

Seeding the Field to Grow Future Owners

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One unique path to incentivize equine practitioners to remain in equine practice involves the financial support and mentorship of an established practice owner. Such an investor can realize both a financial and personal return on their investment. Authors' addresses: Guardia Equine Sports Medicine, 12645 Memorial Drive, #F1176, Houston, TX 77024 (Guardia); PO Box 192, Virginia City, MT 59755 (Grice); e-mail: cg@guardiaequine.com. *Corresponding and presenting author. © 2022 AAEP.

1. Introduction

For the past decade, declining numbers of veterinary graduates have accepted positions in equine private practice directly after graduation,¹ and about half no longer belong to the AAEP within 5 years of their graduation.¹ Because companion animal exclusive positions offer substantially higher salaries than equine positions,² these decisions could be related to graduates' obligations to pay high educational debt, which averaged \$188,853 for the 83% of 2020 graduates with debt, according to the 2021 AVMA Report on the Economic State of the Veterinary Profession.²

In the 2016 AVMA AAEP Equine Economic Study, it was reported that about half of AAEP member equine associate and relief veterinarian respondents (58.7% of males and 48.0% of females) were interested in practice ownership, which was a higher percentage than the number of AVMA respondents who reported desire for ownership in the AVMA 2016 Census Study of the mostly companion animal membership, where 34.0% of males and 18.7% of females indicated they were in the market to become a practice owner.¹ When

examining practice size, the 2016 AVMA AAEP Equine Economic Study reported that 52.8% of practices had 2 full-time equivalent veterinarians or less.¹ In 2020, a study reported that nearly 25% of respondents at larger practices (>4 doctors) had left or definitely had decided to leave equine practice compared to only about 10% of those respondents in solo practices who said the same.³ Because desire for practice ownership appears to be higher among equine veterinarians than those in the companion animal sector, and those in small practices appear less likely to have left or to have definitely decided to leave equine practice, to keep more equine practitioners in equine practice, maybe solo or small practice ownership is one of the answers.

There are distinct financial advantages to practice ownership, as the owner has compensation that includes profits as well as salary for their efforts as a veterinarian. In addition, the ability to be the decision maker allows a veterinarian to build a career that matches their values, aspirations, and skillset. Being the owner of a practice may allow the opportunity to achieve increased personal career satisfaction and financial benefits that make equine practice a more sustainable

NOTES

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	TOTAL
Total Revenue	\$ 200,000.00	\$ 275,000.00	\$ 350,000.00	\$ 425,000.00	\$ 500,000.00	\$ 550,000.00	
Expenses							
COPS (Cost of Professional Services) @ 29% of total revenue	\$ 58,000.00	\$ 79,750.00	\$ 101,500.00	\$ 123,250.00	\$ 145,000.00	\$ 159,500.00	
Gross Profit	\$ 142,000.00	\$ 195,250.00	\$ 248,500.00	\$ 301,750.00	\$ 355,000.00	\$ 390,500.00	
Base Salary	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	\$ 60,000.00	
OR 25% of Gross Profit	\$ 35,500.00	\$ 48,812.50	\$ 62,125.00	\$ 75,437.50	\$ 88,750.00	\$ 97,625.00	
Compensation	\$ 60,000.00	\$ 60,000.00	\$ 62,125.00	\$ 75,437.50	\$ 88,750.00	\$ 97,625.00	
Employee Costs @ 10%	\$ 20,000.00	\$ 27,500.00	\$ 35,000.00	\$ 42,500.00	\$ 50,000.00	\$ 55,000.00	
Administrative Costs @ 4.5%	\$ 9,000.00	\$ 12,375.00	\$ 15,750.00	\$ 19,125.00	\$ 22,500.00	\$ 24,750.00	
Credit Card Fees @ 1.5%	\$ 3,000.00	\$ 4,125.00	\$ 5,250.00	\$ 6,375.00	\$ 7,500.00	\$ 8,250.00	
Facility & Equipment Costs @ 7%	\$ 14,000.00	\$ 19,250.00	\$ 24,500.00	\$ 29,750.00	\$ 35,000.00	\$ 38,500.00	
TOTAL Expenses	\$ 164,000.00	\$ 203,000.00	\$ 244,125.00	\$ 296,437.50	\$ 348,750.00	\$ 383,625.00	
EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)	\$ 36,000.00	\$ 72,000.00	\$ 105,875.00	\$ 128,562.50	\$ 151,250.00	\$ 166,375.00	
\$50,000 Equipment 60 mo @5%	\$ 11,323.00	\$ 11,323.00	\$ 11,323.00	\$ 11,323.00	\$ 11,323.00	\$ -	
Net Income	\$ 24,677.00	\$ 60,677.00	\$ 94,552.00	\$ 117,239.50	\$ 139,927.00	\$ 166,375.00	
Mentee Vesting %	0%	10%	20%	30%	40%	50%	
Mentee Veterinarian Share	\$ -	\$ 6,067.70	\$ 18,910.40	\$ 35,171.85	\$ 55,970.80	\$ 83,187.50	\$ 199,308.25
Mentor Veterinarian Share	\$ 24,677.00	\$ 54,609.30	\$ 75,641.60	\$ 82,067.65	\$ 83,956.20	\$ 83,187.50	\$ 404,139.25

Profit %	
Year 1	12.34%
Year 2	22.06%
Year 3	27.01%
Year 4	27.59%
Year 5	27.99%
Year 6	30.25%

Fig. 1. Financial results of mentor mentee vested purchase of practice over 5 years.

choice for the individual. Although there are certainly increased responsibilities with small business ownership, it is the authors' opinion that the rewards far exceed the challenges.

2. Discussion

While starting an ambulatory equine practice may not be as substantial an undertaking as launching a brick-and-mortar practice, lack of business knowledge may prevent a veterinarian from proceeding with confidence. Seeking participation in a business education networking group can assist veterinarians in understanding practice finances, marketing strategies, and other business management aspects.⁴ Alternatively, an experienced practice owner could provide business mentorship to a less-experienced veterinarian to give back to the profession and assist a new generation of equine doctors.

An established equine practice owner might identify a talented young veterinarian that is poised to leave equine practice and help them establish a path to stay in the profession. That path could lead to practice ownership. Such a path, taken by one of the authors (Guardia), is herein described.

The mentor veterinarian would begin the process by helping the mentee to form a professional and personal vision, understand their core values, and articulate a practice mission. Next, the established practice owner would provide a list of necessary tasks to open the practice, such as researching the demographics in the chosen practice area, establishing a permanent address, naming the practice, and planning the service offerings. The established

practice owner then would add the "Doing Business As," or DBA, to his or her pre-existing veterinary business. This new practice satellite might be many miles away from the parent practice.

Additional items the mentor might assist the mentee with include setting up accounts at distributors, laboratories, banks, and service providers such as Global Vet Link for federal and state health documents. Also, advice might be given for practice credit card applications, forming accounts with shipping firms, obtaining a DEA license, registering radiology equipment with the State Department of Health and Safety, obtaining dosimeter badges, and acquiring necessary equipment. To populate the new practice website and social media, the established practice owner might recommend a professional photography session.

The mentor might provide diagnostic equipment such as a digital radiography unit, an x-ray generator, and an ultrasound, as well as other necessary equipment, and create a payment plan for the new practice to pay off these purchases over several years. A written agreement might be formalized to have the new practice transferred to the mentee as a vested purchase over a certain number of years. The established practice owner might pay the mentee a base salary, or a percentage of gross profit, whichever was greater. After the initial 12-month period, the vesting process could allow a certain percentage per year ownership share with resultant profit sharing. For example, in a 5-year vested purchase of 50% of the ownership of the practice, in months 13 to 24, the mentee could receive a 10% net profit share and hold 10% equity, followed

by a 20% profit share and 20% equity the following year, with a 50% ownership share being obtained by the end of the fifth year.

With this type of vested purchase agreement, at the end of the fifth year, the mentee would own 50% of the practice and would be given the opportunity to purchase the remaining 50% from the mentor. An independent practice evaluation would then be performed to determine the current value of the practice at the time of the transition. Based on that evaluation, a buy-out payment plan could be agreed upon. An amortized loan at a fixed interest rate to be paid off over 10 years might be held by the mentor for the purchase of the remaining 50% of the practice. If the practice location was chosen carefully where there was a strong demand for the services that the new practice was providing and the need for an additional provider, and the mentee veterinarian was a motivated individual, practice gross revenue might increase robustly each year. If the mentor invested \$50,000 in used equipment to provide to the mentee, and the mentee provided a practice vehicle, both would be materially invested. If benchmark averages for practice expenses were achieved,⁶ the mentee was paid a base salary of \$60,000 or 25% of gross profit, whichever was higher, and the mentee did not utilize employees initially, a small net profit could be realized in year 1 (Fig. 1). In this example, the mentor might have an investment in providing cash flow to pay the base salary initially until the revenue stream became stronger, but even in the first year of this sample case, revenue would cover this by year end. During the first several years of the practice, seasonality or irregularity of revenue production might create the need for cash flow supplementation, but a positive net income could be realized each year in this illustration.

3. Conclusion

Whereas the financial investment of a mentor might be important in providing equipment and cash flow to the new practice, the business guidance and the confidence that involvement of an established practitioner provides could be invaluable to the mentee. Established practice owners who have the generosity and inclination to assist younger equine veterinarians in establishing practices and reaping the benefits of ownership can provide an incentive for these practitioners to remain in equine practice and shape satisfying careers. These investors can realize a strong return on their investment—this return can be inspirational as well as financial. For some, helping give a hand to those coming up behind them may be more rewarding than the profits they earn in the arrangement.

Acknowledgments

Declaration of Ethics

The Authors have adhered to the Principles of Veterinary Medical Ethics of the AVMA.

Conflict of Interest

The Authors have no conflicts of interest.

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