The “F” word

There’s no need to fear the financial side of your business any longer - you just need the confidence as business planner Andy McDougall explains.

For most of us, the financial aspects of our jobs fill us with dread. We think of finance as that specialist subject that accountants do; it’s all numbers. Then there’s all that technical jargon to get our heads around: accounts, depreciation, cash flow and forecasting, for example, it might as well be a foreign language as far as most of us are concerned! But it doesn’t have to be that way and if you were to dip your toe into the proverbial waters of finance, you might actually discover that every other aspect of managing the practice becomes a lot clearer and easier to achieve.

Common sense finance

If the truth be known, I have always found that once a level of confidence is reached with regard to finance, the foundations of business fall into place. Once armed with the correct understanding, it transforms the way we go about almost everything we do at work. Firstly we need a good grasp of what the terms mean; to have them explained in a common sense and practical way so that suddenly the mist clears and confidence is boosted. Then we must move on to understanding how all of these seemingly different terms and techniques fit together – a holistic approach.

Having gained the skill and confidence to produce a set of numbers, we then move on to the next level which is using the numbers to measure performance. At this stage we start to understand the concepts of budgeting and forecasting, and variances. Finally we are ready to begin interpreting the numbers and to understanding what they are telling us about our businesses. This is where it really starts to get interesting.

Managing by numbers

Once we start to interpret numbers, we’ve transformed our skills from processing transactions, such as invoices to managing by numbers. Such a transition in approach effectively takes us from a position akin to a look-up keeper to that of a manager. In this new world we begin to realise that our budget is actually part of something much bigger called a business plan – in fact it is the financial element of the business plan. This plan should attempt to analyse literally every aspect of your business and it will eventually represent each of those aspects in financial terms – an audit.

The objectives you set across every business function as part of your business-planning process must have a financial value. That’s right. Every aspect of the business must be accounted for – sales, marketing, people, purchasing, stock levels, your pricing policy; the cost of everything that goes on in the practice – literally. The idea is to use the business plan to make all your numbers take on paper, rather than making them in reality. You then use your budget and the objectives to steer your business through the year, taking note of where your actual performance deviates from the plan and taking the necessary corrective action to pull the result back on track. For instance, it could mean running additional promotional activity when sales are down against budget or looking for ways to reduce your overheads when times get tougher.

Measurement is key

To achieve the result you determined in your budget, you will need to constantly measure performance and produce management accounts on a monthly basis – as opposed to the statutory accounts you receive annually from your accountant. By doing this you will develop the skill to explain exactly what is going on in the business from the monthly financial results (management accounts) and you will feel in control. Suddenly you will find you are running the business rather than it running you. At various times throughout the year ideally quarterly you will re-assess your year-end target – a process known as forecasting. So, in effect you are continually predicting what you are steering the year-end result to be.

Of course you will understand the difference between cash and profit and you will be able to spot months in advance when you might become tight, giving you ample time to talk to your bank manager. Your bank manager will be impressed with your command of his language and realise that you are in control. He will see that you have a robust plan and that by measuring performance regularly you will be identifying if and when you go off track and taking the necessary action to deliver a good result.

Numbers will rule

You will suddenly start to think about everything you do at work in relation to numbers – have we planned to award pay rises at that level? Can we afford to purchase that new machine and if so when will it pay back? Should we be carrying stocks at that level? The numbers are now alive and you understand that whatever happens each day, there will be a corresponding financial impact in the numbers.

Finally, now that this numbers game is firmly under your belt, you will start to look further ahead. You will begin to think about the next two or three years ahead. What is likely to happen over that period? Will there be new dental contracts? How are changes in NHS provision affect you? What new products and technologies will be emerging and how will all these affect your business? How will you need to change your business in order to be a winner in the new competitive environment?

Your skills will now be such that you are able to model all these things and develop the strategies you will need to put in place the pursuit of your vision. You will be able to see the financial impact and ensure you keep your business on track. You have advanced from manager to strategist.

So there you have it, a good overview of the dreaded ‘F’ word on a journey through Finance. I will be delivering five compelling and not-to-be-missed seminars across the country in conjunction with the BDPMA from September to October. Further details can be found on the BDPMA’s website www.bdpma.org.uk or email info@bdpma.org.uk to request a PDF or hardcopy brochure.

About the author

Andy McDougall has over 25 years experience of business planning and brings techniques and expertise from a wide range of commercial and competitive business sectors. Andy now delivers business-planning services to help members of the dental community to respond to the dynamics of an increasingly commercial and competitive environment. A passionate exponent of his-art, Andy is straight-talking and results-driven. He helps businesses to reach the next level and to turn around poor performance.

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