Money Matters

Business by numbers

Determining a comprehensive plan and using it as a document to measure your success each month can put you in control. Andy McDougall explains.

So many practices have told me they have a business plan, but as they are not used properly, they have been properly sense agreed and put into action after it has been properly sense highlighted by the accountant wasting valuable time and uncertainty of the future because the budgeting processes, finances; they all form the score when 12 months of trading has past. Throughout the year the practice is under the expectation of arriving at your destination, guiding a business to progress, the practice will have attempted to keep an eye on things periodically by various means. But with independent and monthly measurement through a review of management accounts, the result highlighted by the accountant is usually unexpected and often disappointing.

The biggest mistake
So what are the common mistakes practices make? The biggest one is failing to have a business plan which focuses their resources on the things that are important; the ones that will deliver the bottom line they hoped for.

A comprehensive business plan will enable most of the potential mistakes ahead to be made on paper rather than in reality. Using financial models built specifically to reflect their own business, principals and managers can, easily create scenarios to see what impact various decisions would have on the performance of the practice over time. The benefits of this approach are huge. Rather than wasting valuable time and money introducing new initiatives that may fail, plans can be agreed and put into action after they have been properly sense checked thereby increasing the likelihood of success.

A business plan is not some woolly document containing hopes, visions and aspirations. So many practices have told me they have a business plan, but what I eventually discover is a document detailing the kind of success they want to achieve, without any tangible means of getting it. They don’t have a plan, they have a wish.

Planning is the way
A proper business plan is an in-depth map that leads management in a focused way through every aspect of the business: pricing, marketing, staffing, finance, for example, and highlights specific actions within headings that are cross-referenced with each section. The key aspects of each section will be produced in quite a bit of detail. The plan will then be modelled to deliver a budget (one aspect of the planning process) which will be phased into 12 distinct periods, reflecting the true activity and costs expected of each period. The plan will also identify key metrics for each area by period.

But planning is only the start of the process. Once the plan has been agreed and signed off the real work begins. From now on we must measure actual performance in these areas. Just like the driver of a car uses a dashboard with speedometers, tachometers and other navigational implementations to guide him towards a successful journey, guiding a business to success requires some key metrics. Imagine driving a car without some fundamental tools like a petrol gauge, oil light, speedometer, mileage counter. Your journey would be a nightmare. I often wonder how business owners who would never consider taking a car journey without referring to their dashboard are happy to risk their business by driving it blindly.

An uncertain future
Planning helps reduce the uncertainty of the future because it allows you to exert some control. Don’t fall into the trap of thinking you have a plan when what you have decided to do is last year’s result plus 10 per cent extra income and five per cent extra overhead. That is not a plan. Think of all the things that could change in the year ahead.

Perhaps you are used to putting your prices up every year but have reached a point where the market will not accept further increases. Maybe you only discovered you had a problem when your appointment diary contained more gaps than appointment slots, but that is the case, your business is already in trouble. It was only the price increases over the years that has kept you profitable what do you do now?

What if the competition has moved into your area, can that be ignored in your plan? What will be the profit margin of your patient if you need more patients and if so who will be your target audience and what marketing techniques will you have to employ to identify and convert them?

Measuring for success
With a sound plan in place we must now move to performance management. We need to measure all sorts of things that we have determined are crucial to success. Remember what gets measured gets done. This means for each part of our plan we will need to set up the processes and systems to ensure we can measure effectively enabling us to accurately assess whether we are on target.

Particularly in relation to financial reporting, we must ensure that we are looking at a true representation of the performance of the business and avoid ‘spiky’ results that are distorted by the wrong accounting treatment. Remember measuring profit and measuring cash are not the same thing. For example if in the second accounting period you receive a very large insurance bill, you might need the cash to pay it. But for accounting purposes to manage your business over the year, you would spread that cost equally over the time period you receive the benefit of the service, for example, 12 months. This is known as a prepayment. Similarly if you get to period 11 and you receive a large bill for some service you have been using all year, you should have been taking account of that in your numbers using accruals.

Another surprise comes when you count stock once a year and find (as is nearly always the case) that you have a large write-off for stock that is missing. Your result worsens just as you are approaching the finishing line. If you had used a system of perpetual inventory throughout the year with a robust stock control system, you would have avoided the surprise and had the opportunity to investigate where the stock had gone missing so corrective action could have been taken.

In comparing the actual result on the above basis against a robust budget and plan, you discover something called variances. These are the clues in your result that tell you where your business is on track and where you need to make greater effort to get behind the things that are not going to plan. Invariably this will come down to people as not much happens in business without them. Does your business plan integrate and align their activities with what they should be focused on in order to deliver your desired result? Are they clear about what their part of the plan is and are they trained to do the job? Do you give them regular feedback on how well they are doing? If not how do you expect the key points in the plan to be executed. People, processes, finances; they all form part of the performance management process.

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