

Chapter 12

IMPLEMENTING AND UPDATING YOUR STRATEGIC PRACTICE PLAN

The purpose of the preparation of a strategic practice or business plan is to assist you in understanding your practice as a business in order to maximize its long-term profitability. A strategic practice plan is the business plan prepared by the doctor considering establishing a practice or by the owner(s) of an existing practice. Although the preparation of a business or strategic practice plan can be detailed, it need not be. It should, however, be typed. The rationale is that often business plans are incomplete. At most, what some consider to be a business plan is a list of items which the practice should address regarding its business, rather than an action plan for the practice. The strategic practice plan should be prepared every five years, updated and revised yearly and adjusted monthly or quarterly.

Although dentistry and its specialties should have a promising future, there do exist threats and opportunities for success. Basically, the rules have changed with regard to the operation of dental and specialty practices due to: (i) increased governmental controls; (ii) the threat of reduced fee programs; and (iii) considerations regarding insurance companies attempting to maximize their profits. However, there are not enough doctors and practices should be busy. To maintain profitability and your sanity, consider the business plan as a set of guidelines which allow you to identify and achieve predetermined goals and objectives, whatever they may be, both practice related and personal. Perhaps the most difficult part of drafting the business plan is in determining what you want.

The most successful doctors may be the ones who: (i) love their work; (ii) would love their work whether or not they became doctors; (iii) understand their business or profession; and (iv) take pride in the quality of their professional services.

With a strategic practice plan in place, a practice prepares for its future. The planning process involves making choices with respect to the most basic and important decisions effecting the practice: its mission, goals and objectives, strategy, policies and resource allocations. These choices, collectively, will determine the future of the practice. Such choices are made sometimes even unknowingly, but inevitably are made through the actions or inactions of the practice owner and the practice staff. Therefore, strategic planning is the process through which planning options or choices ultimately end up as decisions in order to fulfill the mission of the practice. Another reason that the strategic practice plan should be in written form is to provide a reference point for the continuing progress toward goals and objectives and for the re-examination of the planning options or choices made by the practice owner. The results of the strategic practice plan reflect the end results of the business planning process including the chosen mission, objectives and strategy of the practice. The existence and communication of a formal strategy insures consistency from a business perspective for the practice. Therefore, the goal of strategic planning should involve foresight into an uncertain future through the continued analysis of objective criteria, results and common sense. The strategic practice plan should allow the practice owner to detect and assess changes in the overall environment, both in and out of the practice.

Figure 12-1 designates possible phases of the strategic planning process as follows. As the first step in the strategic planning process, the mission of the practice should be defined. The mission statement is the purpose of the practice other than just to make a profit. Another term for a mission statement is a continuing purpose statement.¹

As former general manager of Saslow Dental Company - Northern Ohio, the mission statement which I developed was as follows: "To place an emphasis on consistently increasing the sales volume of dental products and services at a profit sufficient to maintain business continuity and growth; also, to develop the employees in the process, plus contribute quality services to the dental profession, and ultimately, to society at large." The mission statement for my Firm is: "To provide the highest quality legal product, on a timely basis, in a courteous and respectful manner, and within the client's economic constraints and desires." Although these mission statements were developed for a dental equipment and supply company and law firm, similar mission statements can be developed your practice. A key consideration for mission statements in dental practices may be whether the practice will focus on fee for services or reduced fee programs. The mission statement should be essentially a conveyance of the practice philosophy and the philosophies of the owner(s)/dentist(s). It is the purpose of the practice and you should live by your mission statement.

The practice goals and objectives should correspond to and support the mission statement and should also be written. The goals and objectives of the practice should also correspond to your personal goals.

The financial analysis includes the continuous use, yearly preparation and on-going updates of the following: (i) balance sheet; (ii) cash budgets; and (iii) financial statements. The balance sheet measures the net worth of the practice as of a specific date through the assets, less the liabilities of the practice. A cash budget measures cash in-flows and out-flows over time periods, e.g., monthly. A financial statement measures the net income, gross revenues less operating expenses, of a practice between periods; yearly, quarterly or monthly.

These three financial tools can all be useful, assuming that they are regularly prepared and utilized. The financial tool least used in professional practices is the cash budget. This is the tool which will assist you in determining your ability to repay a loan, purchase an equipment item, take a vacation, etc. The cash budget is prepared by starting the time period in question, the month, with beginning cash balance (either positive or negative) and adding revenues. The resultant amount represents the available cash in the practice during the month. Operational expenses are deducted from this amount by specific category. The resultant amount equals available cash. From this amount is further subtracted loan payments, "unique" expenses, e.g., payments over time to the seller of the practice, etc., and owner compensation. The resultant amount is the ending cash balance, either positive or negative, that will carry over to the next month or time period. This analysis should reflect the basic premise that unless an expenditure within the practice contributes to a defined return on investment, the expenditure should not be made.

¹Dale Carnegie Management Seminar, Dale Carnegie and Associates, Inc., 1977, Plan-3.

The environmental analysis should be completed in written form, which is comprised of both external and internal factors which you believe affect your practice. Some of the external factors may be: (i) the economy; (ii) other environmental factors, e.g., OSHA regulations; (iii) the profitability of other practices throughout the country as compared to your practice; (iv) the state of technology of dentistry or your specialty; (v) competition; and (vi) the market for dental or specialty services.

A partial list of internal factors would include issues pertaining to the following: (i) patient mix; (ii) procedures performed; (iii) financial systems; (iv) hygiene; (v) location; (vi) scheduling; (vii) marketing; (viii) operating expense level; (ix) potential of practice; (x) collections; (xi) personnel; (xii) productivity; (xiii) appearance of practice facility; (xiv) insurance claims processing; (xv) ability to diagnose; (xvi) records maintenance and charting; (xvii) days and hours worked; (xviii) management efficiency; (xix) cash flow position; and (xx) desired owner compensation.

Measure the relevant external and internal factors with regard to opportunities, threats, strengths and weaknesses, which effect your practice in each of the above categories. Further, determine the "identity" of your practice, consistent with the practice mission statement.

Identify defensive, neutral and aggressive alternatives or decision-making choices in light of the environmental analysis. Such alternatives should be both qualitative and quantitative in nature and should measure the return on investment, from the quantitative perspective, for each alternative or decision.

Compare alternatives and make decisions. Note that all decisions should enhance and support the practice mission statement.

Define the organizational structure of the practice. Although this step is relatively simple for a sole practitioner, it becomes much more complex in group practices where co-ownership exists and/or where the decision-making process is not defined.

The practice should consider how decisions will be implemented and the time frame for doing so. Finally, the practice should have in place mechanisms for evaluating the extent to which the strategic, long-term decisions and the strategic practice plan are carried out and the control systems in place to alert you to variances. One such control system is the collective set of financial statements of the practice. Another would be the annual employee review process. One other such system would be continuing education policy for practice owner's associate doctors and non-doctor staff members.

In many practices, the collective financial information prepared by the accountant, or sometimes by the practice, is of little or no benefit to the practice owner(s) to assist in maximizing practice profitability and, thus, owner compensation. One reason for this is that many financial statements are prepared only for federal income tax reporting purposes, as opposed to using the financial statements as measurement tools. To make financial information useful, consider segregating expenses into usable categories, while also tracking trends in the practice in the areas

of accounts receivable, new patients, treatment diagnosed, case acceptance, preventative maintenance or hygiene and various expense categories.

Common characteristics are found in those practices which plan their futures.

- (1) Practices which do plan are generally on the high end of compensation;
- (2) Practices which implement strategic practice, or business, plans are generally economically successful;
- (3) Practices that implement business plans which combine(s) the practice owner's business and personal objectives are the most economically successful and sell for the highest values as a percentage of selling price to revenues as compared to other practices;
- (4) The implementation of a business plan assists in smooth day-to-day practice operations; and
- (5) The implementation of a strategic practice or business plan reduces, but does not eliminate, unexpected contingencies relative to the practice or the practice owner(s).

Advisory Team

In order to operate your practice successfully consider assembling your advisory team. The advisory team should assist you in professional and personal decision making and may consist of the following individuals: accountant, attorney, banker, dental dealer, financial planner, insurance advisor and practice management advisor. Each member of the advisory team should have extensive experience in dealing with professionals. With your assistance and input, your advisors should assist you in identifying and achieving your practice and personal objectives. The collective team should possess a pool of experience and knowledge which you can plug into in order to proactively achieve predetermined goals. As third-party observers to your practice, the team members can be objective in a variety of situations. Additionally, one or more of the team members may have encountered a previous situation(s) similar to yours. Advisors should be located through referral, reputation and work previously performed on your behalf. Additionally, dental societies and practice study groups should also have the ability to obtain names of advisors. Once you pick the team members, a meeting should take place to allow each advisor to get to know the others. The advisors should interact together and the individuals should have the ability to work well with one another. You are looking for team players who will listen to you, as well as each other, so that your goals and objectives are met, assuming you have defined your goals and objectives. If not, one or more advisors should assist you in this regard.

Make sure each of your advisors has the ability to perform work for your size of practice. For example, some law firms and accounting firms are simply too large to represent professional practices. Others have no experience representing professionals. Talk about fees early in the relationship with your advisors, so that you will know approximately the amounts you will be paying for services rendered and how the advisory services will be charged to you. In this

manner, you should have no surprises upon the receipt of any monthly statement from any advisor.

Borrowing

Practice owners often need loans for one of three reasons: (i) for expansion purposes; (ii) to take advantage of new opportunities; and (iii) to repay existing obligations where revenues and cash reserves are insufficient. Irrespective of the reasons why you borrow money, it is imperative to complete an analysis relative to repayment of the loan in light of current revenues, operating expenses and compensation. In other words, think about the repayment of the loan prior to borrowing the money. The lender needs to know at least three things: (i) the purpose of the loan; (ii) the amount of the loan repayment; and (iii) the sources of repayment. A key factor in obtaining any loan will definitely be preparation and giving yourself an appropriate amount of time to secure the funds.

In preparing the loan informational package, you may consider inclusion of the following format in narrative form:

- A. Introduction and request for funds;
- B. Résumé of experience and background;
- C. Business history;
- D. Strategic practice plan, inclusive of yearly balance sheets, cash budgets and income statements;
- E. Previous yearly balance sheets, cash budgets and income statements for the past five fiscal years (or years in practice if less than five) and through the current date;
- F. Federal income tax returns for the past five years (both practice and personal);
- G. Personal financial statement;
- H. List of collateral;
- I. List of references;
- J. Brochures, specifications or designation of assets, e.g., dental equipment, you wish to purchase with the loan proceeds.

In preparing a personal financial statement, the following should serve as a useful format:

- A. List all assets by category and total such assets by dollar amount;
- B. Subtract all categories of liabilities and total by dollar amount;
- C. The resultant amount equals net worth;
- D. List annual sources of income and total; and
- E. List annual expenses by category and total.

Prior to granting a loan, the lender will review the informational package presented and will either grant, conditionally grant or reject your application based upon: (i) your ability to repay the loan; and (ii) your character and previous repayment history.

Annual Legal Audit

The legal audit provides the practice owner with the opportunity to meet with the attorney and accountant on at least a yearly basis to examine practice and personal business, legal and tax issues.

The year-end review for the practice and you may include the following:

- ? Practice Tax Planning. One of the purposes of on-going planning is to avoid extreme peaks and valleys in your compensation. If the practice is able to anticipate substantial increases in taxable income, proper tax planning can minimize the actual tax costs.
- ? Practice Succession Plan. The year-end review is a time to re-examine the succession plan of the practice, e.g., review of values in the buy-sell agreements or preparing the practice for sale within the next five to fifteen years.
- ? Employment Matters. Employment matters are another item for year-end review. This will include non-competition/trade secret agreements with doctors, update of the employee manual and compliance review with Federal and state employment laws, e.g., state continuation coverage matters for health insurance, EEOC, ERISA, OSHA, etc. Staff compensation, employment policies and fringe benefits should be reviewed.
- ? Retirement Plan(s). The retirement plan(s) design, contributions and compliance will place you in the position to retire when you choose to. Too often, practice owners have no idea of the amount necessary each year to retire at a target age.
- ? Facility Lease and Building Ownership. Your facility and any relocation or expansion should be reviewed. If you own your building, the form of ownership and any gifting should be an agenda item.
- ? Contracting Practices. Business contracts and insurance contracts relating to third-party payments and carriers should be reviewed to ensure that they remain current with state law and continue to protect the practice.
- ? Insurance. A review of all insurance policies, both practice related and personal, is important. Insurance policies include the following: (i) life insurance; (ii) disability income insurance; (iii) life and/or disability buy-out insurance; (iv) business overhead insurance; (v) malpractice insurance; (vi) premises insurance; (vii) automobile insurance; (viii) homeowner's insurance; and (ix) umbrella insurance coverage.
- ? Maintenance of Corporate Records. To retain the tax and non-tax benefits of the corporate form, the maintenance of an up-to-date corporate record book is essential, as well as other corporate related documents.

- ? Individual and Estate Planning Considerations. The year-end meeting is the time to review wills, children's educational needs, long-term care, parental care and individual income tax planning.

- ? Strategic Practice Plan. The strategic practice or business plan should be reviewed to assist you in planning for optimal practice growth and profitability in accordance with your goals and objectives.

Reviewing practice and personal matters annually should assist you in resolution of problems before they arise.

Figure 12-1

THE STRATEGIC PRACTICE PLAN

1. The Practice Mission
2. Practice Objectives
3. Financial Analysis
4. Practice Analysis
 - A. External Factors
 - B. Internal Factors
5. Practice Opportunities, Threats, Strengths, Weaknesses and Practice Identity
6. Decision Alternatives
 - A. Defensive
 - B. Neutral
 - C. Aggressive
7. Compare Decision Alternatives and Make Decisions
8. Organizational Structure and Management
9. Implementation of Decisions
10. Evaluation and Control