Inside a Profitability Evaluation™

WHEN LATE FINANCIAL STATEMENTS WEREN'T THE REAL PROBLEM

When the owner of a growing, two-location medical practice first contacted me, she believed she had an accounting problem. The previous year's financial statements hadn't been completed. The current year was already three to four months behind. Without current financial information, she couldn't confidently make decisions about the business. One decision, in particular, couldn't wait much longer. The practice needed another person.

But what could they afford to pay?

What should that person actually be responsible for?

Would the role generate enough value to justify the investment?

Those questions couldn't be answered because the financial information simply wasn't available. The obvious conclusion was that the accounting needed to be caught up. On the surface, that seemed reasonable. **The Profitability Evaluation™** revealed something very different.

The Hidden Costs the Profitability Evaluation™ Uncovered

- **Leadership capacity was being consumed.** An experienced Practice Manager was keeping accounting moving instead of running two busy practices.
- **A significant investment was about to be made in the wrong solution.** The reporting platform being considered wouldn't have addressed the conditions creating the problem.
- **Years of manual processes had created unnecessary complexity.** That complexity was consuming time and making bookkeeping appear more expensive than it needed to be.
- **Earned revenue wasn't always reaching the bank.** A three-month review confirmed that some credit card deposits had not been received.

None of these were the problem the owner originally came to solve.

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What the Profitability Evaluation™ Uncovered

The delayed financial statements weren't being caused by one problem.

They were the result of several underlying business conditions that had gradually developed over time.

The accounting file was hosted on the CPA firm's server. A data issue had prevented work from moving forward, but resolving it had to wait until after the firm's April filing deadline. By the time access was restored, the accounting records were months behind. Every month that passed added hundreds of additional transactions that still needed to be entered before the business could begin producing reliable financial information.

At the same time, the Practice Manager had gradually become responsible for keeping the accounting function moving. **Not because that was the best use of her time. Because someone had to do it and every time they tried to outsource the function, the quote was very expensive.** The cost and perceived value of outsourcing the bookkeeping could not be reconciled.

As the Evaluation continued, another pattern became clear. Many of the accounting processes depended on manual effort. The business had adapted around those manual processes for years. They had become normal.

The Practice Manager was also evaluating an expensive financial reporting platform that had been presented as the solution to the reporting problem. It was sophisticated. It was expensive. It was completely wrong for their needs. It also wasn't going to solve the conditions creating the problem.

The business didn't need more sophisticated reporting.

It needed reliable financial visibility.

Individually, each condition was manageable. Together, they were limiting the practice's ability to grow.

The Cost of Staying There

The cost wasn't simply late financial statements.
The cost was operating a growing business without reliable financial visibility.

Important hiring decisions were delayed because leadership couldn't confidently determine what the business could afford or what a new role should accomplish. There was another, less visible cost. The owner was on the verge of burnout while continuing to generate most of the practice's revenue.

An experienced Practice Manager was spending valuable time trying to keep accounting moving instead of leading two busy practices.

Manual accounting processes continued consuming time every month. Because so much of the work depended on manual effort, bookkeeping appeared far more expensive than it actually needed to be.

The business wasn't paying for bookkeeping.
It was paying for complexity it had gradually learned to live with.

The Evaluation also uncovered another concern.

There was no consistent process to verify that every credit card deposit had actually been received. Reconciling deposits depended on manual effort. Sometimes it was completed. Sometimes it wasn't. The business couldn't confidently confirm that every dollar it had earned had made its way into the bank. A quick audit of three months revealed that they were in fact not receiving all of their deposits.

None of these conditions appeared on the financial statements.

Yet every one of them affected how the business operated.

Every month these conditions remained in place…

Another hiring decision was delayed.
More leadership capacity was consumed instead of moving the business forward.
More manual work became normal.
And the business continued operating with limited financial visibility.

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What Happened Next

The purpose of the Profitability Evaluation™ wasn't to produce a long list of recommendations.

It was to determine what required immediate attention...
what could wait...
and where addressing the underlying conditions would create the greatest relief for the business.

Some opportunities for improvement were straightforward and could be implemented quickly.
Others required a longer-term plan because the conditions had developed over years, not months.

- **What changed wasn't simply the accounting.**
- **What changed was the owner's understanding of the business.**

The conversation was no longer about catching up the financial statements.

What the business actually needed was a clearer understanding of the conditions affecting its ability to grow without relying so heavily on the owner.

Looking back, none of the decisions the owner was considering were unreasonable.

Hiring another employee.
Investing in new software.
Outsourcing the bookkeeping.

Each one could have been justified.

The problem wasn't the decisions.

The problem was making them before understanding the conditions affecting the business.

If your business feels harder to run than it should...before you make another significant investment, hire another employee, or implement another system...book a **Clarity Consult.**

If you're preparing to make an important decision in your business, make sure you're solving the right problem first.

We'll spend twenty minutes talking about what's happening in your business and determine whether a Profitability Evaluation™ is the right next step.