Don't be Left Behind: Identify and react to business trends before it's too late

There are many ways to measure the health of your practice but not many to predict where it's going. You can monitor key performance indicators (KPI), track revenue/profitability, monitor your balance sheet and more. These methods do a good job of describing where your practice has been but not where you are going. We will explore a method that will not only display the past but will also help predict the immediate future.

The Brothers Beaulieu

Brian and Alan Beaulieu are economists who own and operate the ITR Research and Consulting firm. They are twin brothers and are experts in gathering economic data, analyzing trends and forecasting future economic states. I have attended multiple seminars featuring the Beaulieu brothers over the last three years regarding the current "Great Recession". Their latest prediction surrounding the economic recovery seems to be coming to fruition.

The Beaulieu brother's use key economic indicators, such as Consumer Price Index, Gross Domestic Product, inflation and employment rate, to recognize trends and predict the direction of such trends. These same concepts can be used in your practice.

In their book "Make Your Move: Change the way you look at your world and change your bottom line" the Beaulieu brothers provide step by step formulas to help turn your raw revenue data into easy-to-read graphs. These graphs can help identify trends and illustrate the business cycle. They further identify phases within the business cycle and give suggestions pertinent to each phase that will help prepare you for the future. I have taken these general concepts and added suggestions that apply to veterinary practices, so that you too can be prepared for the future.

Most of the concepts, worksheets, formulas and graphs I will be conveying in this talk are based on Brian and Alan Beaulieu's book.

Business Cycles

All businesses go through cycles. They go through times of revenue growth and times of revenue decline. Veterinary practices are no different. The times of growth can be uplifting for the staff, clients, management and owners while the slow times can bring morale down and introduce a great deal of stress, especially for the managers and owners.

Sometimes cycles are predictable and sometimes they can hit you out of nowhere. These cycles may originate from competition, seasonal changes, lack of quality service, or to the local, regional or global economic conditions.

These cycles can make it difficult to manage resources within the practice. Balancing patient care, client care, staff morale and overall profitability, can be a nerve-racking juggling act. This can be true even when the cycle is perceived as good. In times of growth, typically the staff will be busier than normal. This can present a problem if your staff cannot consistently deliver quality customer service, or worse, patient care.

It is difficult to know exactly where you are in the current business cycle. Volatility from month to month can make it difficult to identify and sometimes give you mixed signals. You may be busy one month and slow the next. You can have two good months and three bad months.

This may be a difficult concept to follow. I imagine most people think managers know exactly where their business currently stands. Although they may be aware of their income statements, balance sheets and cash flow statements, managers may not be aware of where they are in the business cycle, or how their revenue is trending over time.

The first step to identifying the business cycle is to compile the raw revenue numbers into a viewable illustration. The Beaulieu brothers have developed a brilliant formula that compares data from your recent past (3 months or 12 months) to the previous year's data and plots it on a straightforward graph.

Rate of Change

Rate of change is the backbone to the Beaulieu brother's concept of trend analysis. To understand this concept we will start by comparing one month to the same month of the previous year. To calculate the rate of change to a percent, you can use the following equation provided by the Beaulieu brothers.

January 2012 $100,000.00

January 2011 $110,000.00

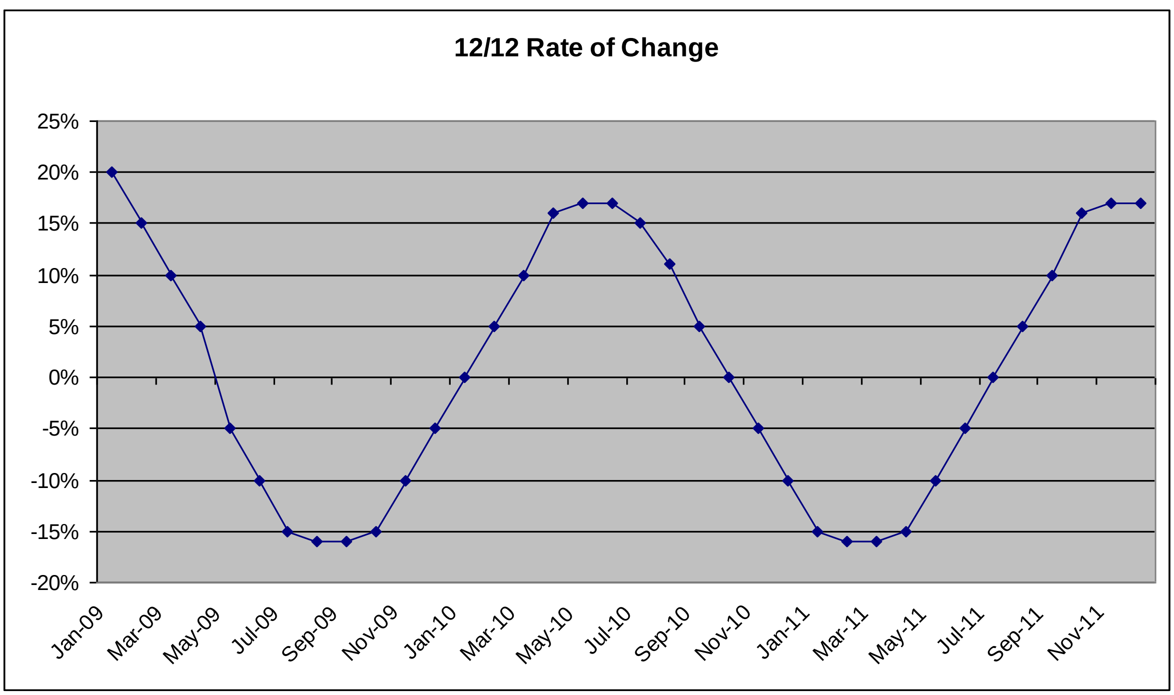
$100,000/$110,000= 0.91 X 100= 91 – 100= -9%

The good news is you don't have to remember the formula. The spreadsheet can be downloaded on the Beaulieu brother's website: ecotrends.org (click on the Make Your Move tab). After you have downloaded the spreadsheets simply plug in your raw revenue numbers and the spreadsheet does the rest. You can then highlight the information to create easy to read graphs (We will touch on this later).

3/12 and 12/12

The foundation for the viewable graphs is based on what the Beaulieu brothers call 3/12 and/or 12/12. The example of the formula shown above represents the 1/12 comparison. The numerator (1) represents the amount of months we will be comparing. The denominator (12) represents the 12 months prior (same month of the previous year; Jan 2012 compared to Jan 2011). The 1/12 can be used when plotting your graph, however the monthly volatility may make the graph a little difficult to read. The 3/12 and 12/12 are recommended to provide more data and a more accurate trend. The 3/12 represents the last three month's revenue compared to the previous year's same three month's (Jan, Feb, March 2011 compared to Jan, Feb, March 2012) stated as a positive or negative percent. The 12/12 represents the last twelve months, compared to the twelve month previous (Jan-Dec 2011 compared to Jan-Dec 2010). The 3/12 can be used as a precursor to the 12/12. For now, we will be concentrating on the 12/12.

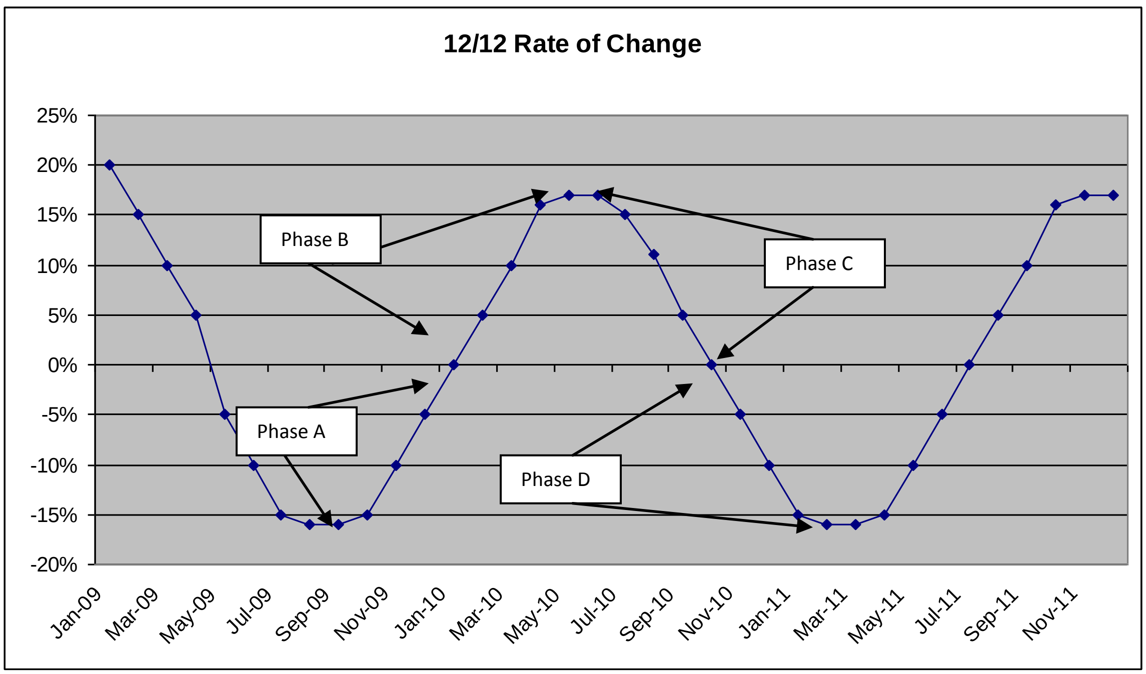
As you enter your raw revenue numbers into the spreadsheet each month the formulas will produce a rate of change percentage. This percentage can now be plotted on the graph on a monthly basis. The y-axis represents the percent rate of change. The x-axis represents time, in months.



This graph provides a visual account of the business cycle. Most cycles are not as symmetrical as the graph shown above but, this is an excellent illustration of the different phases of the business cycle.

Phases

The business cycle has four different phases. They are classified as A, B, C and D. Each phase represents a trend of either growth or decline, in total revenue. The phases can be identified as followed:



- Phase A
    - Represents the bottom of the "J" curve to the zero line. During this phase your practice has seen its worst times and is trending up to positive rates of change. By mid "D" phase you will begin to see positive rates of change on an individual monthly basis.
- Phase B
    - Represents values from the zero line to the peak of the "J" curve. During this phase you are experiencing solid growth and do not know when it will hit the highest point.

- Phase C
    - Represents the top of the peak to the zero line. This can be a difficult phase because your rates of change will remain positive, but they will be trending downward.
- Phase D
    - Represents the zero line to the bottom of the "J" curve. This is the phase that creates the most stress for owners and managers. Your rate of change continues to decline and you don't know where the bottom is.

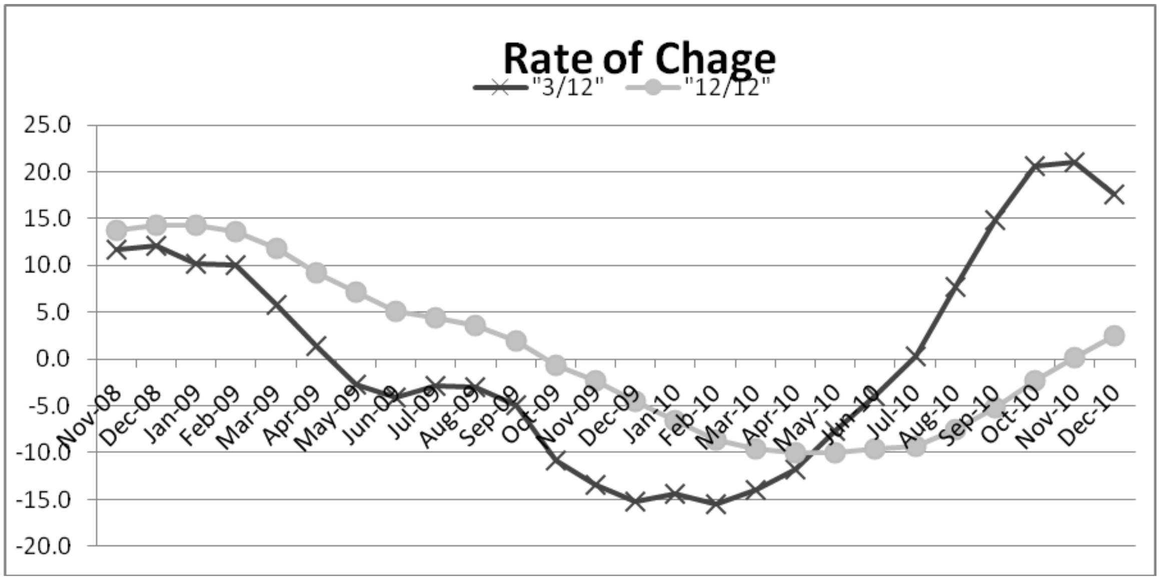
Even though all businesses go through cycles this does not mean that all businesses go through all phases of the business cycle or go through them in such a regular pattern as demonstrated above. Most actual graphs contain numerous undulations of varying sizes and shapes. It is important to confirm a trend prior to making an operational adjustment.

Trends

The visual statement made by a graph that clearly trends in a particular direction, is an analytical blessing. The information is clear and therefore the actions should be clear as well.   If your rate of change graph is soaring at an unyielding upward angle, it is apparent your business is growing. Even if your graph is declining at the same angle, the conclusion is just as obvious that your revenue is eroding. Even though these two conclusions are polar opposites, the conclusion is clear in both cases.

When the trend is not clear and you are not fully aware of where you are heading, it is difficult to make an informed decision when developing a plan of action. If you are aware of your practice's position in the business cycle and you can predict, in the short term, that the trend will continue, you can begin to take steps to take advantage of this information.

Before you take action you must confirm that the trend will continue. It is recommended to postpone action until a trend of three months is established on your 12/12 graph. Remember the 12/12 represents the past twelve months combined so it is also important to validate the graph by looking at the 3/12. The 3/12 will usually precede the path of the 12/12. It is important to remember that the volatility and seasonality of the 3/12 graph can lead you in the wrong direction. It is recommended that you factor in some key indicators, such as average client transaction, average new client per month, average procedures per month, etc, to confirm the trend. Below is an example of the 3/12 and 12/12 on one combined graph.



As you can see on the graph the 3/12 is running about six months in front of the 12/12. In July of 2010 the 12/12 is hanging around -10%, however 3/12 is just about to break into positive territory. The three month 12/12 trend, coupled with the 3/12 heading into phase "B", confirms that the 12/12 is defiantly in early Phase "A" in July 2010.

Action

Now that you have established a clear trend and have confirmed this position, you are ready to take action. Let's face it- you are constantly making these business decisions anyway-now you can make a more informed decision.

No matter where you are in the business cycle you can make operational adjustments to deal with your current state and/or prepare for the future. You can reduce expenses or ramp up staffing, depending upon where you are in the cycle. The ability to be nimble and make decisions based on objective data can make the hard times easier and the good times fantastic. If you play your cards right you can use this information to help put your practice into a position of avoiding Phase "D" altogether.

Here are some recommended actions you can take during each phase of the business cycle:

- Phase A
    - Stop hoarding cash.

- Think about expansion in late Phase A. Be entrepreneurial.
- Borrow money at low rates.
  - Start investing in new equipment and modalities that can generate new revenue.
- Enter into new leases or renegotiate old ones.
  - If you are coming out of a bad financial environment, it is likely that your vendors or landlord are also. You may have the advantage of knowing you are coming out of this state even though they may not.
- Lock in buying prices with vendors.
- Judiciously expand credit.
  - Carefully extend credit to clients.
- Watch your pricing.
  - If you invest in new equipment and modalities you may need to increase prices to maintain them.
- Invest in employee and self-education.
  - Customer service, marketing, management seminars.
- Develop and begin advertising and marketing programs.
  - Invest in website development, social media and search engine optimization.
- Invest in new technology and software to improve efficiency.
  - Practice management software.
  - Client management systems.
  - Employee management systems.
- Increase staff in late Phase A
  - Hire top people.
  - Increase entry level and part time staff to accommodate the increasing workload (kennel staff).
    - Give time to train.

    - Increase inventory on high volume items.

- Phase B
    - Accelerate training so that the delivery of patient care and client care are of the highest quality and efficiency.
    - Continue to responsibly build inventory.
        - With higher volume and busier staff there is a greater likelihood that you will run out of crucial items.
        - Buy in bulk for high moving items to get better pricing.
        - Put inventory management systems into place.
            - Minimum and maximum par levels.
            - Monitor inventory turnover rates and days in inventory.
    - Raise prices to accommodate:
        - Additional training and retention of more efficient staff.
        - Increased inventory.
        - Overtime.
        - Increases in Cost of goods sold (COGS).
    - Outsource
        - HR, accounting, marketing (social media).
    - Watch your liquidity and profitability ratios.
        - Don't get intoxicated by your success so that you overextend yourself.
    - Closely monitor 3/12 and other key indicators in your practice that show you are approaching Phase C.
    - In late Phase B
        - Freeze expansion plans
        - Do not commit to long term contracts or leases
    - Think about selling!

- Phase C
    - Concentrate on cash and balance sheet.
        - Make sure you can continue to function if the market continues to soften.
    - Begin workforce reductions.
        - Do not replace employee that leave.
        - Late Phase C, begin to identify A, B, and C employees.
            - Hiring freezes.
            - Raise freezes.
            - Get rid of C employees.
    - Reduce advertising.
    - Decrease inventory.
        - If you are not as busy, you will not be using as much product.
        - Make sure the COGS percentage of total revenue remains constant or decreases.
    - Tighten reigns on accounts receivables.
    - Watch capital expenditures.
        - Perform due diligence.
            - Make sure every capital expenditure has an honest business plan behind it along with a timely return on investment (ROI).
    - Hold prices steady.
    - Boost customer service and follow-up calls to book rechecks.
        - Call every anesthetized patient the next day (even on your day off).
        - Follow-up on all treatment plans 1-2 days later.
- Phase D
    - Despite being in Phase D, your practice can remain profitable if you control your expenses.

- Continue payroll reductions.
    - Cross train staff to share duties.
    - Release unnecessary employees.
- Focus advertising and marketing budgets on essential campaigns with measurable and proven ROI's.
- Renegotiate leases.
    - If you are hurting your vendors might be hurting as well and will want to hold on to your business at a lower margin.
- Government work share programs.
    - Investigate programs that provide government assistance for staff hour reductions.
- Cease all unessential capital expenditures.
- Eliminate overtime.
    - Require written authorization for all overtime.
- Decrease prices on selected items to compete for market share.
- Hold on to cash.
- Provide excellent customer service.
    - Go the extra mile for clients and rDVMs.

It is important to remember that each situation is different. All the suggestions provided may not apply to your particular practice all the time. You may not be in a position to reduce staff or to expand your practice but these suggestions may spawn ideas that will work in your practice. You know your market, staff, local economy and financial situation better than anyone else.

Running a veterinary hospital is a little different than a normal small business where the biggest priority is to make money. In veterinary medicine, the number one priority is patient care. As owners and managers, you are sometimes faced with the difficult decisions that may compromise either the business or the medicine. These are very difficult and heart wrenching decisions. By obtaining a glimpse of the future, and making the correct adjustments in your operation, you can better position your practice to avoid the deep valleys and capitalize on the high peaks of the business cycle, so that you can do a better job helping pets and people.