Increase Profitability

Like every other business in the western world, dentistry should return a profit. Unfortunately, many practitioners labor under the mistaken idea that any money that is paid the doctor throughout the year is profit. If the doctor were to invest in a publicly held stock, there would be an idea of a Return On Investment (ROI) for the risk of owning the stock.

This return will come either in price accumulation of shares or a dividend payment somewhat regularly. Of course there are no publically traded shares of dental office stock, but the doctor must anticipate a ROI if the business is to prosper. If the doctor owned 3M stock and showed up to work there as well, there would be an expectation of making money in the way of a salary for time invested as well as making money from owning the stock.

This is exactly what the doctor has done. He/she shows up at the office ready to deliver wonderful care and expects to be paid for this action. But what about the return on the capital that is tied up in the office, which could alternatively be invested elsewhere, say a flower shop or travel agency? There are times when that would actually be a better place for the investment than in the dental office.

Because of this lack of planning for a ROI, many doctors can be described as ambulatory bankrupts.

Let's see how this can be avoided:

To determine the return on investment at your office, you must estimate the dollar amount of the funds invested in the office. Another way of looking at it is to estimate the current value of the office to a new buyer. Take this amount and ask, "what interest rate would you demand if you were paid this amount and then left the practice to a new owner?" Multiply this interest rate times the practice value and then add it to about 30% of the last 12 months' doctor production. The 30% is what the doctor would be paid if he/she showed up and did dentistry. The ROI figure will be added to this number and that should be the total doctor compensation. If the doctor's current compensation is larger than this number, the return on investment is larger than you had expected.

The result is a discovery that many doctors have set their goals inadvertently too low.

The nature of running a dental business is the high level of fixed costs required. For example: The rent must be paid no matter how many patients are seen. This is true with the cost of insurance, bank loans, staffing, etc.

There are only a few costs that vary with the amount of business that is generated and they are called variable costs. The two really big ones are Dental Lab Fees, and Dental Supplies. They amount to only 8 to12% of production for dental lab fees, and 5 to 7% for dental supplies.

Making a great investment in time and energy trying to reduce costs will only generate a small amount of increased profit. On the other hand, since there are not too many costs that may be reduced, a much better return on time and energy investment may be had by focusing on how to increase production while containing costs.

What About Your Fee Schedule?

The High Fee Paradox

Periodic fee increases do cause some “price-conscious” patients to leave the practice. Many times dentists will report the numbers are less than anticipated. It’s interesting to note that some 10 to 15 % of practices actually get busier following a fee increase.

Research says that there are two reasons for this:

1. Most dentists, who charge more for their services, try HARDER to provide above average patient care and personal service. This, in turn, leads to happier patients, more referrals, and a busier practice.
2. Being worth more as you gain experience and knowledge combined with doing more for patients, justifies higher fees. And earns greater respect, boosts self-confidence, makes work more satisfying, and produces practice growth.

This is not a rationale for raising fees but the paradox is worth noting.

The Eastman Kodak Study of Fees
Because of the high fixed cost of operating a dental office, a fee increase, depending on your overhead, can result in huge increases in profit even if a larger than normal number of patients leave the practice.

The old Eastman Kodak Study, done years ago, illustrates this point:

Assuming that your profit margin is 25%, a 10% reduction in your fee means that you must increase your volume of patients seen by 67% to make the same profit.
Assuming a 10% fee increase means the same profit with only 71.5% of your previous number of patients seen.

Your fees should be reviewed at least two times per year. It is better to raise them in small increments.

Undoubtedly, some patients will complain. Experience indicates that unless you have a few complaints your fee schedule is too low.

	10% Low	**Average**	**10% High**
Gross Production	$500,000	$550,000	$605,000
Operation Costs	$357,500	$357,500	$357,500
Gross Profit	$142,500	$192,500	$247,500

What Should My Overhead Expenses Look Like?
The solution to greater profitability is not working more and more clinical hours. Spend time preparing budgets and planning. Clinical procedures have a plan to them. If you skip a step the procedure usually doesn't turn out well. It is no different with your overhead and profitability. Plan it!!

Here are some benchmarks you can use to compare your practice. Ratios that will help you prepare your budgets, % if gross production.

1. Staff Total Compensation* 26.4%
2. Clinical Supplies 6%
3. Lab (without Cerac) 8-12%
4. Office supplies 1% or less
5. Rent and Occupancy 6%

6. Legal and Accounting 1.5%
7. Continuing education 1% or more
8. Practice promotion and marketing 1-3%

* Includes salaries, wages, commissions, payroll taxes and fringe benefits but excludes retirement contributions.

Jason B. White (Jay) is the president of J. White and Associates, LTD., a dental consulting firm located in Apple Valley, Minnesota. He has been helping dental practices increase profitability for over 35 years. To see how he can facilitate your practice's growth, please give him a call at 952.432.3322.