For your medical patients, assessment of health or disease starts with a good physical exam. The same goes for your veterinary practice. Every business consultant will tell you that performing a financial exam, even a quick one, is important. Not doing it is equivalent to leaving a growing mass undiagnosed - is it benign or a serious malignancy? You will not know until you do the exam.

Most folks understand that it is important to assess the practice’s financial condition. The hard part seems to be going from awareness to action – especially when the perception is that such an exam would take many hours. It is easy to put off and get caught up in the daily distractions including staff management, client relations, operational control and daily business tasks like billing and reminders plus simply practicing medicine. It is not like an appointment that is scheduled and that you feel compelled to complete in a timely manner. To squeeze a financial assessment of your practice into your schedule, here are the steps for a quick 15 Minute Exam. Keeping with the animal exam theme, the focus is on the big picture: limp-no limp, vomit-no vomit, etc. You may not be able to identify the urine to creatinine ratio, GFR and degree of hydronephrosis in a 5 minute period, but you can identify whether the urinary system should be further assessed. Likewise on the business side, in 15 minutes you can quickly scan a set of data that is an indicator to your practice’s overall financial health (or lack thereof).

For the 15 Minute Financial Physical, you will need to gather the following data which should be readily available in the modern practice.

- Year-to-date income & expense statement (a QuickBooks-like report can be used)
- Year-to-date revenue production reports from the practice management software
- The revenue production report for the last completed month
- Your appointment book
- A copy of the above items from the prior year (same period of time)

The 15 Minute Financial Physical
First, take a brief walk around the practice. Quickly assess the overall volume of inventory on-shelf, lend a critical eye to the number of staff, the hospital busyness and the condition of the facility. This walk around reminds you of the big picture and it helps before you look at the financial information such as the drug and supplies expenses and the salaries and wages.

After the walk, look at the gross revenues for the past month, and for the year to date, comparing the current year to the previous year. Where are you trending? Up, down, sideways? If is not what you wanted or what you expected, make a note, but don’t dwell on it now.
Next, look at the expenses in the 4 categories below. Forget the rest of the categories during this brief assessment. Although every expense is worthy of your attention, these are the big four. The others individually make up a small percentage of the total expenses. Focus on the big items in this quick exam.

1. **Wages and Salaries**
   In most practices, this is the largest single expense category. As a general rule the support staff wages as a percent of gross revenues should be 18-21% and the professional staff wages (including fair compensation to the owner for his/her veterinary work) should also be 18-21%. The total expense of wages if you do not have it separated should be roughly 36-42% of revenues. Of course this can vary significantly by geographic location and practice type (species and specialty). Learning what is typical for your practice helps you identify when undesired changes occur.

   Look for trends that point to wage swell (increased hourly rates or salaries due to employee seniority and employment longevity) and over-staffing. Too often staff numbers are increased following complaints by staff of being overworked instead of looking at why they feel overworked. Too often inefficiencies in scheduling, poor work ethic, and inadequate staff training erodes the performance and capacity of the staff already present. If the expense as a percent of revenue is not where you think it should be, note it and move on to the next category.

2. **Drugs and Medical Supplies**
   This will depend on how you categorize your expenses. If you had Drugs and Medical Supplies as a category separate from the other variable expenses (lab expenses, radiology expenses, etc.) then most consultants will agree that a max of 20% of gross is a reasonable target. Inventory savvy practices often hit 15%. If your “Drugs and Medical Supplies” includes all the variable expenses above, then 23-25% may be a more reasonable target.

Notice that even if you can only attend to the first two, you will have reviewed roughly 60% of your annual expenses. Make improvements here, and you can nearly forget the rest (although you shouldn’t!) since it is rare that any other individual expense category makes up more than 5 or 6% of the annual expenses. Also take a look at the bottom line. Is it going up or down? Is it higher or lower than last quarter and last year? And is the change by intent or not?

Next, review the production data from your practice management software.

1. Look at each veterinarian and divide the monthly compensation of that associate by the associate’s production. If the production based calculation indicates the associate is being paid well over 25% of his/her production, you may a problem. Long term the practice can’t support this level of performance without requiring fee increases without an impact to the financial health of the practice.

2. Review your new client numbers, number of transactions and the average transaction fee by each doctor. How does it compare to the same period last month, last quarter, and last year? Remember average transactions can increase from fee increases, often hiding decreases in total invoices, the number of client visits and numbers of new clients.
This is a quick review to help you understand how your practice is performing. As you incorporate this into your regular routine, you will begin to notice more and more – 15 minutes at a time. Remember, don’t over analyze, now is not the time. This is a cursory view of general condition, not an in depth analysis. If you identify a data point that appears out of whack, set aside additional time to investigate it later. Your goal is to look at big macro items, then note or highlight them for later investigation. The key is to develop a quick-look pattern that you ALWAYS get completely through. Flag areas of interest and then schedule a specific time, Tuesday eve, Saturday afternoon, etc. to sit down quietly for a couple of hours and explore it further. Allocating more time for working “on” your practice will make it easier see trends and plan for the next month and next quarter.

In 15 minutes you can take a quick look at your practice’s financial health. The more frequently you do so, the better you will be at identifying potentially significant problems at a very early stage, long before they become serious or difficult to reverse. The absolute worst thing you could do is continue to delay and not look at all.