Business by numbers

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

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 associated with each section. The key aspects of each section will be produced in quite some detail. They will then be modelled to deliver a budget (one aspect of the planning process) and will be reviewed periodically to ensure the true activity and costs of each area, period by period.

Planning is the way

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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 constantly 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 this but if you have been using all year, you should have been taking account of that in your numbers using accruals.

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 continued to fill up but you were not able to justify the next appointment diary.

What if the competition has moved into your area, can that be ignored in your plan? What will be your product/service offering going forward? What is happening to the underlying profile of your patients? Do 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?

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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.

Your final destination

Determining a comprehensive plan and using it as a working document to measure your business success each month puts you in control. By comparing actual performance against a plan using variances, you proactively manage your result. Like a driver who constantly refers to his dashboard of instruments to ensure he is on track, you will be able to make better decisions about the risks you are taking as a business.

So what are the common mistakes practices make? The biggest one is failing to have a business plan, but they have a business plan, but without any tangible means of checking thereby increasing the likelihood of success.

A business plan is not some woolly document containing hopes, visions and aspirational. So many practices have told me they have a business plan, but what I eventually discover is a woolly document containing hopes, visions and aspirations. Many practices have told me they have a business plan, but what I eventually discover is a document detailing the kind of things that will be measured and who will measure them.

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