

PREVENT MAKING THESE COMMON MISTAKES IN YOUR PRACTICE – PART 2

September 2020

In last month's newsletter, we discussed several common mistakes that practice owners make regarding the culture of the practice. In this month's newsletter we are sharing a few other mistakes we often see practices make. Being mindful of potential issues can help safeguard the future of your practice, along with your peace of mind!

Cashflow

Cash flow is the life blood of your practice. Having ample cash ensures a practice's financial stability and soundness. Even if a practice is profitable, how it manages its cash ultimately will determine its success. Unfortunately, we have seen many profitable practices close their doors because they ran out of money. "Cash Management" is more than simply looking at how much money is in your bank account. It's you managing your money instead of letting your money manage YOU!

It's easy to get bogged down with the daily operational grind of the practice and have little to no energy at the end of the day to sit down and monitor the finances of the practice. Managing cash is a very important responsibility for an owner who makes and implements decisions for the practice. Making finances a low priority is one of the worse mistakes that you can make because it leaves room for errors to go uncorrected and opens the door to fraud, theft and embezzlement. With too many hands in the cookie jar, you may reach in one day only to find there are nothing but crumbs left.

Start by dedicating one morning a month to sit down with your bookkeeper and your financial statements. Doing this will

- 1) show your bookkeeper that you are paying attention, deterring the person in that position from rationalizing any sly moves that they could put past you
- 2) help you stay mindful of the wheels and sprockets that keep your practice running behind the scenes
- 3) allow you to make any changes or improvements before real problems occur.

Technology

Following closely on the heels of cash management is the importance of having current technology in your practice and utilizing it as fully as possible. Do you have standards of care for your information technology like you do for your patients? How current is your practice management software, the system that houses all your scheduling, medical records, client invoices and payments, the tool you need in order to conduct business as a veterinarian? Are you using the right software to support your practice? Can you pull meaningful reports and useful data from it? Are you utilizing all the fancy bells and whistles? How often are you backing that data up? Where is your back up stored? Is your computer system or network protected by current anti-virus software? Do you as the practice owner know how to use all the software your practice uses? These are important questions that need to be addressed regularly to make sure that your practice can continue to grow and succeed!

Exit Strategy

For most of the life of the practice, owners are trained by their tax accountants to show losses to minimize income taxes. But 3 to 5 years before you are ready to sell, it's time to start thinking from a practice value perspective instead of an income tax perspective. Let's look at a quick example. If a \$1,000 tax deduction or "perk" item is removed from your annual expenses, depending on your tax bracket, you will end up paying \$250 - \$450 more in taxes. But paying that tax (instead of saving just \$250-\$450) could lead to an additional \$5,000 - \$7000 in practice value. Every dollar of "bottom line profit" will increase business value by \$5-\$7 dollars if you get a multiple of 5 to 7 for the value of your practice. Suddenly that tax payment then becomes an excellent investment!

All too often, owners do not put much thought into the practice's financials until it's too late and end up with a practice with little to no value when they are ready to sell. Take the time to know where your practice currently is financially and where you want it to be, so you can execute a plan to increase your practice value by the time you are ready to sell!

Many times, practice owners have unrealistic expectations of the true value of their practice. This could be for several reasons, the main one being that their financial statements are misleading due to the way the numbers are being recorded, either just incorrectly, or for tax strategies that skew profits. Take the time to go through your books, or have an expert look, to make sure that the financials tell a true story.

These are just a few of the many difficult paths we see practice owners take. As Warren Buffet once said, "it's good to learn from your mistakes. It's better to learn from others' mistakes." If you do not already have a team of experts to help you navigate the journey of owning a practice, reach out, it will be an investment in your future and peace of mind well made!