

**VESPA Member Chat  
Transcript  
July 1, 2009**

**Economic Update and Trends  
By Tom McFerson of Gatto McFerson CPAs**

**KristenHoffman** (Jul 1, 2009 7:04:08 PM)

Tonight, VESPA is proud to present Tom McFerson, CPA, ABV of Gatto McFerson, CPAs. Gatto McFerson offers accounting and financial consulting services to the veterinary industry, including tax reporting, appraisals, and assistance with buying and selling.

**KristenHoffman** (Jul 1, 2009 7:04:16 PM)

For more information, visit [www.gattomcferson.com](http://www.gattomcferson.com) or contact Mr. McFerson directly via email at [tom@gattomcferson.com](mailto:tom@gattomcferson.com) or phone #310-393-2434.

**KristenHoffman** (Jul 1, 2009 7:04:25 PM)

Mr. McFerson will be presenting a lecture entitled Economic Update & Trends. This course has been submitted (but not yet approved) for 1 hour of continuing education credit in jurisdictions which recognize AAVSB RACE approval; however participants should be aware that some boards have limitations on the number of hours accepted in certain categories and/or restrictions on certain methods of delivery of continuing education. Please email Kristen Hoffman at [KHoffmanVESPA@comcast.net](mailto:KHoffmanVESPA@comcast.net) for further information.

**KristenHoffman** (Jul 1, 2009 7:04:35 PM)

The following points will be covered during tonight's lecture: > General National Economic Environment > Veterinary Economic Environment – How bad is it? > Why are specialty practices getting hit so hard? > Which specialties seem to be more vulnerable than others? > Is the damage being done permanent? Is this the end of a golden age? > How can owners weather the storm?

**KristenHoffman** (Jul 1, 2009 7:04:45 PM)

Tom, when you're ready, we are eager to absorb some of your expertise!

**Tom McFerson** (Jul 1, 2009 7:04:51 PM)

ok, thanks

**Tom McFerson** (Jul 1, 2009 7:05:07 PM)

What is happening out there in the economy? • Unemployment is rising – approaching 10% nationwide, higher in some areas • Housing is mixed • Stock market is improving • Getting loans, either for homes or business, is more difficult. • Investment in new businesses is way down...but is showing signs of life. • Less fear in the air...maybe for good reason, or maybe because we've gotten used to it?

**Tom McFerson** (Jul 1, 2009 7:05:25 PM)

Second wave? Many are concerned about the rising unemployment numbers more than anything else right now.. Some economists believe that this number could trigger a second wave of foreclosures, thus setting off another scary slide for the country's economy.

**Tom McFerson** (Jul 1, 2009 7:05:45 PM)

The first slide, many believe, was caused by risky loans and ill-advised borrowers who over-leveraged to get into their houses. No matter who was to blame (shady lenders or clueless borrowers), when these loans changed and when home values decreased, these people were the first to lose their homes. This caused the massive amount of foreclosures we saw and set off a lot of the bank and brokerage firm collapses.

**Tom McFerson** (Jul 1, 2009 7:06:07 PM)

The second wave that people fear will be caused by the rising unemployment. Hard-working, non-risk-taking families, with normal loans trying to do the right thing, begin to lose their jobs and no longer can pay their mortgages. This will have nothing to do with falling home prices or risky loans. It will have everything to do with people simply not having enough cash to make their loan payments.

**Tom McFerson** (Jul 1, 2009 7:06:28 PM)

On that cheery note...questions?

**KristenHoffman** (Jul 1, 2009 7:06:45 PM)

Are there any unemployment stats specific to our industry yet?

**Tom McFerson** (Jul 1, 2009 7:06:53 PM)

Not that I have seen

**Tom McFerson** (Jul 1, 2009 7:07:08 PM)

Has anyone read about...

**Tom McFerson** (Jul 1, 2009 7:07:14 PM)

this second wave?

**KristenHoffman** (Jul 1, 2009 7:07:50 PM)

Has anyone here observed layoffs in their practices or practices for which they consult during this first wave? If so, in larger amounts than in the past?

**KristenHoffman** (Jul 1, 2009 7:08:00 PM)

(I have not yet).

**CLacroix** (Jul 1, 2009 7:08:52 PM)

I've had a couple of multi-spec practices that had to layoff; reduce pay of employees. Marty has been doing consulting on how to minimize risk and layoff.

**Tom McFerson** (Jul 1, 2009 7:09:09 PM)

I've seen doctor layoffs also

**Tom McFerson** (Jul 1, 2009 7:09:15 PM)

first time in memory

**Marty** (Jul 1, 2009 7:09:44 PM)

As Charlotte said, we have seen some para prof's laid off due to declining revenues

**RoyBrock** (Jul 1, 2009 7:10:29 PM)

We have had reduction in hours for a short time period and have more chosen not to replace positions until a pickup...but at the same time, now we are spending more on marketing.

**Marty** (Jul 1, 2009 7:10:59 PM)

I also participated in a LinkedIn discussion where someone reported UCal Davis has a hiring freeze

**Tom McFerson** (Jul 1, 2009 7:11:15 PM)

Veterinary Economic Environment The legend has always been that veterinary medicine is recession proof. I would say the last year has proved that wrong. But, while we may not be recession proof, the industry is pretty recession resilient. While many industries are down 20, 30, even 50%, ours is down much less than that.

**Tom McFerson** (Jul 1, 2009 7:11:37 PM)

Generally speaking, it appears that small animal general is down 3-10%, and that specialty/emergency is down 8-15%. But this can vary widely depending on geography.

**Tom McFerson** (Jul 1, 2009 7:11:51 PM)

Thoughts? How bad are you seeing it out there?

**Brie - Secretary** (Jul 1, 2009 7:12:24 PM)

we are up 4% but about 6% off where we wanted to be

**Tom McFerson** (Jul 1, 2009 7:12:35 PM)

That's good

**KristenHoffman** (Jul 1, 2009 7:13:10 PM)

June was our lowest month in over a year, so I'm wondering if it is vacation- as June is usually slower for us- or if it is the recession finally reaching our specialty.

**CLacroix** (Jul 1, 2009 7:13:37 PM)

I think the practices that have never been well financially managed are suffering more and may be skewing the numbers somewhat. These practices are not all the same in terms of sophistication of mgt.

**Tom McFerson** (Jul 1, 2009 7:14:03 PM)

In some cases yes...

**RoyBrock** (Jul 1, 2009 7:14:06 PM)

We have shown that we will possibly be about 5% down this year. We are seeing if it is new competition over the last year or just the market. Our June was also down Kristen.

**Tom McFerson** (Jul 1, 2009 7:14:15 PM)

but I also think well managed practices are getting hit also

**Tom McFerson** (Jul 1, 2009 7:14:32 PM)

could depend on the area...

**Tom McFerson** (Jul 1, 2009 7:14:37 PM)

or the specialty...

**Tom McFerson** (Jul 1, 2009 7:14:57 PM)

So, even though we might not be getting hit as hard as other industries, that doesn't make it any less painful.

**Tom McFerson** (Jul 1, 2009 7:15:16 PM)

Through this experience, we have found that there is a financial tipping point where:

**Tom McFerson** (Jul 1, 2009 7:15:29 PM)

1. Pet owners simply cannot or will not pay for certain types of veterinary services. Practice owners would see that on occasion, but it was usually just a specific client. Now they are seeing this in waves.

**Tom McFerson** (Jul 1, 2009 7:15:44 PM)

2. Non-life threatening services – check ups, dentals, pet maintenance, certain surgeries – will be put off indefinitely until the owner is financially ready

**Tom McFerson** (Jul 1, 2009 7:15:55 PM)

3. Loyalty to one's veterinarian goes out the window. More and more price shopping and second opinions occur. If a pet owner can save \$100 by going to another vet, they are more likely to do it.

**Tom McFerson** (Jul 1, 2009 7:16:08 PM)

4. Competition amongst veterinarians becomes more intense. Discounting, price cutting, specials, longer hours – all these tactics come into play

**Tom McFerson** (Jul 1, 2009 7:16:21 PM)

5. An owner will throw in the towel on an animal earlier than in the past. Before, when a pet's health was at a critical stage, owners were more likely to pay for expensive procedures, even if the odds of success were one in three. Now, that is no longer a given.

**Marty** (Jul 1, 2009 7:16:35 PM)

Have you noticed any correlation between the impact of the economy and the age of practice? Are newer practices getting hit harder?

**Tom McFerson** (Jul 1, 2009 7:16:48 PM)

yes, for several reasons

**Tom McFerson** (Jul 1, 2009 7:16:59 PM)

one, they are often in newer areas...

**Tom McFerson** (Jul 1, 2009 7:17:09 PM)

with newer residents and developments...

**Tom McFerson** (Jul 1, 2009 7:17:15 PM)

and as we've seen...

**Tom McFerson** (Jul 1, 2009 7:17:32 PM)

these areas...like the outskirts of las vegas...have been decimated.

**Tom McFerson** (Jul 1, 2009 7:17:40 PM)

clientele literally evaporates

**Tom McFerson** (Jul 1, 2009 7:17:46 PM)

also the new practices...

**Tom McFerson** (Jul 1, 2009 7:17:54 PM)

are loaded down with debt...

**Tom McFerson** (Jul 1, 2009 7:18:05 PM)

which makes it harder for them to weather the storm

**Brie - Secretary** (Jul 1, 2009 7:18:41 PM)

What I've actually experienced a bit more is a tightening of the cash flow which is where the pain comes from.

**Tom McFerson** (Jul 1, 2009 7:18:58 PM)

cash flow of the clients?

**KristenHoffman** (Jul 1, 2009 7:19:20 PM)

What do you recommend during this crisis in regard to the discounting, price cutting, specials, longer hours for payroll, etc you mentioned?

**Brie - Secretary** (Jul 1, 2009 7:19:20 PM)

no, actual cash flow from your statement of cash flows. We've had to dip into reserves more

**Tom McFerson** (Jul 1, 2009 7:19:38 PM)

we'll be getting to that

**Tom McFerson** (Jul 1, 2009 7:19:54 PM)

brie - because revenue is down?

**Tom McFerson** (Jul 1, 2009 7:20:39 PM)

Specialty and emergency practices are getting hit on two flanks:

**Brie - Secretary** (Jul 1, 2009 7:20:42 PM)

revenue is down from our projections but up compared to last year. Because we typically carry a lot of cash reserves, seeing that dwindle a bit is hard. In our case, more of it seems to be from our new construction

**Tom McFerson** (Jul 1, 2009 7:21:02 PM)

1. The pet owner is much more unwilling, or unable, to pay for big ticket items. There are simply less people out there that can afford to pay 3k for a surgery then there were a year ago. That is a fact. The pool of potential clients out there for specialists has shrunk because of this recession.

**Tom McFerson** (Jul 1, 2009 7:21:23 PM)

2. The landscape has changed with referring vets:

**Tom McFerson** (Jul 1, 2009 7:21:33 PM)

a. Many have extended their evening hours, peeling away emergency cases

**Tom McFerson** (Jul 1, 2009 7:21:42 PM)

b. Many are now getting paged late at night when a client calls. They can then decide whether to take an emergency or refer it on. This also impacts the emergency practices.

**Tom McFerson** (Jul 1, 2009 7:21:56 PM)

c. Many are more willing to provide staff to keep a case overnight. This impacts the critical care facilities.

**Tom McFerson** (Jul 1, 2009 7:22:08 PM)

d. Many are now performing certain surgeries that in the past they may have referred on. This obviously impacts the surgeons.

**Tom McFerson** (Jul 1, 2009 7:22:25 PM)

e. Many are offering cheaper alternatives before referring out cases to internists. Pet owners are jumping at these.

**Tom McFerson** (Jul 1, 2009 7:22:41 PM)

Questions? Anyone else have any examples? Anyone else seeing this?

**KristenHoffman** (Jul 1, 2009 7:23:00 PM)

My practice is exclusively MRI....

**KristenHoffman** (Jul 1, 2009 7:23:11 PM)

We are seeing many clients going for consults to the surgeon or neuro

**KristenHoffman** (Jul 1, 2009 7:23:20 PM)

but declining diagnostics such as MRI.

**KristenHoffman** (Jul 1, 2009 7:23:38 PM)

Surgeons are also reporting consults with no follow-up surgery.

**Tom McFerson** (Jul 1, 2009 7:23:42 PM)

interesting

**Tom McFerson** (Jul 1, 2009 7:24:02 PM)

anyone else?

**Brie - Secretary** (Jul 1, 2009 7:24:25 PM)

no

**Tom McFerson** (Jul 1, 2009 7:24:29 PM)

Here are a couple of real life examples:

**Tom McFerson** (Jul 1, 2009 7:24:40 PM)

Emergency clinic - Gross Revenue is down 18.00%

**Tom McFerson** (Jul 1, 2009 7:24:44 PM)

Why?

**Tom McFerson** (Jul 1, 2009 7:24:55 PM)

- Four of their top ten referring practices began offering extended hours during the week. This amounted to an extra fourteen hours that the practices were open. The emergency clinic owner feels like they're losing at least a couple of cases a week from each practice because of this change.

**Tom McFerson** (Jul 1, 2009 7:25:17 PM)

- Three other smaller referring practices (that the owner knows of) began taking certain emergencies during the evening. The doctors were now being contacted, and they decide whether they wanted the case or whether to refer it on.

**Tom McFerson** (Jul 1, 2009 7:25:34 PM)

- Pet owners have been opting to not go forward with high risk, low success procedures because of the costs involved. Even some of the ones that are willing are not able to secure credit to pay for the services.

**Brie - Secretary** (Jul 1, 2009 7:26:20 PM)

correction...?

**CLacroix** (Jul 1, 2009 7:27:01 PM)

Wonder if some of you have heard about these group of generalists offering high end medicine/sx (not as high end as what the specialists are qualified to do), but they seem to be taking a piece of the market share.

**KristenHoffman** (Jul 1, 2009 7:27:20 PM)

Yes

**Tom McFerson** (Jul 1, 2009 7:27:42 PM)

can you elaborate

**Brie - Secretary** (Jul 1, 2009 7:27:47 PM)

how did the specialty/ER facility find out about these reasons? Charlotte, we are battling this right now with a practice in North jersey. I'm going to fight about this one. I've already contacted ACVS, NJVMA and AVMA

**Tom McFerson** (Jul 1, 2009 7:28:10 PM)  
they began investigating

**Tom McFerson** (Jul 1, 2009 7:28:20 PM)  
wasn't hard

**Tom McFerson** (Jul 1, 2009 7:28:35 PM)  
they know who their referrers are and began calling and snooping

**CLacroix** (Jul 1, 2009 7:28:56 PM)  
The problem is that there are no procedures that are exclusive to specialists. Anyone can do anything as long as they feel competent. They offer services at a cheaper rate..do orthopedic procedures most generalist don't have much experience in doing but can be done by generalists who do alot.

**CLacroix** (Jul 1, 2009 7:29:36 PM)  
Until one of them makes a mistake, gets sued and has their std of care judged equivalent to a specialist, these practices will grow.

**Brie - Secretary** (Jul 1, 2009 7:30:09 PM)  
Exclusive to specialists? I'm not sure I follow that line of thinking. The whole reason specialists get the additional training and so forth is to be able to do what others cannot, have the expertise, the knowledge, the experience.

**Tom McFerson** (Jul 1, 2009 7:30:28 PM)  
Charlotte - are they required to tell the client that there are boarded specialists out there that could perform the surgery?

**CLacroix** (Jul 1, 2009 7:30:57 PM)  
They should exercise full disclosure, but clients don't know what to ask and don't know what boarded means

**Brie - Secretary** (Jul 1, 2009 7:31:09 PM)  
GP's who are treading this extremely thin line which really boils down to unethical behavior are going to feel the heat shortly in my view. GPs don't want specialists doing their work and likewise specialists do not want GPs to do theirs which in many many ways they are not qualified to do

**KristenHoffman** (Jul 1, 2009 7:31:09 PM)  
Doesn't the AVMA have any kind of std of care for specialty procedures, or through the specialty colleges that gives them some type of excusivity/protection? Seems crazy.

**KristenHoffman** (Jul 1, 2009 7:31:34 PM)  
True, CL.

**Marty** (Jul 1, 2009 7:31:39 PM)  
Do you all see this as a temporary reaction to the economy or a permanent change in operating philosophy? In other words, will things revert back once the economy picks up and unemploymnet declines?

**Tom McFerson** (Jul 1, 2009 7:31:53 PM)  
good question

**Tom McFerson** (Jul 1, 2009 7:32:10 PM)  
some would argue that our spending habits in this country ...

**Tom McFerson** (Jul 1, 2009 7:32:21 PM)  
may have been permanetly altered

**Tom McFerson** (Jul 1, 2009 7:32:25 PM)  
by thris crisis

**Brie - Secretary** (Jul 1, 2009 7:32:30 PM)  
it is ultimately the patient who suffers with this shoddy type of medical approach and I believe they should be held responsible and to stricter guidelines to not perform the procedures.

**Tom McFerson** (Jul 1, 2009 7:33:12 PM)  
Way to fire it up Brie!

**KristenHoffman** (Jul 1, 2009 7:33:13 PM)  
Very good ?, Marty. My opinion (and hope) would be that with the "newer" education of specialty care and bond of pet owners to their pets would reverse these trends once the economy turns around.

**Tom McFerson** (Jul 1, 2009 7:34:00 PM)  
Here is another example:

**Brie - Secretary** (Jul 1, 2009 7:34:03 PM)  
In some instances, like the one here in NJ, it is false advertising and claiming to be a referral facility.

**CLacroix** (Jul 1, 2009 7:34:03 PM)  
There is not set std of care...anyone can do anything....it will be a function of the procedure....see [www.advancedveterinarycare.net](http://www.advancedveterinarycare.net) to see the type of procedures.

**KristenHoffman** (Jul 1, 2009 7:34:07 PM)  
I think CL hit the nail on the head when she said it will take a negligence suit to turn around the GPs

**Tom McFerson** (Jul 1, 2009 7:34:23 PM)  
Surgery Center - Gross Revenue down 19.00%

**Tom McFerson** (Jul 1, 2009 7:34:34 PM)  
• Referrals from a handful of practices have dried up. Further investigation has shown that the practices are now performing certain surgeries that they used to refer out.

**Tom McFerson** (Jul 1, 2009 7:34:46 PM)  
• Two mobile surgeons have popped up in the area. Some practitioners prefer bringing a mobile surgeon for certain cases because they can then keep all the ancillary.

**Tom McFerson** (Jul 1, 2009 7:35:03 PM)  
• Pet owners have been opting to not go forward with high ticket surgeries when it is not life threatening.

**Tom McFerson** (Jul 1, 2009 7:35:16 PM)  
the mobile thing has been an interesting development. We've noticed a lot more popping up. not all boarded either

**Tom McFerson** (Jul 1, 2009 7:36:16 PM)  
Here is a question for discussion: do you think certain specialties are being hit harder than others?

**KristenHoffman** (Jul 1, 2009 7:36:54 PM)  
Again, being MRI only, we are an extension.... a specialty of a specialty.... tiny niche.

**KristenHoffman** (Jul 1, 2009 7:37:08 PM)  
I think we are being hit harder for that reason... plus a very big ticket item.

**Tom McFerson** (Jul 1, 2009 7:37:16 PM)  
what about you Roy?

**Tom McFerson** (Jul 1, 2009 7:37:46 PM)  
We haven't found any conclusive data that answers this question. On the one hand, the high-ticket items, like certain surgeries, are naturally going to be feeling the pinch. But so too are the lower priced, but non-life threatening specialties, like dermatology.

**RoyBrock** (Jul 1, 2009 7:38:25 PM)  
We have seen our IM show some down months and we have been able to use our double boarded specialist in CC/IM to take some of the ER income...our surgery department we have been down, but we have added a mobile surgeon in our hospital with our surgeon and that has helped..

**KristenHoffman** (Jul 1, 2009 7:38:34 PM)  
I can volunteer that I have cut one of my dog's internal medicine appts back from every 3 months to every 4-5. And I'm in the industry!

**RoyBrock** (Jul 1, 2009 7:38:52 PM)  
Our ER is taking quite a hit this year also...not the usual...it usually makes the money for us over our specialties, but not right now.

**Tom McFerson** (Jul 1, 2009 7:39:10 PM)  
so it is an equal opportunity recession...

**RoyBrock** (Jul 1, 2009 7:39:35 PM)  
Yes, we have been trying to increase marketing in all departments as they all seem to need it right now..

**Brie - Secretary** (Jul 1, 2009 7:40:16 PM)  
We've made similar changes...Criticalist now working more ER so we could avoid hiring another one.

**Brie - Secretary** (Jul 1, 2009 7:40:27 PM)  
another ER doctor that is

**Tom McFerson** (Jul 1, 2009 7:40:30 PM)  
smart

**Marty** (Jul 1, 2009 7:40:43 PM)  
As a newcomer to the industry, I don't have history. Have practices historically reduced prices to compensate?

**Brie - Secretary** (Jul 1, 2009 7:41:23 PM)  
I've never experienced a recession in this industry either Marty however, reducing prices would not be my first approach but rather holding steady on them

**Tom McFerson** (Jul 1, 2009 7:41:32 PM)  
agreed

**Brie - Secretary** (Jul 1, 2009 7:41:38 PM)  
GP's may cut a lot quicker than specialty/ER

**KristenHoffman** (Jul 1, 2009 7:42:27 PM)  
What is your opinion on using more of your budget toward marketing, as Roy mentioned, during this time? I just had this conversation today... use more of the budget toward marketing, or cut all spending until we establish better trends in this recession?

**Tom McFerson** (Jul 1, 2009 7:42:48 PM)  
depends on what kind of marketing

**Tom McFerson** (Jul 1, 2009 7:42:59 PM)  
face time with referring vets - absolutely

**Tom McFerson** (Jul 1, 2009 7:43:07 PM)  
ce lunches absolutely

**Tom McFerson** (Jul 1, 2009 7:43:19 PM)  
phone book ads...don't think so

**Brie - Secretary** (Jul 1, 2009 7:43:23 PM)  
market, market, market....keep your name in front of the rDVM. Face time is a great way plus so much more

**KristenHoffman** (Jul 1, 2009 7:43:47 PM)  
That was pretty much our conclusion today, as well.

**RoyBrock** (Jul 1, 2009 7:44:09 PM)  
We are doing lunches, brunches, CE's, private lunches with owners that have fallen off on referring to us, and we are doing some things that keep us in their hospitals like a referral book for the reception and Dr. stations.

**Tom McFerson** (Jul 1, 2009 7:44:22 PM)  
Getting back to a previous question...

**Tom McFerson** (Jul 1, 2009 7:44:38 PM)  
One of the things that has come out of this crisis is that it has forced many Americans to change their spending habits. People that used to shop at Gelsons now go to Costco. People that used to buy new SUVs now buy used Honda's.

**RoyBrock** (Jul 1, 2009 7:44:45 PM)  
The books have our referral forms, bios on doctors, FAQ's and magnets/brochures section for refilling and we call them monthly from a list to make sure they need more.

**Tom McFerson** (Jul 1, 2009 7:44:59 PM)  
So, here is another question for discussion: do you think the recent developments in specialty and emergency practices is permanent? Is the golden age over?

**Tom McFerson** (Jul 1, 2009 7:45:09 PM)  
Roy - that is marketing money well spent

**Brie - Secretary** (Jul 1, 2009 7:45:59 PM)  
I feel it is too early to tell

**Tom McFerson** (Jul 1, 2009 7:46:15 PM)  
I think you're right

**Brie - Secretary** (Jul 1, 2009 7:46:17 PM)  
I provides lots of opportunities and perhaps only the best will survive.

**Marty** (Jul 1, 2009 7:46:45 PM)  
In other industries, things go back to the way they were when \$\$\$ loosens up. You're indicating that may not be the case here?

**Tom McFerson** (Jul 1, 2009 7:47:06 PM)  
No, just wondering

**Tom McFerson** (Jul 1, 2009 7:47:14 PM)  
I think things will recover...

**Tom McFerson** (Jul 1, 2009 7:47:26 PM)  
But will they recover all the way

**Tom McFerson** (Jul 1, 2009 7:47:32 PM)  
to where they once were?

**KristenHoffman** (Jul 1, 2009 7:48:07 PM)  
I also think they will recover... I don't think people will go back to the mentality of the dog living in the garage and seeing the vet every 5 years. They want the best care, and lots of clients have guilt over not having the funds to provide it.

**Tom McFerson** (Jul 1, 2009 7:48:25 PM)  
Any good business owner/manager needs to prepare for all possibilities

**RoyBrock** (Jul 1, 2009 7:49:20 PM)  
I think that the market will rebound in a much slower fashion that anyone under 50 today has ever seen and I do feel that it will make specialists and others salaries come under scrutiny by some and will force us all not to rely on credit as much for personal spending which will lower all of our companies cash flows/revenue over time...it will not be quite the same....and the veterinary field is putting more and more doctors/competition out there each year.

**Tom McFerson** (Jul 1, 2009 7:49:48 PM)  
well said

**Tom McFerson** (Jul 1, 2009 7:50:02 PM)  
Value/Transition Planning Another area that hasn't been discussed much is how this recent turmoil is impacting practice value and transactions. Clearly, lower profit means lower practice value. But how is this lower value impacting practice sales and buy-ins?

**Tom McFerson** (Jul 1, 2009 7:50:21 PM)  
We have founds that: • Owners who aren't compelled to sell right now (either for health, financial or other lifestyle reasons) are waiting until income and values recover.

**Tom McFerson** (Jul 1, 2009 7:50:39 PM)  
• The offering of associate buy-ins has also slowed, for the same reasons. This seems shortsighted, but nevertheless...

**Tom McFerson** (Jul 1, 2009 7:50:52 PM)  
• Associates are also hesitant to buy in, with the future uncertain.

**Tom McFerson** (Jul 1, 2009 7:51:00 PM)  
• It is also more difficult to get outside financing for these buy-ins, which is complicating the transactions

**Tom McFerson** (Jul 1, 2009 7:51:11 PM)  
• Associates that bought in 2 or 3 years ago, assuming certain income levels, are now faced with loan payments but no income distributions to help cover the loan payments. As an example, a doctor buys-in in 2007 assuming her share of net profits will be \$100,000 a year. These net profits will help her pay the annual loan payments of \$80,000. Now, in 2009, the net profits are only \$50,000, but the loan payments remain the same.

**Tom McFerson** (Jul 1, 2009 7:51:24 PM)

• Exit strategies are being adjusted as net income levels and retirement plans take a substantial hit. For example, a shareholder in a large specialty practice who had made plans to transition out in five years, now realizes he needs ten years to get his personal retirement plans in order. This has a ripple effect throughout the practice.

**Tom McFerson** (Jul 1, 2009 7:51:42 PM)

Is anyone noticing similar things? Comments? Questions?

**KristenHoffman** (Jul 1, 2009 7:52:18 PM)

I have witnessed several doctors revisiting their exit strategies.

**KristenHoffman** (Jul 1, 2009 7:52:23 PM)

Stressful.

**Tom McFerson** (Jul 1, 2009 7:52:36 PM)

yes

**CLacroix** (Jul 1, 2009 7:53:52 PM)

I was just wondering about your statement and I seem to be doing as many empty agreements, leases, buy-sells and partnerships as last yr...it is so difficult to measure this stuff

**RoyBrock** (Jul 1, 2009 7:54:01 PM)

Yes, we are seeing it at our practice and we are close to paying off our initial loans from when we opened, but we are having to spend more of our reserve cash, we are having to think about even hiring new specialists and weighing the considerations of whether or not they can make it now...something you never had to worry about before.....I am not sure of our owners exit strategies as that just happened two days ago...with Tom there...I should find out soon enough..

**CLacroix** (Jul 1, 2009 7:54:27 PM)

People are more cautious, but many were careless before.

**Tom McFerson** (Jul 1, 2009 7:54:50 PM)

are your clients finding that it is harder to get financing?

**Marty** (Jul 1, 2009 7:55:09 PM)

Has this affected the comp mix---more incentive driven?

**CLacroix** (Jul 1, 2009 7:55:25 PM)

Yes, financing requires more searching and often greater downpayment and seller financing

**Tom McFerson** (Jul 1, 2009 7:55:40 PM)

marty - say again?

**RoyBrock** (Jul 1, 2009 7:55:54 PM)

We have added two extra financing sources for them to choose from and it has helped...but we are sending in more and more of the 300-500 clients to collections for no payment or leaving open balances when they leave as all of the sudden, on checkout they don't have the funds...

**Brie - Secretary** (Jul 1, 2009 7:56:09 PM)

I have to say that the downturn in the economy has worked in our favor coupled with our momentum on brand recognition so we are hiring more now. We are working hard to make the tough decisions, the smart business decisions to make us more efficient...such as cutting several low performers not because we had too but because it

made sense. The economy just helped us do that a little quicker. It freed us up to hire those who were really going to be top performers.

**Tom McFerson** (Jul 1, 2009 7:56:52 PM)  
Kristen - how much time?

**KristenHoffman** (Jul 1, 2009 7:57:00 PM)  
We will wrap up momentarily....

**KristenHoffman** (Jul 1, 2009 7:57:06 PM)  
I just wanted to clarify for Marty...

**Tom McFerson** (Jul 1, 2009 7:57:14 PM)  
I have one more piece

**KristenHoffman** (Jul 1, 2009 7:57:25 PM)  
I think he meant are we seeing more incentive-based compensation for DVMs and less salary-based

**Tom McFerson** (Jul 1, 2009 7:57:33 PM)  
How to weather the storm? Given all of this, how does a practice weather this kind of financial storm?

**Tom McFerson** (Jul 1, 2009 7:57:46 PM)  
None of this you probably haven't heard before, but regardless: • Keep things lean and mean. Especially payroll. Watch the overtime, CE, travel, and other benefits that can balloon out of control • Keep beating the bushes for business. More face time with the referring vets, whether that means personal visits, CE lunches, open houses, etc.

**Tom McFerson** (Jul 1, 2009 7:57:58 PM)  
• No big ticket purchases (like equipment) unless you absolutely need it or you are sure it will make you money • Try to keep two payrolls in the checking account at all times

**Tom McFerson** (Jul 1, 2009 7:58:11 PM)  
• Have a credit line available in case you need it • Watch your internal controls. The likelihood of theft grows in this kind of environment.

**Tom McFerson** (Jul 1, 2009 7:58:24 PM)  
• Be selective with the vendor specials. Cash is king. Avoid buying a six month supply of something to save 5%. • Don't be afraid to raise certain prices

**Tom McFerson** (Jul 1, 2009 7:58:37 PM)  
Any other suggestions?

**Tom McFerson** (Jul 1, 2009 7:59:03 PM)  
or anything you...

**Tom McFerson** (Jul 1, 2009 7:59:07 PM)  
disagree with?

**Brie - Secretary** (Jul 1, 2009 7:59:23 PM)  
you hit it accurately.

**KristenHoffman** (Jul 1, 2009 7:59:32 PM)  
Discounting? If it's the difference between getting the case, or conservative treatment, we've been giving a discount.

**KristenHoffman** (Jul 1, 2009 7:59:36 PM)  
but it hurts...

**Tom McFerson** (Jul 1, 2009 7:59:50 PM)  
how much do you discount?

**CLacroix** (Jul 1, 2009 8:00:00 PM)  
This was great and helped confirm "gut feelings" about what is going on out there..thanks Tom

**KristenHoffman** (Jul 1, 2009 8:00:03 PM)  
depends on the situation

**Tom McFerson** (Jul 1, 2009 8:00:13 PM)  
thanks charlotte

**KristenHoffman** (Jul 1, 2009 8:00:28 PM)  
i have a threshold that i won't drop below.

**KristenHoffman** (Jul 1, 2009 8:00:35 PM)  
Does anyone else have any ! or ?

**Brie - Secretary** (Jul 1, 2009 8:00:40 PM)  
I appreciated the outside view; Thank you Tom :)

**RoyBrock** (Jul 1, 2009 8:00:49 PM)  
None from me...but a great discussion..Thanks Tom

**KristenHoffman** (Jul 1, 2009 8:00:54 PM)  
Tom, this was a thorough and informative lecture and really got us all talking!

**Marty** (Jul 1, 2009 8:01:02 PM)  
Tom, great chat. Thank you

**KristenHoffman** (Jul 1, 2009 8:01:03 PM)  
Thanks so much for your time and expertise!

**Tom McFerson** (Jul 1, 2009 8:01:08 PM)  
It's been fun!

**KristenHoffman** (Jul 1, 2009 8:01:20 PM)  
Thanks everyone for your participation... they transcript will be out in a few days.