

MAKING THE RIGHT BUSINESS DECISIONS

BY ANDY MCDUGALL¹

PLANNING FOR PROFIT

Business planning is the only route to achieving the sustained levels of profitability you have always aspired to generate. It is the key that unlocks the door to improved business efficiencies and higher levels of profit.

So many dental practices just amble along, not knowing how they are performing financially from one month to the next. The only guide for principals and managers is usually a set of annual accounts that are 12 months old. Business owners are constantly working with information that is out of date.

It is never an enviable position to take action when you finally notice your practice turnover is on the decline, the appointment book has become patchy or your profits have taken a turn for the worse – yet that is what many practices do. A proactive practice will put measures in place to avoid the business ever getting into trouble in the first place and to monitor its performance monthly so preemptive action can be taken.

SPOT ON DECISION MAKING

A phrase coined by motivational guru Anthony Robbins underpins the vital nature of decision-making. He said, 'In the moments of decision your destiny is reached' and if you think about it, where you are in your life right now is inextricably linked to the decisions you made in the past: how you applied yourself at school, the college or university

you attended, your chosen profession, marriage, family, where you live, etc.

The same is true of your business decisions. They will be the driving force behind your financial results. So it follows that where you will be in the future: three, five or even ten years hence, will be closely linked to the decisions you make in the years ahead. Business planning will ensure you make much better decisions – *making the right decisions is the difference that makes the difference!*

WHY SHOULD I BOTHER WITH BUSINESS PLANNING?

Business planning is generally misunderstood. Some people think it is a budget or some form of financial analysis. A business plan covers every aspect of your business, all of which is reflected in the financials. Everything from pricing, associate pay, recall and stock processes to brand, key performance indicators, performance management and monthly management accounts. It's like a sat nav: you know where you are, you know where you want to go, and the business plan is your map for the journey providing you with guidance, structure, focus and most importantly, an early warning of when you go off track and need to take corrective action.

YOUR EARLY WARNING SYSTEM

Management accounts that compare your actual monthly and year to date financial performance against a budget are an essential part of the business planning process as is quarterly forecasting

to ensure nothing of note has changed that will impact your results.

TACTICAL PRICING

One key element of the business planning process is a more sophisticated way of pricing than the traditional hourly rate. Most practices claim to use the hourly rate but actually when you work through how they perform the calculation it is flawed. It's astonishing that most practices don't know which treatments make or lose them money. A more sophisticated method is tactical pricing, which normally adds considerable benefit to the bottom line.

PROFIT BY CLINICIAN

Similarly few practices can accurately calculate their net profit by income earner. Most suspect some clinicians are not profitable but can't prove it. Profitability by clinician enables you to have constructive discussions with your team and work towards solutions that work for both parties. It enables the discussions to take place on a factual rather than emotional basis. Again fixing this issue will add considerable profit to your bottom line.

IMPLEMENTATION

Lots of analysis will help determine why you aren't achieving the desired business results and then we plan to correct the broken parts. This most important part of the process is often where practice principals and managers falter because it always necessitates change and let's face it, none of us likes too much change!

¹ *Spot On Business Planning*, www.spoton-businessplanning.co.uk

Whatever the issues, be they pricing, associate pay, the necessity for refinancing the practice ... business planning covers all facets of your business, ascertaining what is broken and finding optimum solutions.

FORECASTS

Every three months the budget is revisited to ensure the business is always being measured against accurate targets, ie quarterly forecast, lifting the business to higher and higher levels of performance. The process is continuous and helps principals and dental teams to get into a rhythm of business planning, reevaluation and implementation. The culture thus begins to change to one of performance measurement and management across all aspects of practice performance.

FINANCIAL MODELS

The Spot On methodology* has been refined to produce incredibly accurate models of how to run a dental practice at optimum performance. My background has enabled Spot On to deliver a methodology that follows the path of successful blue chip companies outside the dental industry that have been working with this commercially-proven business approach for decades.

Spot On's financial models incorporate the business plan in terms of a strategic plan, a budget, a quarterly forecast, monthly management accounts, cash flow, pricing, profitability by clinician, gap analysis, break even analysis and more. Each model is uniquely refined to reflect the nuances of that particular practice. It is definitely not a one size fits all approach.

YOU DON'T KNOW WHAT YOU DON'T KNOW

Very often, people with fantastic clinical skills have inadequate commercial skills. Implementing a proper business planning process will ensure that you remain focused on those aspects of practice management that will move you towards your financial goals and give you reassurance that the results you intend to achieve are in fact the results you do achieve.

LUCK VERSUS KNOWHOW

Improving your profits year on year comes from knowhow not luck. To achieve continual growth, choose to work with a business partner with the right qualifications and experience who is adept at the kind of number analysis your business will need to undertake.



The key to a successful and profitable business is planning

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UNDERSTAND WHAT'S BROKEN

The trick to transforming your business performance is to know what's wrong in the first place. A thorough analysis of your current business position is necessary but legitimate analysis of your net profitability is vital.

MAKING (THE RIGHT) DECISIONS

Making the right decisions and executing them is crucial to transforming your financial result. Don't underestimate the importance of decision-making – make considered decisions and plan for their execution.

BUSINESS PLANNING TECHNIQUES UNDERPIN BETTER DECISION-MAKING

Consider the financial impact of alternative courses of action before you implement any of them. Make your mistakes on paper first but execute the right strategy to achieve your result.

NOTHING CHANGES WITHOUT ACTION

Some principals will determine the changes necessary to transform their business performance but stall at the implementation. Success comes from making the right decisions and applying the changes to implement them – in other words, taking action!

ORDER AND SEQUENCE IS VITAL TO SUCCESS

Implementing decisions in the right order and sequence is paramount to achieving the best outcome. Knowing what to change is key but tackling issues in the right sequence is vital to achieving the desired outcome.

READING AND UNDERSTANDING METRICS

Having the right key performance indicators in place, understanding what drives them

and reviewing them regularly means you will have control of your businesses' performance. Understand what to measure and why.

WHAT GETS MEASURED GETS DONE

It's vital to set up the right systems to keep score of the key drivers underpinning your strategy. Introduce early warning signals to highlight when you are off track and use this as your personal business sat nav.

YOU ARE THE LEADER – SO LEAD

You can't ask or expect a team to follow you if you don't know where you are heading, how you will get there or if you have achieved your goal. Business planning is a fundamental skill for every leader; it clarifies the vision and transforms it into a tangible plan that everyone can pursue.

IN THE MOMENTS OF DECISION YOUR DESTINY IS FORMED

Where you are today personally and professionally is the culmination of the decisions you have taken throughout your life. Where you will be in the next three years is linked to the decisions you have yet to make. Making good decisions is paramount to your success.

*The BDA run a business planning course together with Andy McDougall of Spot On Business Planning. To find out more about the approach of Spot On Business Planning and to get a good understanding of the principles of business planning and leadership, attend the BDA Training Essentials one-day seminar on 19 September in London. For more information visit www.bda.org/training or contact Spot On Business Planning directly for a free analysis of your financial accounts: email.info@spoton-businessplanning.co.uk.

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