



## 8 Common Cash Flow Pitfalls

Mick Kling, OD

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Financial Disclosures

Impact Leadership



Vision Source – Practice Management and Transition Advisor

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\$1,000,000 Practice w/ 18% Net?

Or

\$600,000 Practice w/ 30% Net?

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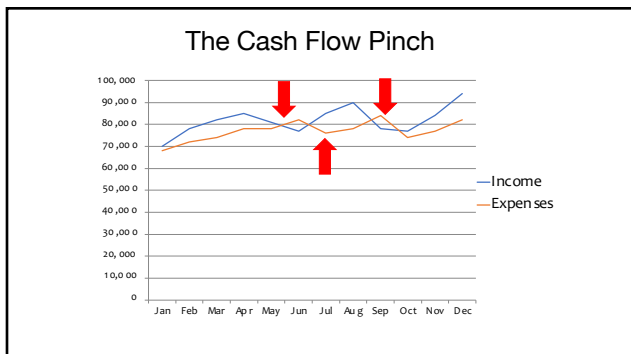
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Daily ledger balances

Date	Balance (\$)	Date	Balance (\$)	Date	Balance (\$)
12/01	3,047.61	12/12	22,643.47	12/21	9,338.22
12/04	5,943.80	12/13	26,492.22	12/22	12,780.23
12/05	11,021.40	12/14	35,989.22	12/26	35,806.40
12/06	8,927.22	12/15	37,973.92	12/27	22,908.40
12/07	6,124.61	12/18	21,608.99	12/28	32,745.39
12/08	7,828.99	12/19	22,252.06	12/29	13,579.94
12/11	29,976.09	12/20	31,593.47		

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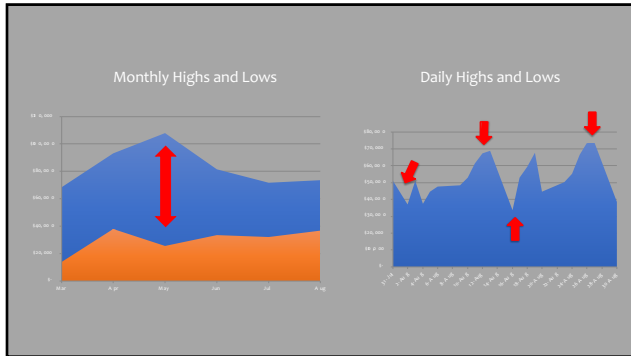
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**Cash Flow = Inflow – Outflow**

Cash Flow Management is...collecting as fast as you can and paying as slowly as you can.

It's all about timing...

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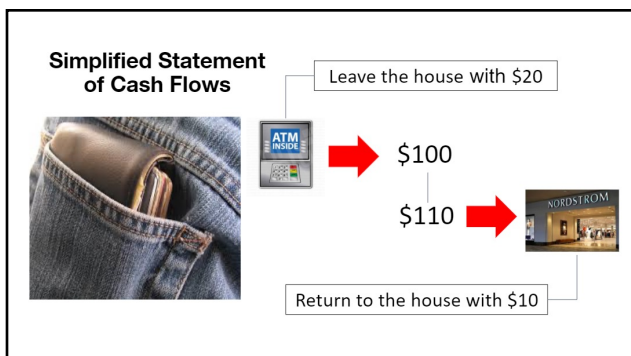
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**Simplified Profit and Loss Statement**

Income	\$1,000,000	% of Revenue
COGS	-\$280,000	28%
People	-\$250,000	25%
Place	-\$80,000	8%
Things	-\$120,000	12%
<b>Net Operating Income</b>	<b>\$270,000</b>	<b>27%</b>
Doctor's Compensation (W-2)	\$170,000	17%
Practice Net Profit	\$100,000	10%

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**Profit  
vs.  
Cash Flow**

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Profit vs. Cash Flow			
Profit		Cash Flow	
Revenue	\$ 720,000	Revenue	\$ 720,000
COGS	\$ 180,000	COGS	\$ 180,000
Gross Margin	\$ 540,000	Gross Margin	\$ 540,000
Overhead	\$ 360,000	Overhead	\$ 360,000
Net Operating Income	\$ 180,000	Net Operating Income	\$ 180,000
Associate	\$ 25,000	Associate	\$ 25,000
NET (Before OC)	\$ 155,000	Owner's Draw	\$ 120,000
Interest	\$ 26,000	Bank Note	\$ 48,000
Depreciation	\$ 42,000	Equipment Loan	\$ 21,600
Profit	\$ 87,000	Operating Cash Flow	\$ (34,600)

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## Pitfall 1



### Declining Revenue (Collections)

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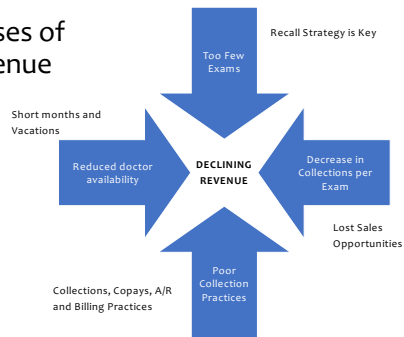
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#### 4 Primary Causes of Declining Revenue



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#### Pitfall 2



Owner's Comp Too High

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#### Determining Fair Market Compensation

Office Role	Days/Week	Daily Compensation	Weekly Compensation	Annual Compensation
Clinical OD	3	\$500	\$1500	\$78,000
Practice CEO	0.5	\$308	\$154	\$8,008
Practice Admin	1	\$154	\$154	\$8,008
<b>TOTAL</b>				<b>\$94,016</b>

Clinical OD based on \$130,000 annual compensation  
Practice CEO based on \$80,000 annual compensation  
Practice Administrator based on \$40,000 annual compensation

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## Pitfall 3



### Too Much Debt

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#### Simplified Profit and Loss Statement

Income	\$1,000,000	% of Revenue
COGS	-\$280,000	28%
People	-\$250,000	25%
Place	-\$80,000	8%
Things	-\$120,000	12%
<b>Net Operating Income</b>	<b>\$270,000</b>	<b>27%</b>
Doctor's Compensation (W-2)	\$170,000	17%
Available for Debt (P+I)	\$100,000	10%
This is pre-tax income!		

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#### How Much Debt Is Too Much?

##### The Formula:

Annual Debt (P+I) / Practice Revenue = % Debt

##### Example:

Practice Revenue = \$800K

Total Annual Debt Payments (P+I) = \$56K

$$\$56K / \$800K = 0.07 * 100 = 7\%$$

< 5% is manageable  
5-10% is concerning  
> 10% is a red flag

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## Pitfall 4



### Overspending on Frames

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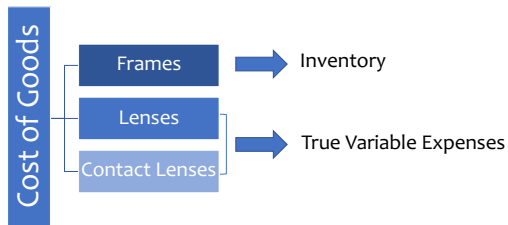
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## Controlling Frame Expenses



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## Setting A Frame Spend Target

**COGS Target**                      **28%**

Lenses                                -8%

Contact Lenses                      -10%

**Frame Target Spend**                      **10%**

Set a frame spend target of 10% of the previous month's revenue for the next month.

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## Pitfall 5



Legacy Employees

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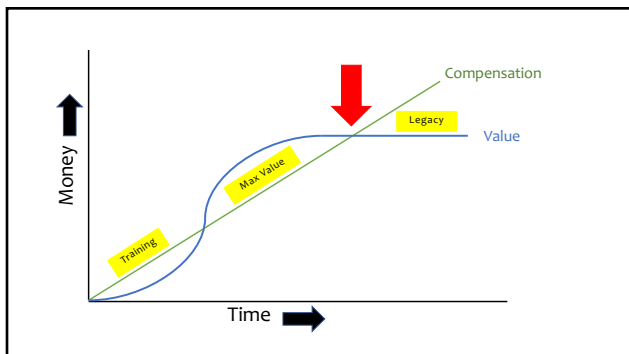
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## Pitfall 6



Pre-Paid Expenses

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## Pitfall 7



### Wasteful Spending

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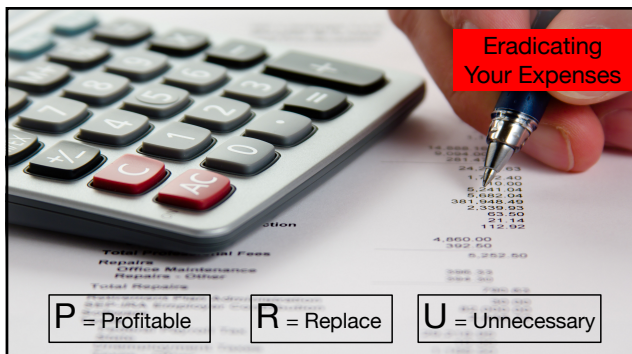
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## Pitfall 8



### Occupancy Costs Too High

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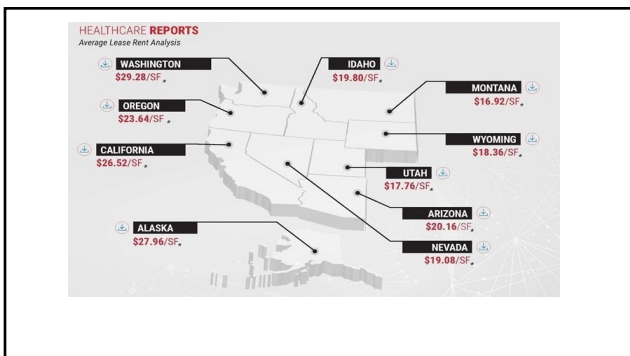
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**Simplified Profit and Loss Statement**

Income	\$1,000,000	% of Revenue
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Doctor's Compensation (W-2)	\$170,000	17%
Practice Net Profit	\$100,000	10%

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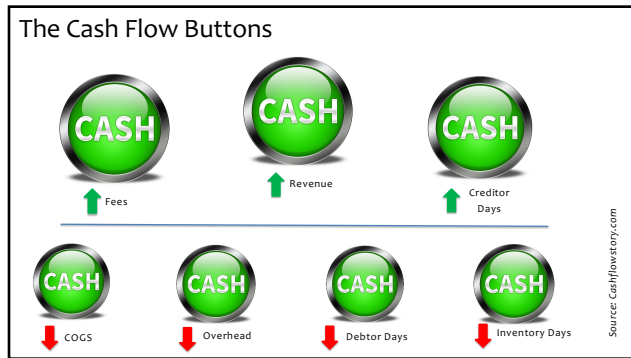
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### Impact of Cash Flow on Practice Valuation

Current		Impact	Difference
Revenue	\$ 720,000	↑ 1% \$ 7,200	
Fees	\$ 720,000	↑ 1% \$ 7,200	
COGS	\$ 180,000	↓ 1% \$ 7,200	
<b>Gross Margin</b>	\$ 540,000	<b>\$ 561,600</b>	\$ 21,600
Overhead	\$ 360,000	↓ 1% \$ 352,800	
<b>Net Operating Income</b>	\$ 180,000	<b>\$ 208,800</b>	\$ 28,800
OD Comp	\$ 100,000	\$ 100,000	
<b>EBITDA</b>	<b>\$ 80,000</b>	<b>\$ 108,800</b>	\$ 28,800
<b>Multiple</b>			<b>Difference</b>
3	\$ 240,000	\$ 326,400	\$ 86,400
4	\$ 320,000	\$ 435,200	\$ 115,200
5	\$ 400,000	\$ 544,000	\$ 144,000
6	\$ 480,000	\$ 652,800	\$ 172,800
7	\$ 560,000	\$ 761,600	\$ 201,600

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### Now What?

- ✓ Plan for short months and vacations
- ✓ Collect Co-Pays, Submit Claims On Time
- ✓ Review your own compensation
- ✓ Commit to a Debt Freeze
- ✓ Set a Frame Budget
- ✓ Reconsider Betty's Role
- ✓ Stop Early/Pre- Payments and Wasteful Spending
- ✓ Grow Into Your Location or Move

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