

# Facts & Figures

## Veterinary practice expenses and financial ratios

- ▶ The cost of goods (drug and medical supplies, pet food and other animal feed, and laboratory and radiology fees) constituted 39.8% of total practice expenses in 1999.
- ▶ For every dollar of gross practice receipts generated in 1999, 28 cents accrued to practice owners in salaries and profits.

To provide an overview of expenses incurred by veterinary practices, practice expenses for selected items were obtained from veterinary practice owners who responded to the AVMA's 2000 **Biennial Economic Survey (BES)**. Mean expenditure for each item was determined for 6 practice types, and weighted means were calculated for all practice types combined. The mean value for each item is representative of practices that incurred an expense for that item. Only responses with values > 0 were used in calculation of the mean for each expense item. For each practice type and all practice types combined, sum of the expense means will not equal mean total expenses. A comprehensive overview of veterinary practice expenses is presented in the 2001 edition of the *Economic Report on Veterinarians & Veterinary Practices*.<sup>1</sup>

Variations in scope of practice will result in differences in practice expenses across practice types. Across all practice types, the 3 largest expense categories were

drug and medical supplies, ancillary staff salary and bonuses, and veterinary staff salary and bonuses (Table 1). Drug and medical supplies were the largest practice expense for all practice types except small animal exclusive practices. The largest expense among small animal exclusive practices was ancillary staff salary and bonuses. Drug and medical supplies was the second largest expense item and veterinary staff salary and bonuses was third for small animal exclusive practices. Ancillary staff salary and bonuses was the second largest expense for large animal predominant, mixed animal, and small animal predominant practices. Veterinary salary and bonuses was the second largest expense for large animal exclusive and equine practices.

It should be noted that certain expense categories changed since the last BES was conducted in 1998. Drug and medical expenditures previously had been separated into 2 categories: retail and not for retail. In the 2000 BES, there was just 1 category for drug and

Table 1—Mean practice cash expenses (\$) for selected expense categories by practice type, 1999

Expense items*	Large animal exclusive	Large animal predominant	Mixed animal	Small animal exclusive	Small animal predominant	Equine	Other	Total private practice†
Associate veterinarian salary and bonuses	68,354	58,935	68,984	71,571	65,956	152,757	INS	67,972
Ancillary staff salary and bonuses	43,399	61,317	78,766	116,585	82,208	86,240	28,851	95,073
Pension and profit-sharing (nonowner)	12,793	9,847	20,964	11,787	9,606	20,244	INS	11,511
Payroll taxes	16,180	13,288	18,618	20,820	15,865	27,203	INS	18,111
Medical and liability insurance	8,439	11,103	12,800	12,687	8,637	16,402	2,296	11,262
Drug and medical supplies	155,582	269,236	182,191	105,237	97,663	164,453	73,046	122,576
Pet food and animal feed products	11,029	37,676	44,550	20,715	17,129	23,278	INS	20,768
Laboratory and radiology fees	10,105	10,494	12,025	15,767	10,850	15,271	8,326	13,790
Office rent	15,883	10,001	20,042	31,763	42,519	14,069	8,011	27,909
Equipment rental	2,903	4,448	7,228	7,234	5,218	11,352	INS	6,203
Building/equipment repair and maintenance	4,387	5,847	7,160	8,966	5,519	10,959	INS	7,400
Property taxes and insurance	9,952	4,593	5,650	6,899	5,681	5,812	1,620	6,314
Vehicle lease or expenses	12,882	15,138	11,392	4,791	5,036	14,595	6,414	6,895
Telephone and utilities	6,606	8,335	10,322	10,415	8,381	9,694	4,133	9,364
Office supplies, including computer	6,165	6,097	7,756	9,401	7,666	7,719	3,564	8,244
Accounting and legal fees	2,624	3,104	3,375	4,038	3,483	4,240	2,559	3,715
Promotion and advertising	2,906	3,025	3,471	5,048	3,118	4,017	2,192	4,233
Continuing education	2,966	2,725	3,265	3,624	2,599	4,386	3,374	3,423
Interest paid on all liabilities	4,981	6,354	8,959	12,733	8,367	12,260	INS	10,181
Depreciation	17,867	13,351	18,115	17,359	15,933	18,339	6,034	16,316
Miscellaneous	16,034	10,801	24,372	33,633	21,337	46,160	12,236	28,179

\*Includes only practices that incurred an expense for each item; missing values and zero expenses were excluded. †Weighted estimates based on estimated total No. of private clinical practices.

INS = Insufficient No. of responses or nonapplicable.

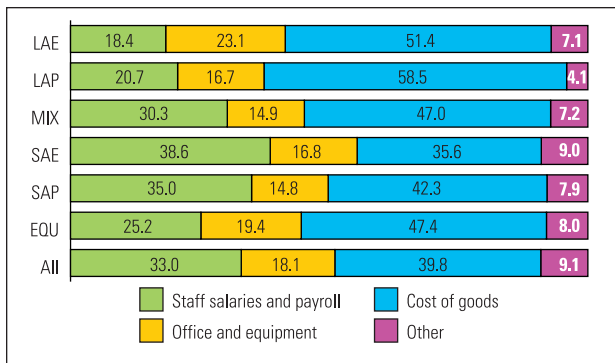


Figure 1—Mean operating expenses as a percentage of total expenditures for a composite veterinary practice, by practice type. LAE = Large animal exclusive. LAP = Large animal predominant. MIX = Mixed animal. SAE = Small animal exclusive. SAP = Small animal predominant. EQU = Equine. All = All practice types (weighted mean).

medical supplies. Pet food and animal feed product expenditures, also categorized as either retail or not for retail in 1998, were similarly combined in the 2000 BES.

The distribution of practice expenses for a composite veterinary practice was determined (Fig 1). Expenses were combined into 4 categories: staff salaries and payroll, office and equipment, cost of goods, and other expenses. Staff salaries and payroll expenses included employed veterinarians' salary and bonuses, ancillary staff salary and bonuses, pension and profit-sharing, payroll taxes, and insurance. Office and equipment expenses included office and equipment rent, building or equipment repair or maintenance, property taxes and insurance, vehicle lease or expenses, telephone, utilities, office supplies, computer, accounting, and legal fees. Cost of goods included drugs and medical supplies, pet food and other animal feed products, and laboratory and radiology fees. The other expenses category included promotion and advertising, continuing education, interest, depreciation, and miscellaneous expenses. Among all practice types, cost of goods was the largest expense category, constituting 39.8% of total practice expenses. Cost of goods was the largest expense category for all practice types except small animal exclusive practices. Among small animal exclusive practices, staff salaries and payroll was the largest expense (38.6%).

## Financial Ratios

Five financial ratios were computed from the expense data (Table 2). Ratios are not absolute criteria for operating performance but represent industry benchmarks. The ratio of return-to-labor-and-management to practice revenue is a measure of profitability. Median value of this ratio for all practices was 0.28 in 1999, compared with 0.33 in 1997. This implies that after all cash expenses were paid and owners were compensated for a 12% return to equity capital, 28% of revenue was available to compensate owners' labor and management. That is, for every dollar of gross practice receipts generated in 1999, 28 cents accrued to practice owners in the form of salaries and profits. The ratio varied from 0.24 for small animal exclusive practices to 0.36 for large animal exclusive practices.

The ratio of total practice debt to total practice assets is a measure of long-term financial solvency. The median ratio in 1999 was 0.22, compared with 0.17 in 1997. This indicates that 22% of total practice assets was financed from outside capital sources. An increase in this ratio represents an increase in external financing of veterinary practices. Not all practice types reported similar results. The debt to asset ratio decreased for large animal exclusive practices, mixed animal practices, small animal predominant practices, and equine practices. The ratio increased from 0.14 to 0.24 for small animal exclusive practices. The ratio for large animal predominant practices was 0.18 in 1997 and 1999.

A second measure of long-term financial solvency is the ratio of total practice debt to net worth. A ratio > 1.0 indicates that external financing of the practice exceeds the owner's capital contribution. Practices with high ratios may be undercapitalized. In 1999, the median debt to net worth ratio was 0.21, compared with 0.17 in 1997. In 1999, the median debt to net worth ratio ranged from 0.14 for large animal exclusive and equine practices to 0.24 for small animal exclusive practices. The median debt to net worth ratio in 1999 was less than the median debt to net worth ratio in 1997 for all except 2 practice types. The ratio was larger in 1999 for small animal exclusive practices. Large animal predominant practices had the same ratio in 1997 and 1999.

The acid-test ratio, a measure of the practice's ability to meet short-term obligations, is the ratio of current assets (ie, cash, short-term marketable securities, and accounts

Table 2—Median veterinary practice financial ratios, 1997 and 1999

Ratio	Large animal exclusive		Large animal predominant		Mixed animal		Small animal exclusive		Small animal predominant		Equine		Other		Total private practice*	
	1997	1999	1997	1999	1997	1999	1997	1999	1997	1999	1997	1999	1997	1999	1997	1999
Return to labor and management: gross practice revenue	0.40	0.36	0.29	0.27	0.30	0.25	0.35	0.24	0.29	0.27	0.36	0.31	0.17	0.55	0.33	0.28
Total practice debt: total practice assets	0.21	0.13	0.18	0.18	0.24	0.18	0.14	0.24	0.25	0.20	0.16	0.13	0.14	0.29	0.17	0.22
Total practice debt: practice net worth	0.27	0.14	0.22	0.22	0.24	0.17	0.13	0.24	0.27	0.20	0.18	0.14	0.19	0.15	0.17	0.21
Current assets: current liabilities	3.07	2.46	3.40	3.88	2.50	2.52	2.51	1.70	2.12	2.08	3.67	3.33	1.45	1.26	2.54	2.02
Drug and hospital supply expense: drug and hospital supply inventory	4.54	5.90	4.44	4.76	3.23	4.00	3.34	3.71	3.59	3.51	4.64	4.13	3.94	3.99	3.60	3.97

\*Weighted estimates based on estimated total No. of private clinical practices.

receivable) to current liabilities (ie, accounts payable and notes payable in 1 year). The median acid test ratio decreased from 2.54 in 1997 to 2.02 in 1999. This indicates that the median veterinary practice had \$2.54 in current assets for each \$1.00 in current liabilities in 1997, compared with \$2.02 of current assets for each \$1.00 of current liabilities in 1999. The 1999 acid test ratio was higher than the 1997 ratio value for large animal predominant practices. The ratio was lower or the same in 1999, compared with 1997 for all other practice types.

Inventory turnover ratio measures the number of times that a practice's inventory has been depleted during the year. It was computed by dividing total drug and hos-

pital supply expense by the value of drug and hospital supply inventory. The inventory turnover ratio for all practices was 3.97 in 1999, compared with 3.60 in 1997. The ratio decreased for small animal predominant and equine practices. A lower ratio indicates less turnover of inventory and may imply capital invested in inventory is less productive.

## References

1. American Veterinarian Medical Association. *Economic report on veterinarians & veterinary practices*. Schaumburg, Ill: American Veterinary Medical Association, 2001.

---

From the AVMA Membership and Field Services Division: J. Karl Wise, PhD, Director; Martin L. Gonzalez, MS, Research Analyst.