

## **GMCP Ep. 095 - Profit First Strategy: How to Reach Your Revenue Target**

[INTRO MUSIC]

*This is the Grow My Clinic Podcast by Clinic Mastery where we help you deliver amazing client experiences to grow your clinic.*

**BEN:** Welcome to another episode of Grow My Clinic Podcast. My name is Ben Lynch. Today I have my beautiful co-host, Jack O'Brien. Jack, welcome.

**JACK:** Thank you, Ben. That is quite the introduction. I don't think I've ever been introduced as beautiful. It might be the first and the last.

**BEN:** I would like to think - spice things up here a little bit, catch people off-guard. Today, we're to talk about what a topical thing in the accounting world, in business world which is Profit First. If you have read the book, Profit First, or understand the profit for a strategy you'll be familiar. But to give you a bit of a 30,000-foot view of what this is and how we might apply it in a health business, we're going to run through a few Q and A's here.

So, the short version is that most businesses will have their income minus expenses and then, they're left with the profit after the end of the day. However, we do see a lot of businesses that aren't so profitable and this book, this concept, this strategy, really speaks to reverse engineering what profit would you like to start with or what would you like to aim to achieve, then, you kind of plus your expenses and then you end up with your revenue targets, so to speak.

And so, it's really reverse engineering, as a business owner, you want to do things sustainably and profitably, so that you can employ a team, so that you can continue to grow, and also serve your own needs as a business owner your bacon's on the line. We just want to talk a little bit more about the strategy and then how you could apply it in health and your clinic in particular.

So, Jack. Why don't you dive a little bit deeper into the mechanics of it and then how we might apply it?

**JACK:** Hmm, you know, Ben, I love Profit First, Mike Michalowicz is a great author, but what we find with most things like this is that they're brilliant

generally. However they lack the nuances that are required for this of a health clinic. If you're a physio, clinic owner, podiatry, naturopathy, psychology, there are subtleties to what we do that just can't be covered in a book that sold all around the world. And so, what we've found inside the business academy is that we can apply some of the principles of Profit First and customize those to match not just industry benchmarks, but high performance benchmarks.

What's interesting then is that I often speak with clinic owners who want to know what's the average wage expense for example, "what should I spend on marketing according to the industry averages?" My general response to that then is why would you want to benchmark yourself against the industry average when we know that our industry average sucks? So, you don't want to benchmark yourself against the average, you want to benchmark yourself against the highest performance. Because we know that the industry average says that clinics shut down all the time. Most small businesses don't survive. Most health clinics aren't profitable if they are at below ten percent. I hate to say it but that's not what I want for my clinic. I want massive impact and as a reflection of that, a healthy income. And profit inside the business academy, we have hugely profitable clinics not because profit is the end goal, but because it's a reflection of value and impact.

So, Ben, let's dive into some of the mechanics of Profit First and how we help clinics implement the principles and philosophies in their world. For those who have read it or maybe you're unfamiliar, the Profit First principle speaks about separating your your business bank accounts into a number of different accounts. Now, when the book is written, it's actually written in an American framework or context. And so, in an Australian context, we help clinic owners set up accounts that are relevant for their trading accounts, their tax accounts, their super and profit.

**BEN:** Different accounts or different sort of expenses, if you will.

**JACK:** That's right! Break it down. So, that you've got enough set aside for your PAYG, monthly bill, or your quarterly BAS, or income assessment statement, so that you've got enough set aside for your super contributions requirements and also prioritize profit.

Now, before those accounts though, Ben, (inaudible) of the clinic owners pay themselves a commercially viable salary arrangement for their work done. So, the very first thing we do is help clinic owners pay themselves for the work they do and then, profit is what is their income for work they don't do. That's their reward for owning an income generating asset.

So, pays off the proper commercial market salary, set up a couple of different bank accounts, and normally they don't all come at once, they come step-by-step at the right time relevant for your clinic.

But, here's where it gets (inaudible), Ben. This is what we do. We help clinics break up their PNL into functional categories when you look at your P&L; it's a, it's a sea of normally blue and white letters in Xero that are in alphabetical order, which is fantastic for your accountant but useless for you as a clinic owner so we jump in and with you, we break your PNL up into functional categories such as: what are your occupancy expenses, marketing, admin team, therapist team, product revenue, consulting revenue, breaking it all and there's a number of other different ones. So, we do that with you.

We then are able to extrapolate that out and using spreadsheets and formulas look at what your current percentages are as a percentage of your revenue. So, how much do you spend on marketing as a percentage of revenue. For example, off therapists wages inclusive or exclusive of super.

So what are your current percentages and what should your personal target percentages be. That's profit first language Ben, current percentages, target percentages.

What we find is that health industry wise, there's benchmarks, but it's different between professions. A podiatry clinic will have typically a lower wage percentage for therapists than a physio clinic, or a naturopathy clinic will have a higher product income or osteo will have a higher therapists percentage, so we help you set or define your actual percentages, define what your target percentages should be, but Ben that's only half the picture and this is where the (inaudible). Am I making sense with you firstly?

**Ben:** Absolutely. I think an important distinction as well the ad is that it's something that we do in collaboration with an accountant and of course the clinic owner as best as possible as willing and as able as they are, that it's not some sort of rogue event happening but that it there is a collaboration if and when they're willing because the accountant can help you better understand your numbers in a meaningful way to your business then we all make better decisions and take better quality action. So yes, it's making sense at this stage Jack (inaudible)

**Jack:** So two reflects, it pays off a market salary, set up some different bank accounts get your PNL in functional clinic relevant categories. Export that out to extrapolate what your current percentages are and what your target

percentages should be. And then, we translate those percentages into actual dollars.

What we then do, Ben, is help you take those numbers back to your accounting software, whether that Xero or QuickBooks, whatever it might be, and implement that into a budget manager that we can look at then in real time as to how your expenses are tracking compared to budget. So, it's not uncommon, Ben, at the time of recording, today's the 18th of the month, and what we do about now about the 15th to the 20<sup>th</sup>, we help clinic owners jump into their accounting software and go "all right for this month, we budgeted - I like to use marketing because I love (inaudible) - "you budgeted two thousand dollars for this month for marketing, so far, you've spent fifteen hundred dollars, you've got five hundred dollars spare to spend. What are you gonna do? Or it might be team meeting expenses and team entertainment looking after the culture of your clinic. You might have budgeted five hundred dollars to look after your team with breakfasts and gifts and all sorts of things. And this month, you've spent \$600 of the five hundred, so, you might need to postpone that day at the races.

So, we can then work operationally according to that budget. And you know, it takes time then to line yourself up with what your current percentages are and what the targets are. So, it's often 6, 12, 24 months of partnership working alongside a clinic owner to ensure sustainability and it has specific regard to your personal and/or clinic situation.

**Ben:** There's a lot of people that come with varying pay models for practitioners. Or there may be a process that's going on behind the scenes where they might be changing from contractor to employee. As an example, hence, why some of those timelines you mentioned there, Jack, so, I think that's an important distinction, that depending on the nature of the case, there might be some things that have to shift to actually allow some of those accounting things to make sense and be formed.

**Jack:** That's right. And what we often find is clinic owners looking to reduce their consulting hours, maybe not come off the tools completely or maybe they do, but reduce their clinical hours which means they might have a dream of paying themselves \$200,000 a year at the starting point, perhaps, their salary for work done is \$100,000 and their profit is 50. Over time they probably want their salary to come down towards \$50,000 and the profit of the clinic to rise from 50 to 100 and 150 thousand dollars to end up with the 200 grand income level from the impact they're having. And so, that takes a journey, but it takes the profit first principles of "what do you want to pay yourself," "what profitability

do you want your clinic to have and how do we verse engineer that in a clinic sense in functional operational categories that get you real results,” so that you can have the impact you want create amazing experiences for your team and your patients. Because, if you're broke and your business is bankrupt, you aren't helping no one. And that's the travesty that breaks my heart, when clinic owners can't create the experiences and clinical outcomes, obviously, for their patients that they so desire.

**Ben:** Absolutely. Jack, what's your perspective then on - if clinics are really trying to lower their expenses to match this profit target that they have, how'd - how do you weigh up the balance of what might be an investment in your team or marketing or mentoring or whatever the case may be, that may need to happen now in order to build and grow the clinic in 6 to 12 to 24 months, let's say, but it doesn't necessarily help the profitability right this moment.

**Jack:** Sure. Yeah, it's a good distinction. There are a number of different levers that we can pull to end up with a profit goal at the end or that you start with profit first. You can reduce your expenses or you can increase your revenue. That's in the simplest version of that formula. We also know that the profit formula within a clinic is to help more people, help them more often or add more value. And so, there's a couple of other levers that we can pull.

But what we would say, Ben, is an expense that directly helps you generate more revenue is not an expense, that's an investment. For instance marketing that works, marketing that converts, might I suggest that your billboard on the side of the road probably isn't converting as much as a Facebook ad or a Google ad, something like that where you're effectively, say, spending \$50 or \$20 even, to get a new client that's worth \$1,000 that, although it's an expense, is actually an investment. It's \$20 out, a thousand dollars in. Don't turn that up off, you want to up on that one.

Well, likewise with mentoring, I mean you know, for the nominal investment we helped a clinic recently add over five hundred thousand dollars a year of revenue to their clinic. Let me just say they don't mind the investment in mentoring when you're getting results like that. And so, those things are investments as opposed to an expense like electricity, or rent, or paper and ink, and stationery. Look we love client experience offices and admin team, but with respect to them, they're not always purely income generating assets in a clinic.

And so, that's the distinction, Ben. Isn't it expense, something that's going to generate income as an investment? Or, is it just a pure (inaudible)?

**Ben:** Yeah, absolutely. I think the distinction is right. We often talk about client experiences, we're going into a bit of money territory here which is super important, because you're in business and you need to make money. I think that our approach has never been to make that the sole purpose of what you're doing because there are people involved and you've got to treat people properly but being purposeful about your numbers and having those targets in place is very important. Because like you said Jack, if you are being more profitable, you can invest in the latest equipment and the latest resources, you can send your team to great CPD, where they are able to help more of your clients in different ways, you're able to pay yourself a commercial wage for the risk that you've got being a business owner.

So these are the meanings behind, it's not just about generating more money or getting more money out of your clients necessarily, but, what that will enable you to do is feed it back into your team and your clients and also yourself.

**Jack:** Yeah, you're absolutely right, Ben. I think it's an expense or investment it will all depend on your lens. How do you see the world? And what impact are you trying to have on the people around you?

For instance, on an earlier episode of the podcast, I spoke about welcome packs or client induction folders. Some may see that as a shiny folder costs \$2 and the paper costs 80 cents and the spiky ball that we threw in costs \$3 and it's \$5.80 of expense. I would argue been that patients stick around for one more consult that's worth an average of \$80, it's not an expense, it's an investment in an experience that helps a client get a better clinical outcome. That's an expense I wouldn't want to scrimp on. Does that make sense?

**Ben:** Absolutely. It's definitely a perspective on things and that's why we will often use the beautiful language, I think Shane Davis brought to us is, run it through your own filter whenever you read something, even listening to this, run up your own filter and get a few different perspectives, and then make some decisions with some quality people. But, make sure especially in an accounting world that your accountant is able to translate that into health specific. I mean, you touched on it at the top, Jack, just the sheer difference between the different health professions that we work with which is largely in a musculoskeletal world, physio, osteo, podiatry, remedial, we deal with speech and psych as well. But, make sure your accountant, your advisors understand the industries and the specifics of that, then you once as you use, Jack, because then you're going to get a better result as well.

**Jack:** Well there you go. Listeners, Profit First, good book. If I was to put a number on it, Ben, out of ten, what would I score it, out of ten tacos, I would give the profit first book six tacos out of ten. I love a good taco. Look, it's a good breed, I agree with about 60% of it, but 40% it's either irrelevant to my market, which is Australia or it's irrelevant to the health market, or there's a couple of elements that have a little bit of a scarcity mindset and not as not the abundance mindset that we're a bit more familiar with around here. So there you go, 6 out of 10. Take it or leave it.

**Ben:** Fantastic. Well we'd love to hear your thoughts. Maybe, even shoot us an email: [jack@clinicmastery.com](mailto:jack@clinicmastery.com) and [ben@clinicmastery.com](mailto:ben@clinicmastery.com). Send us an email about or leave a review, wherever you are listening or watching this and you can head over to [clinicmastery.com/podcast](https://clinicmastery.com/podcast), or all the show notes and references that we've made here. Again, thank you so much for listening there's a bit of - a bit of an in-depth conversation. Know, the time we'll expand on some of these number of things with getting relevant experts, accountants, advisors in to share some of their perspective that you can tap into.

Jack, thank you so much for your perspective, your insights there, incredibly practical as always. And we'll see you on another episode very soon.

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