

Reverse Engineering: From Your Personal Financial Plan to Your Practice's Business Goals

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Not many weeks ago, one of our most sophisticated Navy surveillance planes went down over China. Although the U.S. 'hostages' have come home, and relations are getting back to semi-normal between China and America, Beijing still holds our plane, presumably to learn its secrets.

The concern in some military quarters, apparently, is that they will be able to "reverse engineer" our technology, from finished electronics goods to base components, and then replicate our sophisticated spy gear. That's a good jumping-off point for this month's column, because if you're at all wise, there's some reverse economic engineering you should be doing in your own practice.

When I start a typical consultation assignment, I often ask the client if they have a personal financial plan—even though I've been asked to help with the business affairs of the practice. Why is this? Simple. Most eye surgeons have absolutely no written personal financial plan, and this plan, if intelligently crafted, can be a guide, in reverse, to what we should be doing with the practice. Unfortunately, most surgeons have diffuse goals like, "I'd like to make an even \$300,000 next year," or "I'd like to perform an average of 45 cataract cases per month and beat out Dr. Joe down the street."

For those few clients who do have a basic set of personal financial goals, we have a wonderful reference standard, from which we can work backward... "reverse engineer," if you will... to find out what the practice needs to be doing today and in the future.

Here are the steps you should be working backwards to get from the core hub of your personal goals to the outer rim of your strategic and operational business goals. Think of this as an archer's target with a bulls-eye and successive rings.

The "Bulls-Eye"

What are your lifetime achievement goals? Said another way, perhaps less delicately, "What unfinished business would you like to get done in the X years of sentient, mentally sound and physically active years you have left to live?" One common meditation in eastern philosophy is to imagine this is your last day of life. Without being quite this stark, what more do you want to accomplish? What experiences do you desire? A few of the answers may be purely existential, and have little or nothing to do with money. But most of your answers to these tough questions will indeed require a defined capital base, if only for living expenses while you take the time to live out your dreams.

The Next Ring on the Target

Your personal financial plan comes next, something formal financial planners (ideally fee-only) and selected accountants do best. Let's say you're 48 years old and you've decided you want to

retire at 55 to be able to travel throughout the world on medical mission trips. Your planner ascertains that with an extra \$25,000 in pre-tax income a year set aside for the next seven years, you'll cross your finish line to financial independence. Your planner will also take into consideration the value you'll be able to extract from the practice when you retire, which should be factored into how you conduct your practice business. If you're a soloist, and need to get the most possible from your practice in seven years, it may be appropriate to line up a succession plan, either with a partner-track associate or perhaps a purchase option agreement crafted with a larger practice in your service area.

Moving Outward: What Collections and Profits Are Needed?

Now let's assume you currently have a practice with \$500,000 in collections and \$250,000 in profit before taxes. To make the numbers from your personal financial plan fit, you know you need to find an extra \$25,000 a year. There are several ways you can do this:

- You can forego \$25,000 in lifestyle dollars, and shift the money to savings. This is easier said than done in most middle-staged medical families. This is more likely a stage of family life, with teens or college students, when expenses are at an all-time high, and non-essential costs have already been cut.
- You can trim \$25,000 in practice expenses. This can be quite difficult in most settings. In our example, the practice is already at a quite-efficient 50% profit margin. Shaving 10% off expenses may actually have a rebound effect and set into motion an unintended decline in practice revenue that more than eclipses your savings.
- You can work harder by seeing more patients. This is often the most predictable and painless way to ramp up profits. At an average of \$150 in collections per patient visit in most settings, and with little or no additional overhead for marginal increases in volume, you only need to see another 167 encounters a year, or about four extra patients a week to give yourself the raise you need.
- You can divert practice resources from market share growth or technology upgrades to profitability. It may be that you've been consciously growing practice revenue, and until now, gaining market share with external advertising and other efforts has been worth the cost. If you and your financial planner now have a definitive goal to focus on, it's easier to make an intelligent decision about whether to continue to divert resources to advertising, or to bring these resources to the bottom line as profits. Should you upgrade your excimer laser, or make due with the current unit? So long as patient care is equivalent, your financial plan should dictate the direction you take with discretionary purchases.
- You can practice more aggressively, upping the number of surgical cases you extract from a fixed base of clinical patients. This is almost always possible, especially in a more mature practice, it's just a matter of degrees. However, if you are a fee-for-service general practitioner and see more than 30 patient visits for every cataract surgery, some tuning up and boldness may be in order.
- You can work extra hard at a succession plan that will yield a larger gain when you sell. This is something you should not plan on. Indeed, my usual advice to mid-career clients is to plan their affairs on the assumption that their practice will be worth nothing more than the salvage value of the tangible supplies and equipment, plus the residual receivables.
- Finally, you can go back and change one or more of the variables that went into your personal financial plan. You can plan to work extra years, and retire at 60 instead of 55. You can invest more aggressively. Or live on less after retirement. You might even get medical

mission work out of your system, semi-retire to the sunbelt, and work well into your 60s and 70s part-time as a medical ophthalmologist.

At present, in most practices, we're still living in a world where we judge success by counting the means to the end—visits, cases and local market share—rather than measuring progress toward defined financial goals.

As I hope you can appreciate, even from this highly simplified example, it's very difficult to cogently do practice operations enhancement and business planning without the benefit of a personal financial plan. Now that tax season's over, call your accountant today. Get help working *backwards* to determine what you should be doing in your practice tomorrow.

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