DPS
DENTAL PRACTICE SALES LLC.

Budgeting in a Crisis or When Nearing Retirement

By Michael J. Wiley a Certified Valuation Analyst

Determining what you can afford is always important, but especially so in a crisis situation or when nearing retirement. Obviously, it's easier to prepare a budget when your business is thriving and when you are not looking to slow down. You'll need a whole other approach, however, in times of radical change within your industry, during tough economic times or when nearing retirement.

This past year, 2020 brought unprecedented change to the dental profession. The majority of dental practices lost between 2 or 3 months of income and many will not fully recoup these losses in 2021. Added to this pandemic is the fact that many dentists are near retirement age in 2021. Owners of dental practices need to determine whether they want to invest into their practice in order to either grow or return to prior income levels? And if so, at what cost?

A key starting point in making this determination, is to create a budget and use a management based comparative profit and loss statement as your first piece of data. This is easier to obtain than it sounds. If your practice accountant provides you with a quarterly profit and loss statement, he or she can easily provide you with a management based comparative profit and loss statement. If not, and you use QuickBooks, you can obtain the majority of the data needed from one of the standard QuickBooks reports.

The comparative portion of the management based comparative profit and loss statement shows two different time periods next to each other. As an example, you can see how the income, expenses and profits of the first quarter of 2021 compare to 2020. The management-based part of the report refers to a resorting of the profit and loss statement in order to separate your practices expenses from elective expenses that benefit the owners. Items such as the owner's compensation, auto expenses, depreciation, travel expenses, etc. can be extracted from the general expenses of the practice and shown separately so the reader can get a better picture of the true overhead and profitability of the practice.

Once you have a good management based comparative profit and loss statement it becomes easier to perform "what if" scenarios. For example, what if the revenue increased 5% and the expenses increased 3%. What impact would that have on the profits? What would happen if the revenue dropped 10%? Budgeting should involve anticipating volume during the crisis or slowdown and altering your income projections and expenses accordingly. If reducing expenses is part of your plan, keep in mind what your fixed vs. variable expenses are. Odds are, you won't be changing your rental payment, however your dental supply costs should change as patient volume changes.

If you are nearing retirement and looking to sell your practice, you will want to maximize profitability prior to the sale. Prior to retirement, capital improvement costs can be spread out over their useful life. However, when nearing retirement you will be better off simply making inexpensive facelifts to the office (a coat of paint) and avoid major equipment purchases or renovations that potential buyers may or may not like or want to pay for.

In summary, a portion of your future income and expenses are predictable. Failure to budget and attempt to make these predictions will result in cashflow problems.

The above article is courtesy of Dental Practice Sales, LLC – www.dentalpracticesalesllc.com

*Please contact jq@dentalpracticesalesllc.com for assistance with your dental practice transition.