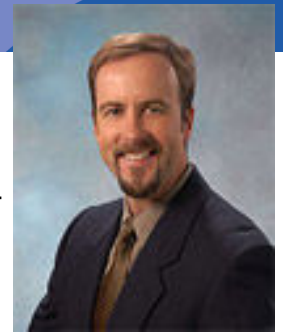


Practice Appraisals as a Management Tool

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Most practice owners are familiar with having their practice appraised when it is time to exit from ownership (transactions need to be based on a fair market value or it may not be successful for anyone.) Unfortunately, having your practice appraised for reasons other than a sale is often overlooked completely and a properly done appraisal can be a powerful management tool.

The first step in a practice appraisal is to assess the practice's profitability. "Profitability" means something different to your veterinary appraiser than it does to most practice owners. The profits (also referred to as earnings or cash flow) represent the revenues remaining after paying all the customary and legitimate operating expenses of the practice, after paying a fair market rent (even if the practice owner also owns the real estate) and after fairly compensating the owner for his/her work as a veterinarian. The true profitability of the practice is the owner's return for owning and operating the business.

Practice tax returns and financial statements rarely reflect the operational profits. Instead, they can vary widely depending on practice management and accounting policies. Because of this, a thorough financial analysis must be done to assess the operational profitability on a normal and on-going basis. This analysis is instrumental to the appraisal. It is what makes a practice appraisal such a powerful diagnostic tool for the financial health of the practice.

The cash flow analysis puts a critical eye on the revenues, the expenses and the resulting operational profits. If any element seems atypical or if the profits seem low, your veterinary appraiser can help to identify the issues. All too often, these issues can be creeping quietly in the background while the owner is either unaware of their existence and/or unaware of what it means to the practice cash flow and the practice's value.

An appraisal for management purposes is a tool that can help increase your awareness of the financial health of your practice. In general, it is recommended to value your practice every 3 to 5 years.

If you are preparing for your exit from ownership, it is important to value the practice at least 3 years before your exit. That way, if the value is low, there is time to make changes – *while you have time and energy to do something about it.*

Contact your veterinary practice appraiser. Tell them that you want your practice appraised – not because you are ready to exit, but because you want the appraisal for management and planning purposes.