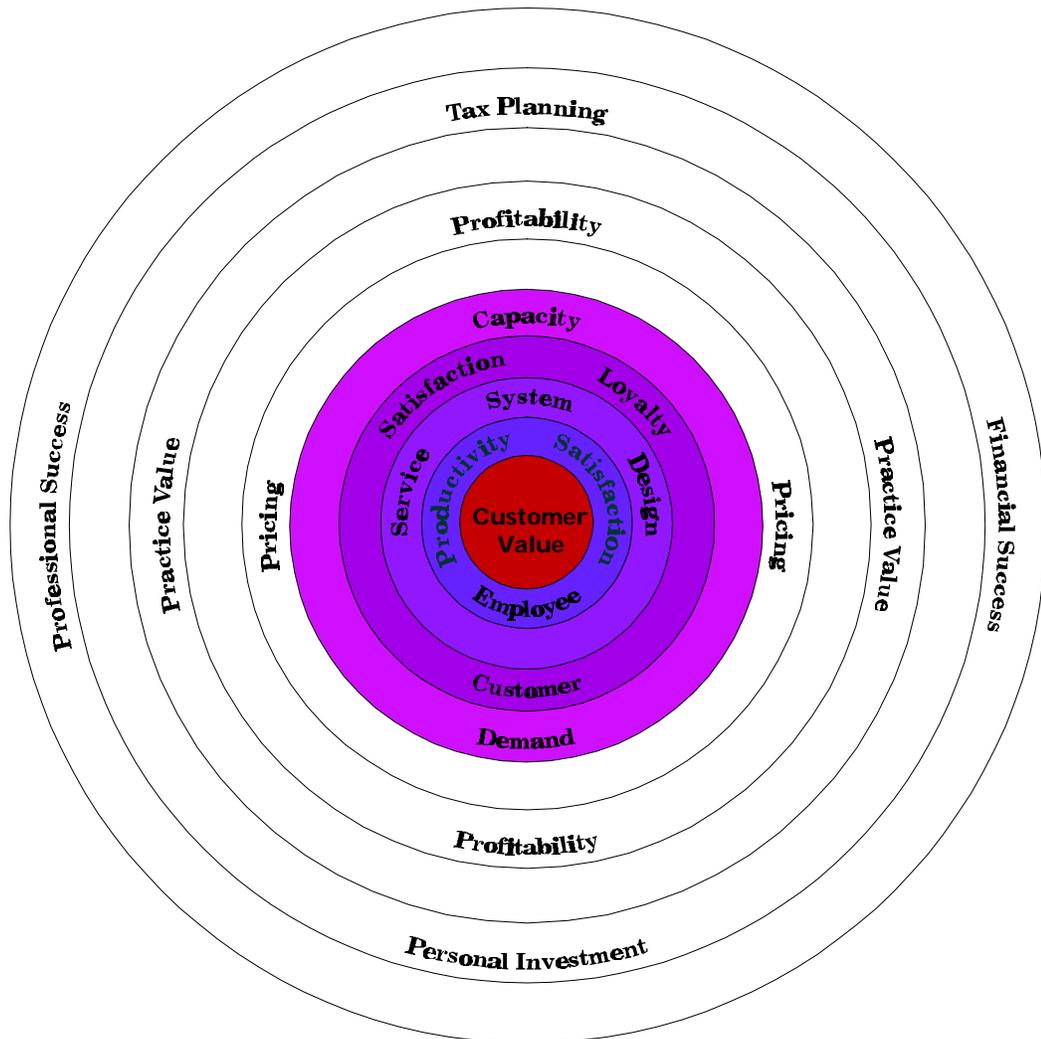
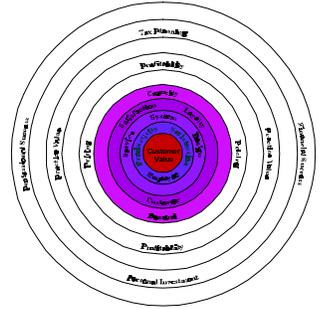


Capacity and Demand





Capacity and Demand

Matching capacity to demand is key to the profitability of small animal veterinary practices. Careful planning will allow close estimates of both capacity and demand. Price can be a useful tool for manipulating demand. Maximizing capacity will maximize profit.

Demand

Necessary Demand

At present, each full-time equivalent (FTE) small animal practitioner in Ontario generates approximately \$300,000 of annual revenue. On average, each client spends approximately \$320 per year at a veterinary practice. Simple math estimates that each FTE veterinarian will require slightly less than 1,000 (300,000/320) clients to be financially successful.

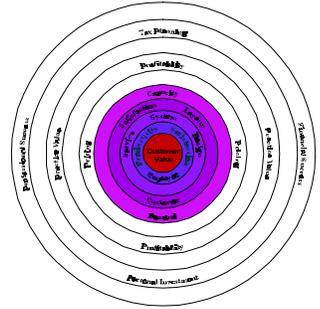
In most urban areas, slightly more than 40% of residents have pets. Ontario studies have indicated that as high as 90% of pet owners use veterinary services on an annual basis. This estimate of veterinary usage is felt by many to be exaggerated; hence a conservative estimate of 70% of pet owners using veterinary services on an annual basis may be more prudent.

Using the above estimates, a market size of approximately 3,600 households is necessary to supply one FTE veterinarian with enough work to be financially successful.

Estimating Market Potential

The geographic market in which a small animal practice is located must generate the demand for services that is necessary to support a veterinary practice. Thus, the market size must be estimated. The influence of competing practices must be factored into the calculation to forecast a practice's potential market share.

Total Households	3,500
% Households with Pets	40%
Households with Pets	<u>1,400</u>
Households with Pets	1,400
% of Annual Veterinary Use	70%
Number of Clients	<u>980</u>



Every four years, Statistics Canada publishes information on the number of households and related demographics for Canadian census tracts.

This data is helpful in estimating the number of households surrounding a practice or potential practice. Alternatively, data on household numbers is available from Canada Post, although this data is void of other demographic information.

The market size and demand for veterinary services can be fairly accurately predicted with the knowledge of the number of households when there are no competing veterinarians.

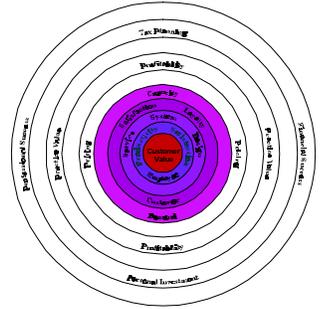
However, when there are competing veterinarians, the market size captured by competitors is not easily estimated. The market penetration of competitors can be most accurately determined by consumer market research in the geographic areas of interest. However, this process is labourious and expensive.

An alternative to market research is to estimate that each FTE veterinarian in a given practice has captured approximately 1,000 households of the entire market. Typically, the clients captured by a given practice will be derived from within a geographic radius of approximately a 15-minute drive from the subject practice.

Presently, there are very elaborate computer programs that can more accurately outline practice trade areas and determine potential demand for services. These analyses are offered through veterinary practice consultants and may be very valuable when veterinarians entertain ideas of establishing new practices or enlarging existing practices.

Demand Drivers

The previous article on loyal clients identified that customer value drives the demand for services. The market penetration achieved by a given practice will be determined predominantly by the value offering of the subject practice.



Capacity

The capacity of small animal practices may be subdivided into the capacity of the staff and the capacity of the facility. Both types of capacity represent a significant practice expense and adversely affect profitability when capacity exceeds demand.

Facility Capacity

The physical size of the practice will dictate the cost of occupancy. Occupancy costs include rent, realty taxes, utilities, property insurance, repairs, and janitorial services. Each of these expense items will be proportionate to the size of the hospital.

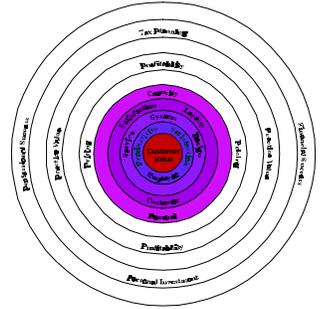
The cost of rent can vary substantially with the location of a practice. It is increasingly common for practices to be located in commercial plazas that have high exposure and high associated rental rates and taxes.

It is prudent to examine those services that will be offered by the practice most frequently and to design the physical practice around the needs of these services. It is highly probable that ancillary services such as grooming and boarding will not be feasible in a practice paying high rent and taxes.

Depending on the estimated demand and anticipated demand growth, it may be necessary to estimate the number of veterinarians that will ultimately occupy a given facility. Under present market conditions, many practices never have the opportunity to expand beyond a single veterinarian before a new competitor satisfies the demand resulting from the larger client pool.

Occupancy Costs

- Rent
- Business Taxes
- Property Taxes
- Gas/Water
- Hydro
- Property Insurance
- Repairs
- Janitorial Services



Facility capacity is lumpy and cannot be added in small amounts. A practice that is reaching capacity will often need to add more capacity than required at that moment in time. There is significant risk of adding a lump of physical capacity that may never be used. Practices that are nearing capacity are often advised to resist the temptation to add the expensive additional capacity. Alternatively, they may wish to control demand. Raising prices has the effect of lowering the value offering of the practice. Since value offering is the driver of demand for services, this lower value offering will reduce demand to a point suitable to the capacity of the practice.

Staff Capacity

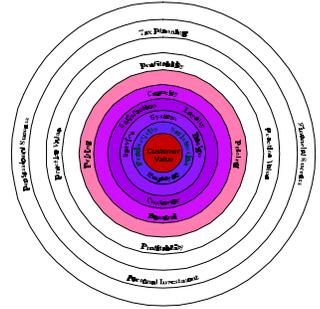
Unlike facility capacity, staff capacity can be added in small increments by using part-time employees. Increasing staff capacity also does not represent the long-term financial commitment associated with added physical capacity and long-term lease obligations.

Nonetheless, excess staff capacity often curtails the profitability of many small animal practices. The cause of excess staff capacity is either staff inefficiency or uneven demand.

Staff Efficiency

It is very easy for veterinary staff to become inefficient, especially as a practice grows. Leveraging previous information on employee satisfaction and productivity should eliminate much of this inefficiency. Staff training, staff motivation, and developing service systems relative to the nature of the complexity and divergence of the service should minimize and/or eliminate staff inefficiency.

The efficiency of veterinary staff can be measured by expressing the cost of the associated wages and benefits as a ratio of staff revenue production or overall hospital revenue production. The cost of staff-to-revenues ratio should be minimized while still attaining high client satisfaction ratings. Minimizing staff at the expense of client satisfaction will lower the value offering and the demand for services.



Uneven Demand

Uneven demand is the result of variations in seasons and variations over the course of a given day.

Although parasite control has been an excellent source of revenue for small animal practices in recent years, the demand for these services is seasonal. Unfortunately, this seasonal demand creates the need to carry excess staff capacity through the slower months in order to have experienced and able staff for the busy period. Alternative methods of meeting this high seasonal demand can be very helpful. Shipping medications rather than having each client visit the hospital will be helpful in reducing the work load and the number of staff needed.

Traditionally, heart worm testing has been done in the spring. Antigen tests available now, in combination with medications that will not cause adverse reactions if inadvertently administered to a heart worm positive individual, make possible the concept of year-round heart worm testing, greatly reducing the demand on staff in the busy spring season. This concept is expanded upon in an article “What is the Real Cost of Heartworm Testing?” found in the publication section of the Vet Help web site (www.vethelpconsulting.com).

There is typically a pattern as to the times of the day when there is more client demand. It is often possible to schedule work, such as surgery, when there is less demand. Doing so ensures the maximum number of staff are available to serve clients at times of peak demand.