estimated to generate positive annual cash flow of \$25,000, the payback period is exactly 2 years. Once you have this number, your decisions will revolve around such factors as financing, overall cash flow of the business and expected lifetime of the piece of equipment. One criticism of this calculation is that it does not consider the time value of money, therefore it is more appropriate for relatively short-term paybacks. The risk of the accuracy of the projections should also always be considered when making capital investments.

Internal rate of return (IRR) is a concept that recognizes the time value of money as well as the cost of funds for a company. It is used mainly by companies when they are evaluating spending a given amount of available capital and borrowing capacity on many competing projects. The idea is to identify the projects that will provide the greatest return above the average cost of funds for the firm and invest in those projects. The concepts associated with IRR that are important for veterinary practices to grasp are to focus on the most promising projects, the need to earn more on investments than just covering costs and that we do not have unlimited budgets with which to work. Another related concept is that borrowing money now reduces options in the future until borrowing capacity is restored.

### Turning Dreams to Success through Strategic Planning

The focus of this conference is to provide you with tools to become indispensable to your clients. The purpose of the Veterinary Practice Sustainability Committee's speakers is to give you tools you can use and examples from successful practices that have strengthened their practices to become indispensable to their clients and communities. I have presented information today to help you think about your practice in strategic ways and discuss some tools to help evaluate opportunities you may have to improve your practices. Learning and implementing strategic planning techniques can not only strengthen your practice, but can also serve as framework for helping your clients in helping them with planning and decision making in their businesses. Helping clients with this process can truly be another way to become indispensable to your clients.

I have had the opportunity over the years to be a participant or leader of strategic planning for veterinary practices, over 100 dairy farms, non-profit organizations, a governmental commission and other businesses of various sizes. No matter the size of the organization, going through

the process has the advantages of focusing the efforts of the organization, building a common vision, making better decisions and developing a culture of accountability and goal setting. The overall advantage of strategic planning that I have seen across many organizations is transforming

individual ideas, dreams and aspirations into actual adoption and implementation, leading to success for the organizations and the individuals involved. My hope is by using some of these concepts, ideas and processes you can turn your ideas and opportunities into success for your practice.