

## 'Tis the Season.... Budget Season!

December 2018

It's that time of year again. Yes, in addition to decking the halls with boughs of holly and being jolly, it's also the time to sit down and make plans for what your practice will accomplish in the coming year. A budget is a fantastic tool for you to use when making important decisions for your practice. It's a road map, if you will, to making your goals a reality!

Contrary to popular belief, "budget" is not a four-letter word. Some people may associate budgets with spending constraints, or may feel handcuffed to a budget. But to a business savvy owner, a budget has a different connotation. It's about what you want to accomplish and the resources you need to get there.

Here is a quick synopsis on the budgeting process:

1. Review the prior/current year's profit & loss statement. Where do you want to make changes? How will you generate that growth?
2. Based on the answers to above questions, do some strategic planning and make educated assumptions for the coming year. Do you want to invest in a new ultrasound? Become a Fear Free Certified Practice? Raise fees?
3. Consider your variable costs (those costs that are higher when you are busy then when you are slow, like drug purchases and lab bills) as well as your fixed costs (those that will stay the same no matter how many patients are seen, like rent or property insurance).
4. Convert these discussions into numbers with a spreadsheet or accounting software tool. This allows you to experiment with the numbers in "if this, then that" scenarios to see how each decision effects the big picture and whether you like the outcome.
5. Compare actual results to the budget for each individual month as well as year-to-date totals. Identify the differences and make a point to understand any significant variance. Do you need to make any adjustments or address any problems that have become evident?
6. When making big decisions, consult the budget - not for permission, but for perspective. If you spend money on something now, will you still have enough cash to cover delayed billing on vaccine purchases, or to buy the surgical equipment you wanted? A budget allows you to see the impact of such decisions and reminds you of how you intended to use additional cash.

Creating and then monitoring a monthly budget will help you understand your hospital's finances. This information allows you to focus on improving the numbers, which in turn, provides you with financial peace of mind. Budgets create accountability for you and your employees, and should be monitored closely each month. Recognize that there will almost always be differences between what you budgeted and what actually happens in the hospital. The critical step to take is to understand why there is a difference. Was it the result of something intentional or unintentional?

A budget can be as simple or complex as you want it to be. You can develop a very broad, simple budget, or an in-depth, detailed budget. You also can create multiple "mini" budgets that roll up into a master profit and loss budget. For example, create a separate mini budget for compensation and payroll costs, for marketing and promotion, pharmacy, flea/tick products and any other area where you spend a significant amount of money. If you want to grow your practice by hiring an associate along with a veterinary nurse to support that doctor, you would include those estimated salaries, plus benefits, in a compensation budget. Other things to consider when preparing a compensation budget are any planned raises along with any employee turnover that you expect.

If you have different divisions in your hospital, such as large animal and companion animal, you can break those out into separate budgets, too. You can do a short-term or long-term budget. Having any kind of budget is better than having none at all!

To add onto your profit and loss budget, you can continue with a cash budget that includes other uses of cash in the business. These transactions include purchasing capital assets (large medical equipment), withdrawals for taxes, and loan payments. The cash budget will also help you determine an appropriate amount to take in owner distributions or dividends without crippling the operating cash cycle of the practice.

Remember, you are not chained to the budget; it is flexible and there to help, not condemn. If you see large negative variances between the budget and actual numbers, take action to correct them. The time and energy spent on preparing and maintaining a budget for your practice is well worth the investment. If you have never done a budget before, do it now! If you tried budgeting in the past and didn't succeed, try again. Do not give up; you can do it! Visit with your CPA or give us a call if you need help getting started.

Make sure to get the help you need this year to ensure you have a valuable management tool you can use all year. Then "budget" doesn't become a four-letter word!