5 Simple Changes: How to Make Your Profit and Loss Statement More Meaningful

Follow the tips presented in this article to turn your P&L statement into one of the most powerful business decision-making tools at your disposal.

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A profit and loss (P&L) statement is one of the most useful tools at your disposal for making decisions that impact the direction of your practice. The P&L should be used for stimulating strategic conversations between partners and practice leadership, and it should be a vehicle to show how the business has performed over time in order to forecast future results. Unfortunately, though, too often the statement is scanned briefly and tossed aside by practice leaders who inaccurately perceive it as just another report lacking significant meaning.

Essentially, a P&L statement summarizes revenue, operating expenses, and net income for a specific time period. Along with the practice's balance sheet and, perhaps, its accounts-receivable aging buckets, the P&L is one of the best resources a practice has to determine its financial health.

As a consultant, I am frequently asked to assess the financial health of practices. In most cases, I am hired because of a subjective symptom the practice is facing similar to these examples:

- *The owners are making less money this year.*
- *Practice staffing costs are too high.*
- *The dispensary isn't profitable.*

To accurately assess these "subjective" concerns, an objective analysis is necessary. The first report I usually look at in this process is the P&L statement. My goal is to get an initial snapshot of how the practice has performed—or varied—during multiple time periods. If the P&L is organized correctly, I should be able to quickly pinpoint trends and areas of concern. This will prompt which direction to go next to diagnose the subjective concern(s).

While my initial investigative path should be no different than the way a business owner or administrator should use their practice's financial statements, the reality is that I see tremendous variability in the way P&L statements are organized. That is not to say that a practice's P&L might not be correct from a quantitative standpoint; but, if it lacks clarity, is poorly organized, or is difficult to interpret, then it becomes difficult to use it as a tool to make better business decisions.

The P&L should be used for stimulating strategic conversations and serve as a vehicle to show how the business has performed over time in order to forecast future results.

An Effective P&L

In working with different types of ophthalmic practices throughout the country, the most useful P&L statements that I see share several common traits. If your practice is looking to improve the quality of its' reporting, consider implementing these simple changes to make sure your P&L statement is an effective management tool.

Your P&L should:

Be comparative. A meaningful P&L statement should allow for the comparison to a prior time period. In many cases, a monthly or year-to-date P&L will only show the current time period, thus making it challenging to see how the practice is doing compared to historical results (i.e., the same period the year prior). Along the same lines, another or additional option would be to compare your current results to your budget. Again, a properly designed financial statement should provide the ability to compare to historical trends as well as forecasted results.

Show percentage of revenue. One of the most common ways practices compare themselves to industry benchmarks or historical trends is through the use of benchmarking. In many of the common benchmark metrics, such as overhead or staff payroll ratios, an expense is divided by the revenue for the same time period. When a practice makes it a habit to regularly track these types of ratios, it makes potential problems easier to predict. Although many of my clients create separate benchmark reports, it's also easy to customize your P&L to show the percentage of revenue next to each expense line.

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Separate out different revenue and cost centers. Meaningful financial statements have the ability to generate separate P&Ls for various practice service lines. For example, if the practice has an optical dispensary within the same business entity of the practice, the proper tracking of revenue and expense allocations allows owners and administration the ability to determine the overall efficiency and profitability of each service line. Out of all the tips introduced in this article, this one will likely take the most amount of time to implement, but it may provide the most insight. As a starting point, make sure you can allocate direct revenue (e.g., optical sales) and expenses (e.g., frames, lenses, labor costs). The challenging part is allocating indirect costs such as occupancy, office supplies, etc. This will take time and creative thought, but, ultimately, it will allow for the better management of each line of business in the practice.

Group expense categories. When measuring expense trends for specific categories e.g., staff labor, occupancy, and marketing), it is useful to group related categories. Unfortunately, often times the expense categories are not sorted in a logical way. Try starting by grouping categories that represent a large percentage of your total expenses. If your accounting system does not provide this level of customization, at a minimum make sure the expenses are alphabetized. This will make the review process much easier.

Track staff and provider labor expenses separately. As the largest practice expense, it is extremely important to have the ability to track staff labor costs—including wages, payroll taxes, and benefits—separate from provider costs. In many practices that I work with, staff and provider costs are lumped together which makes it challenging to evaluate the efficiency of either of these groups. On the provider side, separating these costs provides the ability to evaluate labor costs as a percentage of revenue, which is helpful in evaluating productivity over time.

Powerful Tool

Fortunately, most of the changes referenced in this article can be easily implemented in an accounting system. However, like many other important practice projects, the challenge usually centers on finding the time to get it done. In determining which of these tips to tackle first, let the practice goals and business plan serve as a guide. By following the tips presented in this article, you have the ability to turn your P&L statement into one of the most powerful business decision-making tools at your disposal.

For more information, contact BSM Consulting at 1-800-832-0609.