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Cash flow is king

Cashflow might not be the sexiest of topics, but getting it right is the difference between a successful practice and going broke.

For Erica King, director of DCA, it's simple: "Cash flow is everything. Money is coming through the door but it's not yours. You have to know exactly what your fixed overheads are, your variable overheads and then you know your profit."

A management consultant to dentists for seventeen years, King now owns eight practices in suburban Melbourne. She rates managing the seemingly mundane

budgeting and cashflow as keys to success. "I know when my BAS is due, the PAYG, the insurance, the rates... those will take a big chunk out of cash flow if you don't plan. I have a visual planner. I write down when wages are due, when doctors commissions are due, when the large payments are due. Then I know what my profitability is very quickly."

King keeps a tight rein on materials costs by setting a monthly budget based on the income from the previous month. "If it's been a good month we buy more, but if the month has been down our budget reduces. If you're not setting a budget you get into trouble. All of a sudden a junior dental assistant has ordered a huge amount of stock 'on special', so you use the credit card to pay. That's 18 per cent interest." Staff in each of King's practices follow an ordering template. If they over-order she goes back and says 'what do you want to cut?'"

King adds some aspects of cashflow are unique to dentistry and must be managed. There's the December/January slowdown for one—shorter months where dentists and patients are away but the fixed costs remain. "If you don't have that built into your cash flow you're in trouble."

Then there's the purchase of specialised instruments and materials, all manufactured overseas, which makes dentists vulnerable to the rate of the Australian dollar to the US dollar,

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the Euro and the Chinese yuan. "The global financial crisis was a major problem for dentists," says King. "Everything was more expensive, but we couldn't charge more for the service, so profitability plummeted. You had to have a buffer."

Factor in equipment failure—particularly if maintenance has been neglected—and a lack of oversight to the details suddenly blows a major hole in the budget. "If the autoclave breaks down and there's no back up you can't see patients. There's only three or four people in Melbourne who repair dental equipment

Cashflow

so you can't just ring up and have them out today, or if they do it will cost you big."

But if it's so straightforward, why do a lot of dentists get into trouble with their cash flow?

"Most dentists have been really lucky. If they're reasonable at running a practice they make do," says Philip Palmer, partner at Prime Practice. "But if they're unlucky, there's plenty who go broke. Many spend more than they've got and don't make a terribly good living. A lot of businesses have had to be sold because they overspent on leases, loans and renovations."

Palmer says the main reason they get into trouble is they simply haven't factored into their cash flow how long it's going to take them to pay for the new stuff, be it a staff member, renovation or equipment.

To this end, when a dentist begins leadership training with Prime Practice the first thing they do in the workshops is look at their profit and loss for the last 12 months and use this

help," says Randi Goad, Director at Momentum Management. "They try to appease everyone. They try to throw current billers and past dues into current turnover so it now has to pay for two or three extra things, and they end up like hamsters in a wheel."

When they come to Momentum, they immediately put a moratorium on past dues. "The first important thing is for the dentist to stay current," explains Goad. "We set up a system with them to contact each creditor—send them a letter—explaining we are implementing a new accounting system and will be paying past due accounts off as quickly as possible. After the moratorium we make a list of past dues from oldest to most recent. Then we make a list of credit balances with highest interest rate first—they've often been living off the credit cards. Then we forecast. They don't get to buy one thing we haven't forecast. If something breaks down in the surgery, we get the repair person in and say "bill us, we pay next month."



It all looks swish, but if you haven't cash-flowed all this new equipment your creditors could be selling it again soon.

to predict the next 12. Then they work out how many days they have to work, making sure to include the dentist's own expenses and superannuation as well as the staffs'. This is then divided by the number of days they work—say four days a week for 48 weeks a year—to arrive at a figure telling how much has to be earned in a day.

"Most dentists only look at financials at the end of the year," observes Palmer. "They go see the accountant in August/September, who brings back the book in December/January. They only find out how they're going six months after the event. That's too late if things are going badly. You can delegate to bookkeepers, but good business people look at the figures regularly."

So if dentists get into a cash flow hole how do they get out and back into profitability? "When cashflow gets out of control, dentists often bury themselves in deeper before they ask for

Then Momentum examines options for increasing turnover: a realistic assessment is made of what the hygienist is going to produce and she's held to that goal. They look at what the principle dentist needs to produce, working with them on scheduling a daily goal and forecasting. Then they start to enforce some discipline. At the end of the month when the bills have been paid, 10 per cent is put into a forced savings account and the remainder goes to past dues, the oldest one first. Once past dues are paid they move to the credit balances, with 20 per cent going into savings and the other 80 per cent paying unwanted balances to creditors. "After those two are taken care of we put 30 per cent into forced savings. The first investigation can be very hard, it's very confronting to see that," acknowledges Goad. "But we've successfully got people off \$350,000 credit card debt. One guy we worked with lived off two credit cards." □