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.

So many practices wait for the accountant to tell them the score when 12 months of trading has passed. Throughout the year, none of these practices consider and manage the financial control through a review of management accounts, the result highlighted by the accountant is usually unexpected and often disappointing.

The biggest mistake

What are the common mistakes practices make? The biggest one is failing to have a business plan which focuses on what resources are required. It is easy to overlook the importance of this early in the planning process. The key aspects of each area by period must now be agreed and signed off. How we measure actual performance in these areas. Just like the driver of a car uses a dashboard with some key navigations implants 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 appointments and if 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 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?

Measuring for success

With a sound plan in place you 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 your 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 it. If you then spread that cost equally over the time period you receive the benefit of the service, for example, 12 months. This is known as a pre-payment. 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.

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 internal systems to get him from A to B safely, your practice will run the risk of possible out of your business process so you can be confident of arriving at your destination, on time.

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