The Miracle Investment For Increasing Practice Income

by P. Christopher Music

Every chiropractic clinic needs to make money; the amount of money you make is usually above your expenses, and this feels good. This is what is called making the make/break point, and when you're in this position you feel that you are financially stable and making progress toward your financial goals.

The biggest concern for most practice owners is making more income. As a matter of fact, this is a challenge for every clinic because without income the practice cannot expand. But how do you go about increasing your practice income? More patients? Better marketing? Efficient systems?

If you look at your business and personal expenses over the last year and determine which outlays of money were expenses versus investments, you will immediately see why you don't have the income you desire in your practice or at home — too much money is allocated to areas that do not provide any future income and value. At the same time, this answers the question of why you cannot afford to buy anything or invest in anything right now; there are plenty of opportunities to invest in your financial future but you may be trapped in a debt-ridden cash crunch that prevents you from having the resources to make that investment. If that's the case, then it is imperative that you cut off the flow of unproductive expenses and channel that money into productive investments.

When you pay yourself as the owner, you are getting properly compensated for the value you bring to the practice, i.e. your risk of capital, creditworthiness, personal guarantees, professional license, investor and entrepreneurial guidance, directorial functions, intellectual property, et al.

The secret is in the discernment of what constitutes an expense and what represents an investment. By definition, an expense is an outlay of money that is imminently consumed and doesn't provide any future income or value. Examples include utilities, rent, meals and entertainment, wastage, etc. An investment, on the other hand, is an outlay of money that purchases future income and value; examples include buildings, equipment, software, marketing and training. Notice that both expenses and investments require outlays of money, but do these outlays buy you future income and value or not?

When we talk about the make/break point, i.e. when income exceeds outlay, we're talking about the point where the business is actually making profit, profit being the reward for spending more on investment than expense. Of course, the profit then increases to the degree where more outlay is allocated toward investment rather than expense by an ever-increasing margin.

What kind of investments do you buy for your practice? It could be equipment, staff and/or executive training or marketing. And have you noticed that, when you make a new investment in your practice, you do everything you possibly can to get your return out of that investment? You focus your attention on implementing the new asset and ensuring that it produces an acceptable return, and when you do, you create an affluence in the income, giving your practice much needed expansion. To do otherwise would be to turn that investment into an expense and push you potentially below the make/break point which is something that personally concerns all practice owners.

One of the investments that your business absolutely needs to make is your retirement. This is most commonly overlooked by practice owners because you devote so much energy and attention to paying everyone else first. If you have a retirement plan in your business, this is why they work. Have you ever noticed that when you make contributions to a retirement plan you take the money out before you get it, and you really never notice the fact that a deduction from your paycheck is occurring? Yet money is being accumulated, on your behalf, that will create future income and value for you. Part of this retirement plan is paying yourself first as an owner from the business, i.e. 10% of your practice's gross collections. Now before you dismiss this as something that is impossible, follow my logic:

Retirement planning is not something that is a nicety or something that can be put off indefinitely; it is the only way you will escape a future of financial stress and lack. Therefore, its proper importance ranks ahead of the next cool piece of equipment or marketing idea.

When you pay yourself as the owner, you are getting properly compensated for the value you bring to the practice, i.e. your risk of capital, creditworthiness, personal guarantees, professional license, investor and entrepreneurial guidance, directorial functions, intellectual property, et al. That means if your practice is collecting $1 million a year, then you (the owner) are being paid $8,333 for all of this value provided, before anyone else gets paid for their contributions. You could consider this a royalty or consulting fee if that helps you justify the expenditure. In actuality, this has been a liability of the business since day one, i.e. it is behind in paying you what is owed. Just for fun, add up all of the gross collections since the day you opened your clinic and multiply by 10%. Subtract the balances you have in your retirement accounts from this figure, and the result will be the debt owed to you by the practice. I suspect that this is a big number. Now go and collect it.

There are 2 caveats to this owner compensation: 1) the expenditure must start today since value is being provided for no exchange. If you are already spending this amount or more on expenses in the business, recognize that this is an investment since it goes for the security and stability of the practice owner, the individual(s) on whom the practice's survival depends, and 2) the income from this is never spent today on household expenses. The money is only designated as future income and value for the owner's retirement, not before; therefore, you must work out a financial plan to create an effective use of this asset for your financial independence and well-being.

Now you might be thinking that this sounds great in theory but impossible in practice. Not so, because it is based on a natural law that you may not have observed. I mentioned earlier that, when you make an investment in your business, you will work harder to get a return on that expenditure. Well, the same phenomenon occurs when you take the owner's compensation from the practice. The business will "miraculously" produce more income to meet the greater cost of the investment. If you don't believe me, try it. Just start taking any amount and pay the owner. It will just be considered an expenditure by the business, and it will, by necessity, make more income to cover its make/break point.

If you care to notice, the amount of income your practice makes today is what you have deemed enough to cover your expenditures and whatever profit you have determined is sufficient. If you want to make more income, just increase the expenditures and get the team working to get above the make/break. It works like magic.

Don't sacrifice your financial independence under some delusion that income is hard to make. It really isn't, as long as you understand the rules. You already know that waiting to pay yourself (the owner) last leaves you with nothing after the investments and expenses are made in the practice.

Retirement planning is not something that is a nicety or something that can be put off indefinitely; it is the only way you will escape a future of financial stress and lack. Therefore, its proper importance ranks ahead of the next cool piece of equipment or marketing idea. Once you properly compensate yourself as the owner and make the business cover the expenses and expenditures for that "new investment," you will have discovered the miracle of increasing practice income.

About The Author: P. Christopher Music, a 23-year veteran financial advisor, best-selling author and well-known speaker, works with private practice professionals. Founder of Econologics®, president of Econologics Financial Advisors, and the creator of The Private Practice Millionaire® series of live workshops and home study courses, he has appeared on ABC, CBS, NBC, and FOX affiliates throughout the U.S. and has been published in Forbes, Newsweek, The Wall Street Journal and various healthcare industry publications. Visit PrivatePracticeMillionaire.com.