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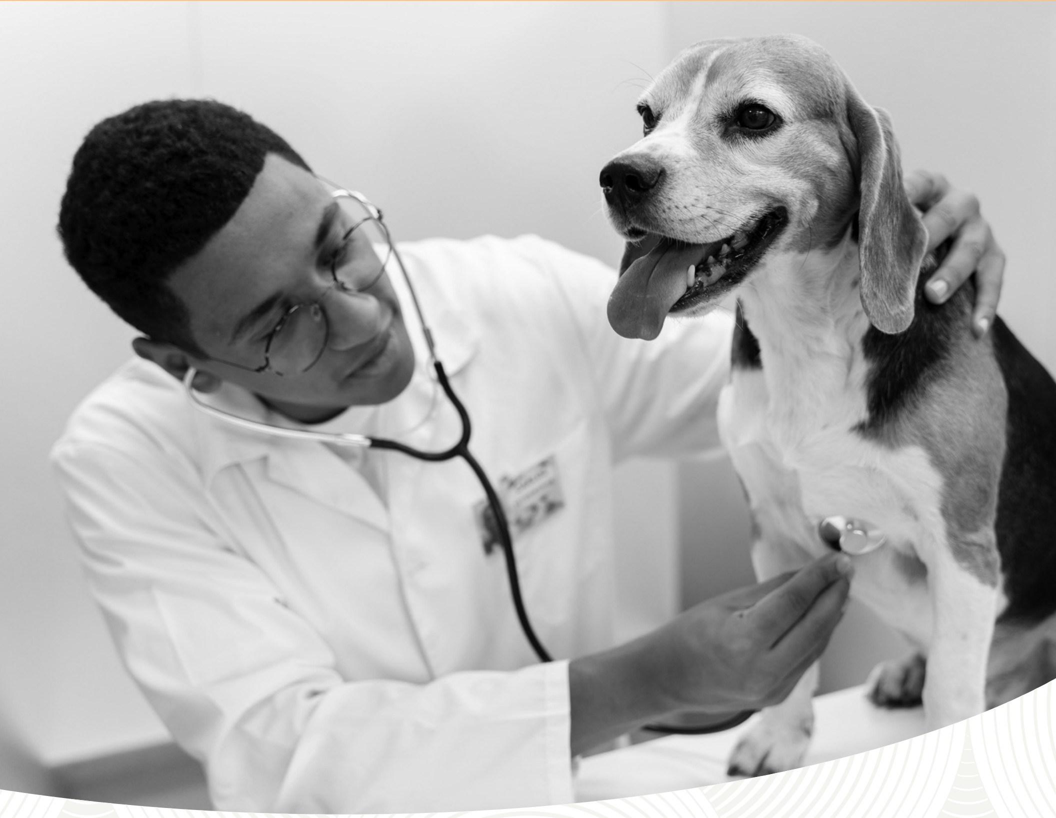

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8 Essential Steps to Starting Up Your Veterinary Practice

Starting up a veterinary practice is an exciting endeavor for any veterinarian, but trials and tribulations are a normal part of the process and should be expected along the journey. Opening the doors of your own veterinary hospital can be quite a challenge; therefore, it is important to have the right experts on your side to ensure the process moves as smoothly as possible. In our experience, we have found that following these eight best practices will set the foundation for a successful start-up.

1. Thorough Market Research

Before diving into the venture, conduct thorough market research to understand the demand for veterinary services in your area. Identify the demographics of your potential clients, the existing competition, and any gaps in service that your hospital could fill. This step is crucial for tailoring your services to meet the specific needs of your community.

2. Development of an Airtight Business Plan

Creating a business plan is a crucial first step in establishing your veterinary hospital. A business plan should be thought of as your road map to success, and the framework for opening your practice. The more meticulously you plan your business, the easier it will be to create a practice that can realistically operate and meet your intended goals. A good business plan will contain the following:

- A timeline that includes important milestones and a proposed deadline for each. For example, on what date would you like to open your practice to the public? By when will you need to obtain necessary insurance coverage?

- Key steps broken up into tasks. For example, what actions must be taken to determine if a location is suitable for your practice? What needs to be accomplished before you can sign off on a lease agreement, including drafting the letter of intent, reviewing the proposed lease, and negotiating favorable terms?

- Detailed information concerning the type of practice you seek to run and the range of services you want to offer. Your business plan should ideally include information regarding the practice's structure, staffing requirements, and funding needs and sources.

- Financial forecasts and business projections based on market research. Forecasting will help you judge your practice's potential, and the range of revenue you should expect to earn as the practice launches.

3. Obtaining Financing

- The overall debt that a veterinarian will incur when starting a practice is significant. That said, you should ensure that your personal credit is in good standing before applying for a loan. A lender is more likely to approve a loan if you can demonstrate good credit, and a strong business plan and growth strategy. If you have good credit and a solid team of advisors, a veterinary lending specialist (as opposed to a regular commercial bank) may finance the entire start-up cost of your new practice. A veterinary specialty lender may even provide additional working capital.

- Most lenders will require a personal guarantee of the loan. This means that if your practice defaults on its obligations to the lender, you will be personally responsible for the unpaid balance of the loan. The lender may also offer favorable payment options. Interest rates for these types of loans may be higher than from a regular commercial bank; however, specialty lenders will lend money for a start-up when other banks will not. Ask your lender about graduated payments, where a smaller monthly payment is due in the early years of the loan, with small increases over time as you develop your practice.

4. Choosing a Business Entity and Registering for Taxes

- Before starting the practice, you must create a legal business entity, such as a sole proprietorship; a general partnership; a corporation; an S corporation; a professional service corporation, or a limited liability company. Choosing the right entity will help you avoid personal liability for business-related claims by vendors, creditors, employees and others, or even personal injury claims, such as a slip and fall accident. The formation of any business entity will present different legal and tax consequences, depending upon the type of entity selected. Each business entity has different advantages and disadvantages. Among the many factors that you should consider when selecting a business entity are your exposure to personal responsibility for the debts and liabilities of the business, and the tax implications that accompany each entity.

- Although veterinary practices today are generally organized as either a professional service corporation or a limited liability company, you should consult with an attorney and tax advisor to decide which election is best for you. Furthermore, you will also need to register the business for a variety of state and federal taxes and receive a tax ID called an Employer Identification Number ("EIN") before you can begin operations.

5. Find a Location

One good way to find a suitable location is by affiliating yourself with an experienced commercial real estate broker with expertise in veterinary practices. When searching for your broker, be sure to ask how much work they do in placing veterinary practices, how many potential veterinary locations they have as a listing agent, and their familiarity with local zoning requirements. This is important because one of the first legal issues you will confront is whether or not the local building and zoning ordinances permit the use that you are intending. Therefore, you will want to identify the particular "zone" where the site is located and review the zoning requirements and prohibitions that apply. Even if a particular use is permitted in the zone, there could be issues, such as parking requirements that are not permitted, or may require you to seek a variance from the municipality.

6. Begin Contractual Negotiations with a Letter of Intent

Whether you are buying or leasing real estate for your practice, business transactions can be complicated and time-consuming. Rather than incurring the expense of negotiating and drafting a contract for a proposed lease or purchase, consider starting by entering into a letter of intent ("LOI") with the other party. A LOI is a document (it can even be a letter from one party to the other, signed or initialed by the receiving party) outlining the preliminary agreements and understandings between the parties to a transaction. The LOI is not, nor should it be, a legally binding contract except for an exclusivity provision which restricts the owner/landlord from negotiating with any other party for a short period of time while a formal contract is being worked on with you. The LOI should simply describe the essential business terms of the deal, including timing, monetary terms, financing, deal contingencies, risk allocation, form of documentation, and which party will prepare the documentation. The LOI allows the parties involved to avoid investing greater time, energy, and money in negotiating a deal and preparing the final contracts if the parties cannot even agree on the most basic terms.

7. Negotiate and Enter into a Lease

With financing lined up, a location selected, and an LOI drafted which covers the salient terms to lease your space, you are ready to negotiate the lease agreement. The commercial lease for your practice may be the largest financial obligation you will undertake. Before determining the provisions that you need, you should work with an attorney to first understand the different types of lease agreements that are available, including a gross lease and a net lease.

- A Gross Lease is a lease with a set rental obligation each month. The landlord is responsible for paying all expenses for the operation of the building, including but not limited to, taxes, insurance, upkeep, repairs, replacements, cleaning, and landscaping.In exchange for the useful enjoyment of the premises, the tenant pays a set amount of rent each month.
- A Net Lease is a lease with a set base rent per month, plus an additional rent to cover specific costs for the operation of the premises. You may have heard the terms "single net," "double net," or "triple net" to describe types of leases. A single net lease is where the tenant pays a monthly base rent, as well as its share of the taxes for the premises. A double net lease is where the tenant pays a monthly base rent, as well as its share of the taxes on, and the insurance for, the premises. A triple net lease is a lease where the tenant pays a monthly base rent, as well as its share of the taxes on, and the insurance for, the premises, in addition to all of the operating and/or maintenance costs of the premises. In this type of lease, maintenance costs such as snow removal, cleaning and HVAC repairs etc. are paid by the tenant.

It is important to remember that as a commercial tenant, you do not have the same statutory rights as you might have in a residential setting. This means that the lease agreement only contains the rights that a tenant has contractually negotiated with the landlord. Thus, if the lease does not specifically contain a provision in writing, then it is not so under the lease.

8. Build Out of Your Hospital

With a favorable commercial lease in place your next step will be to retain an architect and/or designer and create your new hospital design. You will want to retain an architect experienced in designing and building out veterinary hospitals. Your architect should work closely with the equipment supplier in creating the design. Many suppliers will have professionals on staff that can create the layout and design of the facility. Once you have created your design and selected your equipment you will need to retain a contractor to complete the construction and build out the facility. It is critical that the contractor have experience in building out veterinary hospitals and you should seek multiple references. In many cases, the equipment supplier can also make recommendations. You should seek multiple bids to confirm the price and the timing of the construction schedule. Remember, stick to what you do best and don't try to be your own contractor. Instead, get a stipulated price agreement based on the architect's plans and specifications.

In addition, to getting references, you should visit practices previously built out by the contractor and also confirm they are fully insured for both liability and worker's compensation.

Once you select your contractor, your contract should be for a set price, include all necessary aspects of the project from receipt of permits through issuance of a certificate of occupancy and total completion. Payment under the contract should be linked to completion of various phases of the project and not based on time. Avoid a contract where the fees associated with milestones are too front loaded, there should always be a large enough amount of money held until completion to incentivize the contractor. You may want to consider penalties to the contractor or discounts if they run significantly behind their construction schedule.

Lastly, you should consult with an attorney before signing any contracts.

Conclusion

Starting a veterinary practice requires a combination of passion, business acumen, and dedication. By following these essential steps with the guidance of your experienced team of professionals, you can lay a solid foundation for a successful and sustainable veterinary practice.

Remember, the well-being of the animals entrusted to your care should always be at the forefront of your mission, and with the right approach, your veterinary practice can become a trusted pillar in your community's pet care ecosystem.

Notes

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