

## Establishing Values for Medical Records Sold Independently of the Practice©

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As small veterinary practices lose their ability to compete and, most often, their profitability, they often become unsalable. These large, equine and small animal practices usually have equipment, instruments, drugs and hospital supplies that are of minimal value. Many are in mediocre, dated physical plants in which their owners have failed to upgrade through reinvestments. Others are the victims of bankruptcy proceedings because their owners have invested too heavily in all of the above. Still others face rapid devaluation in everything because of the owner's death, disability or loss of license.

All of them have at least one valuable asset - their client and patient lists and contact information as well as the medical records that go with them. In the past, facilities and practices have often just been closed and shuttered. As the following information illustrates, in many states that is no longer legal.

With the major expansions of existing facilities or the construction of new ones, many veterinary facilities possess excess floor space and staffing capacity and need rapid growth to bridge the cash flow gap. The purchase of these records can be an amazingly valuable course of action with a speedy return on investment. Nonetheless, one of the most difficult obstacles to overcome is setting a realistic value for those records.

Although appraisers and practice owners always are looking for a simple formula by which to do this, the task is not that easy. Flat values that commonly are tossed around among consultants range from \$35-\$100 per client, some of whom may own five animals, others merely one. The goal of this short section is to present the criteria by which knowledgeable parties can arrive at a price for the seller's records that makes sense for the buyer while providing sellers with an asset the value of which they may have underestimated. With that background, the following factors must be considered.

1. **Purging.** The list starts with "How recently were the records purged?" Common time frames are 36, 24 and 18 months. The more recently they were purged, the more valuable they are because they reflect every more current activity.
2. **Accuracy.** The accuracy of the client addresses and phone information, with email addresses adding to the value. All purchasers will want to computerize the contact information so as to send reminders and there is nothing more frustrating than the old saying, "garbage in, garbage out."
3. **Distances.** The distance clients will need to travel from the seller's place of business to the buyer's. Common expectations for loss of business when existing practices **move** their businesses are i) 10% attrition for the first mile, ii) 20% to 25% for the next mile and iii) 20% to 30% for each subsequent mile, depending on the geography of the area, freeway access and traffic patterns. It is likely that the attrition associated with the purchase of a practice's records would be equal to or greater than these numbers.
4. **Time Is of the Essence.** How soon the records become available to the buyer after a veterinary practice is closed down. For each month the practice that is selling the records is

closed, there likely will be attrition similar but most likely slower than that for the mileage numbers above.

5. **Breadth of Material Available.** The availability of the addresses, phone numbers, images, laboratory reports and/or patient charts in electronic format vs. only hard copy files.
6. **Legibility.** If the records are maintained as hard copy records, the legibility of the entries.
7. **Record Keeping Style.** The style in which the records were maintained, i.e., SOAP, modified SOAP or with limited history, clinical signs and treatment notes.
8. **Accessibility of Laboratory Information.** Not all practices store their patients' laboratory entries in a readily accessible fashion. When charts mention lab findings but the lab reports cannot be readily located and linked to the patients, the value of the records is lowered because continuity of care in the real time needed to deliver it is compromised. Moreover, tracking this information down is distracting and labor intensive.
9. **Quality of Stored Information.** The quality of the records, e.g., do they contain i) master/minor problem lists, ii) dispensed drugs sheets, iii) anesthesia and surgical reports and iv) are there fecal, anesthesiology and/or any other log books?
10. **Reminder Systems.** The existence or nonexistence of a post card vs. an electronic future reminder system.
11. **Images.** The inclusion of radiographs and ease with which they are filed for easy access. Digital images that can be transferred electronically would make the records far more valuable than hard copy radiographs in storage packets.
12. **Ease with Which to Merge Computerized Records.** If the records are in a computerized format, the ease with which and costs incurred to merge the electronic files into the purchaser's practice management software.
13. **Seller's Reputation.** The reputation of the current owner's practice and likelihood for clients to respond to a letter explaining the closing of the practice and why the one that now owns the medical records comes highly recommended.
14. **Practice Act Requirements.** Whether or not there is a state law requiring that all veterinary practices that stop providing patient care must provide clients with access to the records for a specified period of time. This now is a practice act regulation in many states. When this regulation is present, it decreases the value of the records to the seller because if they were not sold, this becomes an ongoing expense of the practice after it has been closed.<sup>1</sup> It also increases the value to the purchaser because they look smart in the eyes of all clients who call for copies or information when they illustrate that they can access the records and instantly maintain the continuity of care.
15. **Sellers Work Options.** WHETHER OR NOT THE SELLER WORKS A MINIMUM OF 6 MONTHS AT THE PURCHASER'S PLACE OF BUSINESS, WELCOMING ALL CLIENTS WHO CHANGE LOCATIONS PERSONALLY AND PROVIDING THEM WITH AN INTRODUCTION AND TRANSITION TO A NEW DOCTOR AND VETERINARY PRACTICE. Motivational compensation ideas for this are provided elsewhere, in materials on valuing veterinary practices.

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1. **Pennsylvania Statute Section 31.22 Recordkeeping** (10) *Veterinary records of retiring veterinarian or a veterinary practice that is closing.* A veterinarian shall notify clients, in writing, at least 30 days prior to the date of a planned retirement or closing of a veterinary practice. The written notice must include instructions on how to obtain copies of veterinary medical records from the veterinarian or other custodian of the records and the name, address and telephone number of the person purchasing the practice, if applicable. Veterinary medical records must remain available to clients for 3 years after the date the veterinarian retires or the practice is closed. If prior notice could not be provided, a successor veterinarian shall notify clients within 60 days of the date the successor takes over the practice.