



2018

Veterinary Practice Survey Report
Taking a closer look

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Research for this report was conducted between
June and September 2018

FOREWORD



Mark Butler
Managing Partner
HLB Sheehan Quinn

“ Work/Life balance emerged as a top aspiration for nearly 70% ”

Welcome to our 2018 survey of veterinary practices. This is the second year in which we have sought your views on the state of the profession and the challenges you face in the current market.

Across Ireland, the landscape in which veterinary practices operate is changing. Ownership structures, corporate transactions, staff shortages, financial management and succession planning rank high on the list of current challenges.

Vets are working long hours, often in excess of 60 hours a week, so it comes as no surprise that better work/life balance emerged as the top aspiration for almost 70% of respondents this year.

In our last survey, we saw a lot of apprehension about international corporates entering the Irish market. This appears to have weakened and almost half of our survey respondents this year indicate that they would consider selling their practice to a corporate. Relatively few practices have obtained a practice valuation in the last two years. As well as giving you an objective view of what your business is worth, valuation highlights areas where improvement could help you maximise your practice value.

Practice owners also need to focus more on succession planning – not just to secure their retirement income but also to protect their business from the potential impact of unforeseen events such as accident or illness.

We are grateful to everyone who took the time to participate in this year’s survey and we hope you find the results interesting and useful. If you have questions or would like to discuss this report in more detail, please contact myself or one of our team.

EXECUTIVE SUMMARY

People who work in veterinary practices typically love their jobs but long hours, distractions such as travel, and rival vets offering bigger salaries are making it difficult for practices to attract and retain staff. In a market where clients increasingly expect 24/7 service at competitive rates, the skills shortage is one of the top challenges identified by survey respondents this year and is reflected in 68% aspiring to better work/life balance.

Other key challenges include credit control, competition and corporate consolidation, regulation and the impact of Brexit particularly in the farming sector.

“ In a market where clients increasingly expect 24/7 service at competitive rates, the skills shortage is one of the top challenges ”

KEY FINDINGS

- **68% of survey respondents cite better work/life balance as their most important aspiration.** Vets are working long hours with staff shortages, rota issues along with the usual business pressures of collecting debtors and cashflow contributing to exhaustion and burnout.
- **56% have not considered succession planning.** By failing to plan for their eventual exit from practice, vets are jeopardising the future viability of their business as well as their future retirement income.

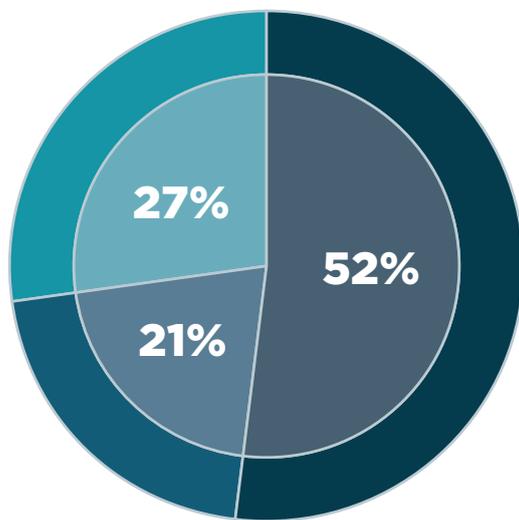
SECTOR OVERVIEW

Geographically, the breakdown of practices in this year's research is broadly similar to last year, with most respondents in either Leinster (46%) or Munster (32%). The majority of practices are mixed (52%). Companion animal practices (27%) are the next largest group with large animal practices accounting for the remaining (21%).

WHO PARTICIPATED?

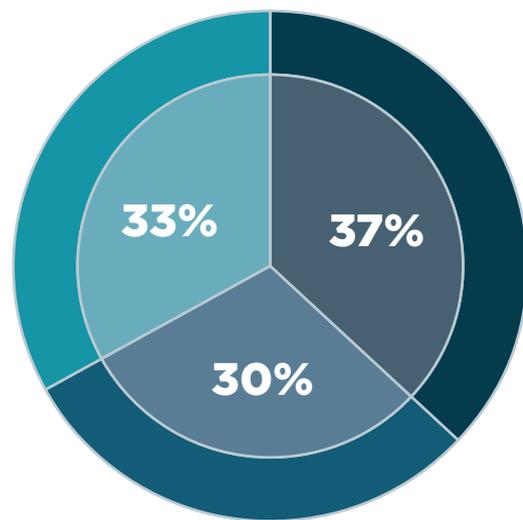
Most respondents are either sole traders (41%) or partners (21%) in veterinary practices. Just under a third (almost 31%) are practice employees and almost one in twelve (8%) are shareholders. The age profile has shifted slightly from last year with those aged over fifty down from 48% to 31%. At entry level, those aged 20-30 are up 5% from 7% last year to almost 12% in our latest research. Similarly, the number of female vets is up from 37% to 42%.

PRACTICE TYPE



- 52%**
Mixed Practice
- 21%**
Large Animal Practice
- 27%**
Companion Animal Practice

PRACTICE SIZE



- 37%**
5 Employees
- 30%**
5-10 Employees
- 33%**
10+ Employees

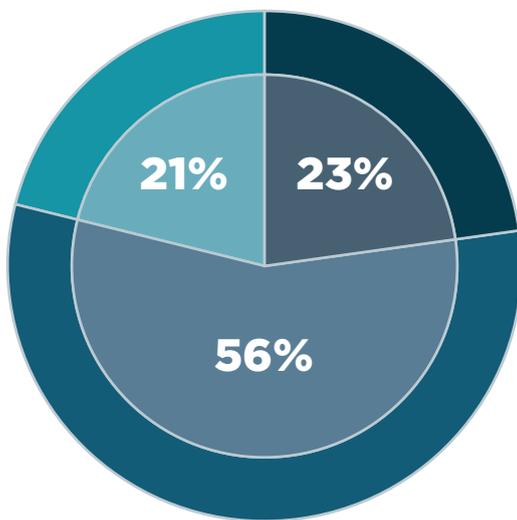
PRACTICE PERFORMANCE

In general, practices are performing well despite staff shortages and rota issues. Just under half of respondents say their practice is doing better than in 2017 and, of these, 18% are doing “much better” while 31% are “slightly better”. 31% are performing at the same level as last year.

FUNDING GROWTH

Ambitious practices fund growth and capital investment through retained profits (31%), personal funds (20%) and bank borrowing (41%). Fewer than one in ten look to outside investors when seeking to raise funds.

PRACTICE STRUCTURE

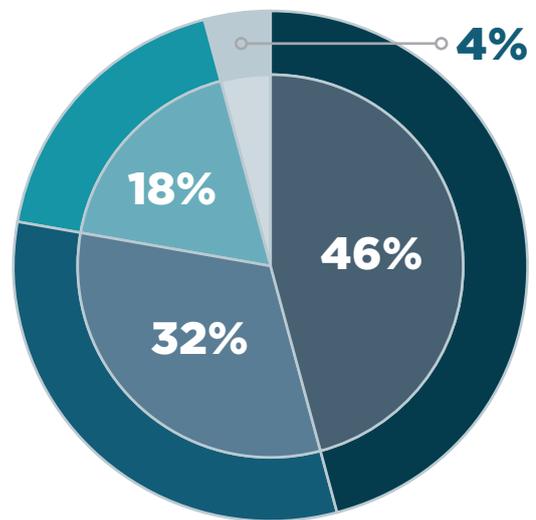


23%
Incorporated

56%
Not Incorporated

21%
Don't Know

PRACTICE LOCATION



46%
Leinster

32%
Munster

18%
Connaught

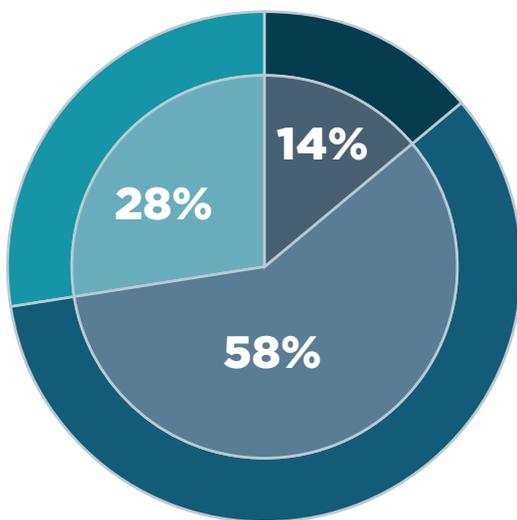
4%
Ulster

CONSOLIDATION

Resistance to international corporates entering the market appears to be weakening. Almost half (47%) of respondents indicate that they would consider selling their practice to a corporate.

Respondents who have considered succession planning continues to be low at just 24%. There is also a reduction in those who have identified a potential partner to buy in to their practice. These movements suggest the continued importance of practice owners planning effectively to ensure they protect the future of their practice.

SUCCESSORS

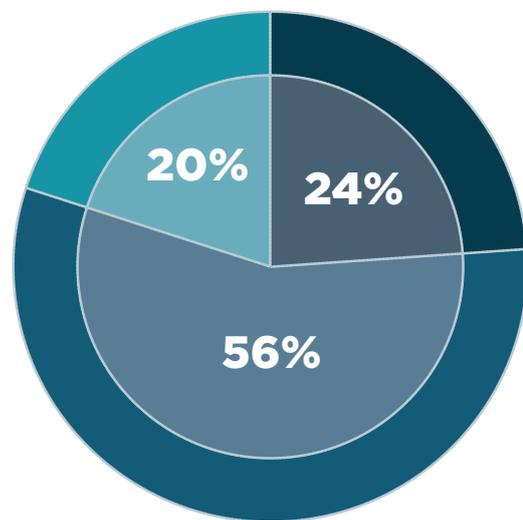


14%
Have identified potential partners to buy into their practice

58%
Have not considered successors

28%
Not applicable

SUCCESSION



24%
Have considered succession

56%
Have not considered succession

20%
Not applicable

“ Practice structure affects your ability to run your practice efficiently and generate the necessary profits to facilitate investment and growth ”

BUSINESS STRUCTURE

Only 23% of respondents said their practices are incorporated, however 37% would consider incorporation, up 7% on last year.

There is a need for access to better information about the pros and cons of incorporation and the advantages and disadvantages of different business structures. It is important to understand that practice structure affects your ability to run the business efficiently and generate the necessary profits to facilitate investment and growth. Your business structure also impacts your ability to safeguard your future personal financial wellbeing.

JOB SATISFACTION AND WORK/LIFE BALANCE

With many vets (43%) putting in more than 60 hours a week, it is not surprising that achieving better work/life balance is a top aspiration for almost 70% of respondents. Nevertheless, job satisfaction levels are relatively good: 41% are “satisfied”, a further 44% are “neutral” and only 15% are “unsatisfied” with their job.

INDIVIDUAL EARNINGS BEFORE TAX

Individual earnings vary with the top earners (26%) making over €100k before tax however almost a fifth of respondents are earning less than €40k which may be an indication of average salary levels for recently qualified vets.

“ 43% work more than 60 hours a week ”

CHALLENGES

When asked about the biggest challenges veterinary practices face at present, responses clustered around three key themes: recruitment, credit control and international corporates entering the market.

RECRUITMENT/STAFFING

Respondents are experiencing difficulty recruiting vets and vet nurses with many commenting that rota difficulties and poor work/life balance deter potential candidates from accepting roles, particularly in rural practices. As one respondent put it, "The new graduates want 9-5 and weekends off or just one weekend a month on. Most rural practices can't give that." This would indicate that the structure of rural practice will have to change in order to attract vets to provide these critical services in rural Ireland.

Finding the right resources continues to be an issue for veterinary practices.

CREDIT CONTROL/FINANCIAL MANAGEMENT

Rural respondents are also experiencing difficulties getting paid with some commenting that this is likely to remain an issue over the coming months due to the summer drought and fodder shortages which are impacting farm incomes. In addition, margins are coming under pressure.

Margins are under continual pressure, especially for large animal vets working with commercial farms.

"Farmers are all getting a lot bigger and are shopping around for best price for all services and medicines. Margins are being reduced on everything we do. The bigger farmers are a lot less likely to call the vet," one respondent commented.

Financial management difficulties are compounded where, due to staff shortages, practices are struggling to keep on top of administration. Outsourcing can be an efficient solution for these practices, freeing staff to focus on their veterinary duties.

"Practices are struggling to keep on top of administration. Outsourcing can be an efficient solution for these practices, freeing staff to focus on their veterinary duties"

CHALLENGES

CORPORATE CONSOLIDATION

The entry of ‘corporates’ into the Irish market was the third most frequently cited challenge.

“Corporates coming in will make it impossible to buy practices and will affect care given. Small independents can’t compete with them,” commented one respondent.

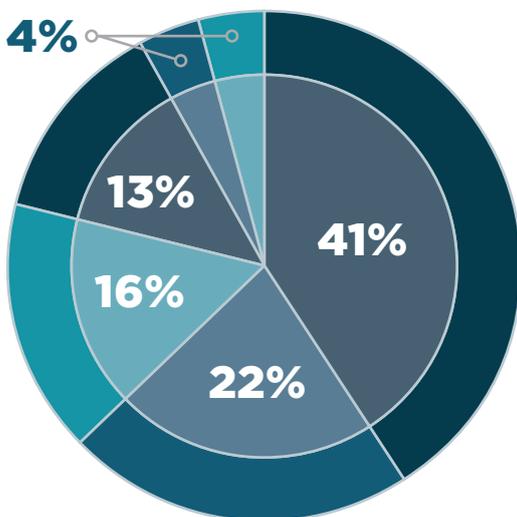
“It will be a better life for vets employed by them but I would question the [impact on the] bond between farmer and vet that exists at present and the loyalty that is built up,” said another.

However, some respondents believe that the experience corporates bring in areas such as HR will strengthen the profession. Consolidation also facilitates economies of scale and allows increased investment in advanced technologies such as diagnostic and monitoring equipment. As practices grow so does administration. Many individually owned practices do not have the resources to deal with this burden which we understand to be another attraction to the consolidation model.

Resistance to the entry of corporates is less this year with 47% of respondents now say they would consider them when selling.

Overall, resistance to the entry of corporates appears to be less than last year and, significantly, the percentage of practices who would consider selling to an international corporate is up from 29% last year to over 47% this year.

CHALLENGES



- 41%**
Recruitment/Retention/Rota
- 22%**
Fees/Credit Control
- 16%**
Competition/Corporates
- 13%**
Work/Life Balance
- 4%**
Regulation
- 4%**
Brexit

RESPONDING TO CHALLENGES FINDING OPPORTUNITIES

RECRUITMENT AND RETENTION

In a market where it is difficult to attract and retain staff, it is important that your practice has the right culture and adapts to meet the needs of your staff at the right time. As well as considering benefits such as flexible working, health screening and health insurance, other areas to focus on include rotas, work/life balance, learning opportunities, mentoring and career progression. Remember that rural locations can be attractive if long commutes can be eliminated. Provision of accommodation is another attractive benefit in the current market. With Brexit potentially triggering the exit of some European vets from the UK, there may be opportunities to attract qualified veterinary personnel to Ireland. According to a recent position paper on Brexit by the Royal College of Veterinary Surgeons, around 50% of veterinary surgeons registered in the UK qualified elsewhere in the EU. Research conducted on behalf of RCVS found that EU-graduate vets are now less likely to apply to join the RCVS Register and that 40% of non-UK EU vets are already considering leaving the country, with 18% already actively looking for work outside of the UK.

“ With Brexit potentially triggering the exit of some European vets from the UK, there may be opportunities to attract qualified veterinary personnel to Ireland ”

IMPROVING EFFICIENCY

Almost all respondents who participated in our research carry out administrative tasks in addition to their veterinary work. These tasks include book-keeping and payroll which are time consuming and can easily be carried out by someone outside the practice. With practices under pressure, it doesn't make sense to spend time on tasks that you can get someone else to do for you. Outsourcing is a cost effective method of improving efficiency which can free up time to focus on clients and achieve a healthier work/life balance. It also gives you access to expertise that you may not have in-house.

FUNDING GROWTH

When seeking to develop and grow their businesses, respondents look primarily to bank borrowing (41%), retained profits (31%) and personal funds (20%). Fewer than 10% look to investor equity or alternative finance sources. There are now many alternatives to mainstream banks for funding business growth. It can be challenging for practice owners to work out what their best options are so it is important to seek advice before making any capital investment decisions.

41% of respondents still look to their bank for borrowing for business growth.

“ There are now many alternatives to mainstream banks for funding business growth. It can be challenging for practice owners to work out what their best options are ”

INCORPORATION

Most respondents this year are either sole traders or partners in veterinary practices. Last year we found much uncertainty about incorporation. While there has been no significant increase in the percentage indicating that their practices are incorporated this year (23%), 37% would consider incorporation, up 7% on last year. This reflects our experience in that we have seen more practices incorporate their business. While there are legal and regulatory considerations to keep in mind, it is likely that the trend towards incorporation will accelerate.

EXIT STRATEGIES

47% of respondents would consider selling their veterinary practice to a corporate, up 18% on last year. This trend is likely to continue as more practices seek to survive and thrive in an increasingly competitive landscape. Despite their willingness to sell, however, very few respondents know what their practice is worth.

Less than a quarter (21%) have a succession plan. Finding suitable partners to join the practice, or a potential purchaser, requires careful planning and takes time. There are many considerations when deciding your exit strategy to secure the future of your practice, maximise the value and minimise the tax. Independent professional advice is vital to deliver on an effective exit strategy.

MAXIMISING PRACTICE VALUE

While almost half of survey respondents would consider selling their practice, only 12% have had their practice valued in the last two years.

Typical reasons to consider selling include illness, exhaustion, retirement or planning to start a new business venture.

If you are approached by a corporate seeking to acquire your practice, it is very important to know what your business may be worth in advance. Having the corporate who has approached you value your practice may not be the most efficient way of maximizing value.

Only 12% of practices have had their practice valued in the last 2 years.

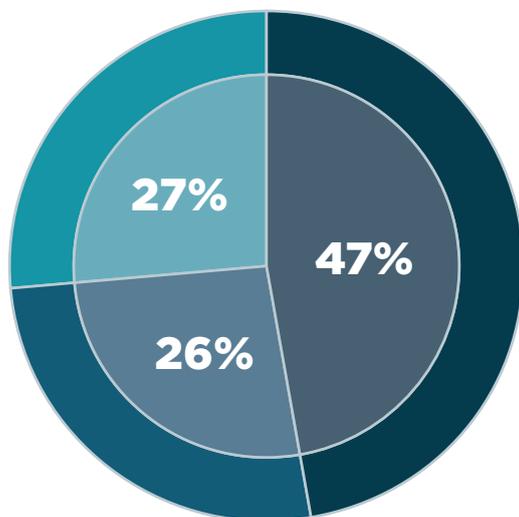
Even if you have no immediate plans to sell, it makes sense to get a valuation. The valuation will highlight areas for improvement that could enhance your practice value.

It is also important to implement robust financial management procedures and processes. This helps to establish a strong track record which will be reflected in your practice value when the time comes to exit.

Other factors that influence practice value include type, size, location, staffing, resources, systems, property, facilities, specialisms and level of competition in your area.

Vets, like many business owners, often neglect to plan for their financial future with the result that if circumstances force an urgent sale, many fail to achieve the best price for their practice.

EXIT



47%
Would consider selling

26%
Undecided

27%
Would not consider selling

SUCCESSION PLANNING

Working with veterinary practices over more than 20 years, we have seen at first hand the sustained effort that goes in to building and maintaining these businesses. Often, vets invest years of long hours and hard work and, when the time comes to exit, they want their practice to go to a deserving successor.

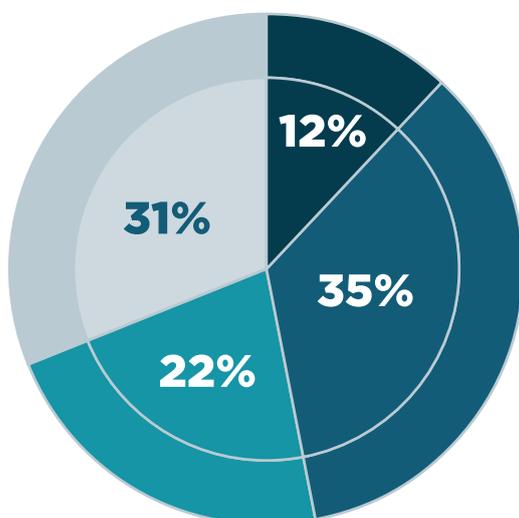
Only 13% say they have adequately funded for retirement.

More than half of the respondents (53%) in our recent survey are already aged over 40 and many are struggling with staffing/rota issues, financial worries and lack of work/life balance. Understandably, these pressures often leave little time for strategic planning. Nevertheless, it is vital to think ahead so as to protect your practice and safeguard the future financial wellbeing of yourself and your family.

A worrying finding in this year's research is that less than a quarter (24%) of respondents have considered succession planning and only 13% cite funding comfortable retirement as an important aspiration. The majority do not have a succession plan and have not identified potential future partners to buy into their practice.

Where a practice owner intends to pass on his/her practice to another person, they will need to invest time in identifying a suitable person and then developing and mentoring that person ahead of the transfer of the business taking place. The plan should be given the appropriate time to structure change efficiently. It is very important that the chosen successor is aware of the plan and, importantly, is aware of the timeframe within which the practice owner envisages exiting the business.

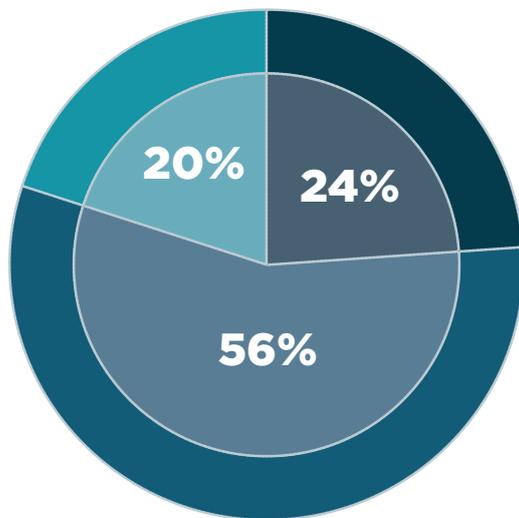
Likewise, where a practice owner plans to sell his/her practice, they will need to invest time in finding a suitable purchaser. Unfortunately, exits don't always happen in the way that we expect. All too often veterinary practice owners are forced to make rapid decisions due to unforeseen events such as accidents, illnesses or changes in family circumstances. Having a succession plan in place minimises the adverse impact of such events. While your plan will need to be reviewed and updated as circumstances change, having a plan is the best way to achieve a good outcome when you exit the business.



AGE PROFILE

12%	35%
20 - 30 yrs	31 - 40 yrs
22%	31%
41 - 50 yrs	50+ yrs

SUCCESSION



24%
Have considered succession

56%
Have not considered succession

20%
Not applicable

The following case study demonstrates the implications of not planning effectively.

CASE STUDY

Tony, a qualified vet in practice for 34 years, was thinking about retirement when Mary a recently qualified vet who had been working in Australia for the last two years returned home. They got talking and came up with an arrangement where Mary would work with Tony with a view to taking over the practice in due course. Her role would be to grow the small animal side of the business.

Mary thought Tony would retire quite soon and that she would then take over the practice. However, when Tony saw Mary's success with the small animal side of the business, it gave him a new lease of life and he decided to keep working. Before long, Mary became frustrated and began to look for other opportunities to progress her career elsewhere. It wasn't long before she ran into a former classmate and they decided to take a chance and set up a new practice together.

When Mary left, some of Tony's clients followed her. Tony then struggled to find anyone to replace Mary and, when his health began to fail, more of his clients fell away. The upshot was that by neglecting to plan ahead, communicate his plan and stick to it, Tony failed to achieve any value for his business on exit.

NEXT STEPS

This report summarises the main challenges facing veterinary practices in the current market. The following steps will help you get to grips with these challenges and manage your practice more effectively.

- (HLB) Review your practice culture to ensure that it reflects the needs of your staff at the right time in their lives.**

- (HLB) Review your practice structure and consider whether now might be the time to incorporate your practice, remembering it is a transaction which needs careful planning and appropriate advice.**

- (HLB) Consider whether you should sell your practice. Keep in mind that if you decide to sell, to maximise value you will need to be able to demonstrate a consistent track record over time so now is the time to optimise your financial performance.**

- (HLB) Consider outsourcing administrative tasks such as accounting, bookkeeping, invoicing and credit control.**

- (HLB) It is never too early to plan your exit. Develop or review your succession plan and ensure you understand how your choices may affect the future viability of your business as well as your retirement income.**

NEXT STEPS

- HLB Know what your business may be worth. If you have not obtained a recent valuation, now is the time to get one.**
- HLB If you plan to transfer your business over to a colleague or associate, make sure that this person knows the plan and the timeframe.**
- HLB Review any planned capital investment and explore your funding options and tax implications before making any decisions.**

While day-to-day pressures may get in the way of managing your practice, the decisions you make (or don't make) now can have long term consequences for you and your business. Our experience shows that the practices who prioritise planning generally reap the best rewards.

Thank you for reading our report and if you would like more information on any of the topics covered, please get in touch.

OUR SPECIALIST SERVICES FOR THE VETERINARY SECTOR INCLUDE:

1. Advisory regarding buying or selling a practice
2. Practice structure & incorporation
3. Succession Planning
4. Benchmarking and practice profitability
5. Outsourcing including financial management and tax compliance

For more information and to discuss your specific requirements in confidence with us today, please do not hesitate to get in touch.

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