



# Want More Profit? Power Up Your Budget!

By Charles R. Felder, PT, SCS, MBA

## Executive Summary

*Business experts agree that two of the keys to running a successful business are a well written business plan and a budget. The author describes the process for developing a well designed budget to help you reach your practice goals.*

**M**any business experts agree that two of the keys to running a successful business are a written plan and a budget, both of which are reviewed regularly. In my work with physical therapy practices across the country, I consistently find that well-run practices have solid written business plans, and one of the ways they implement them is by having a budget that is reviewed monthly.

A well-designed budget can help you reach your goals. When I work with clients, we set not only operational goals, like new patients, visits, arrival rate, and so on, but also financial goals related to income, expenses, and profit. In

my view, both aspects are part of a focused budget and planning process.

The typical budgeting process begins in the fall. Looking at year-to-date data through September provides 9 months of data, which we annualize and then use as a predictor of what to plan for the coming year. Key metrics include the following:

- New patients (new cases)
- Visits
- Arrival rate
- Charges
- Payments
- Payment per visit
- Income
- Expenses (preferably split into labor, variable costs, and fixed costs)
- Expense per visit
- Profit

We typically export the financial data from QuickBooks and use it to populate an Excel workbook that lets us play “what if.” We add in the operational metrics so that everything is in one place and to permit calculations of key performance metrics. This also permits comparison from year to year to the averages from the APTA PT Benchmark studies.

After you annualize the year-to-date data, apply a desired growth rate. Then use the annualized data and the desired growth targets as a guide to choose next year’s budget.

Start by setting targets for new patients and visits. Use historical payments per visit or expected payments per visit to predict total collections for therapy services. Add in any additional services or income to arrive at total income.



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Next, work on your largest expense, labor. List all staff, their hourly wages, hours per week, and number of weeks they will work in the coming year to determine total wages for the year. To really fine-tune it, adjust for any expected changes in wages due to raises or incentives. Don't forget to include a salary for the owner's labor. Add in the expected payroll taxes and benefits and you are off to a great start.

Variable expenses are the next item on the list. We define variable expenses as those that tend to vary with volume or can be easily changed. Target desired spending for advertising, marketing, travel, education, postage, outside services, and clinical and office supplies.

Fixed expenses are those that tend not to vary much with volume, are critical to your business, and are difficult to change. The largest fixed expense is rent and facility cost. Add in bank fees, dues, subscriptions, permits, small equipment purchases, utilities, telephone, and professional fees.

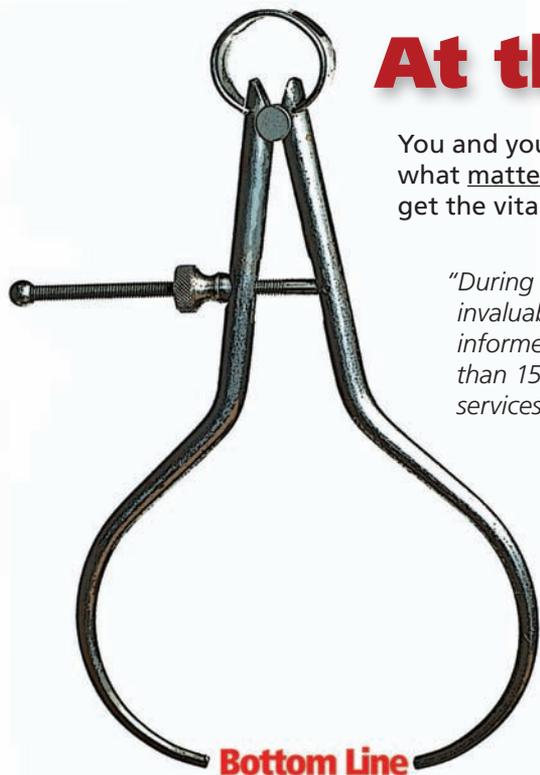
The next step is to compare the totals in each category and key metrics such as income per visit and visits per new patient to the current year and to external benchmarks. Examine the expected profit and make sure it is where you want it to be. If not, repeat the steps above until you get it where you want it.

Once you settle on the budget, enter it into QuickBooks to allow comparisons every month between the actual and budget. Review monthly and make adjustments as needed. Remember, budgets are not cast in stone. It's OK to adjust them based on market conditions. Create scorecards to track the operational metrics against goals and review those at least monthly. Some clients like to review key metrics such as new patients, visits, and arrival rate weekly.

Get started on your budget now! Set those goals and monitor them on a consistent basis. You'll be amazed at how often you reach them and the effect they have on your bottom line. ■

*Charles R. Felder, PT, SCS, MBA, of HCS Consulting, Inc., Corona, California, can be reached at 949-280-3449 or CFelder@HCSconsulting.com.*

If you would like a complimentary copy of the PT Budget Excel workbook we use in developing budgets, send me an e-mail.



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