Uncover the practice profit killers

Sally McKenzie, CMC

They say the evidence never lies. Here are the clues: Production fluctuations regularly. Collections are shaky. The schedule is either feast or famine. Hygiene is booked solid yet the hygienist is spending almost as much time sitting and waiting as she/he is scraping and cleaning. All these seemingly inconsequential details of the typical dental practice are, in fact, the smoking gun, the fingerprints left behind, the DNA of a crime scene in which practice profits are the victim.

You know how the hairs stand up on the back of your neck when you’re staring at those practice financial reports that are telling you something isn’t right? Or that chill that washes over you when you realize that you may not be able to pay yourself this month? Then, seemingly without warning, there is so much red ink the books look like a crime scene. Time to bring in the investigators.

The industry standard for overhead is 55 percent of collections. If you are currently at 60 to 65 percent, you probably don’t need to notify the authorities. If yours is higher, you may be looking at doing hard time. Some practices report their overhead as high as 80 percent. They are making a mere 20 cents on the dollar! Now that is criminal. The first step in arresting the profit killers is to lay down a few financial laws.

Establish the following budget targets:

- Dental supplies = 5%
- Office supplies = 2%
- Rent = 5%
- Labor = 10%
- Payroll = 20%
- Payroll taxes & benefits = 3%
- Miscellaneous = 10%

While there are several factors that influence overhead, look first at the most frequent offenders: high expenses, inconsistent production and low collections.

Still paying for the ‘Good Ol’ Days?

One of the probable high expense culprits is rent that is tipping well over 5 percent of monthly collections. You say you have an alibi, but it’s probably not going to hold up during cross examination. Your story is this: You moved into this gorgeous new space that you were certain the patients would absolutely love. At the time, before the economy collapsed to be specific, you convinced yourself that a little boost in production here and there would cover the expense. You ran the numbers, did the math, it all added up just fine, at least the way you looked at it. You reasoned that you simply had to take the plunge, it was now or never. Unfortunately, now you’re wishing it had been never.

Many doctors convince themselves that because the space looks good and it’s in a good location, they will be able to improve productivity. They don’t conduct a careful investigation of the area. Worst of all, they simply disregard the importance of the 5 percent parameter.

For example, let’s say you produce $25,000 per month. You collect $21,000 per month and you want to move into a new facility with a total rent of $2,500 per month, which would be a $1,450 increase over what you are paying now. You justify the increase by telling yourself that a couple more crowns per month will take care of it, not a problem. If only it could be that simple.

With a $2,500 per month rent bill, you will have to collect a handsome $50,000 each month to stay within the 5 percent guideline. Therefore, you will have to increase collections by a whopping 20 grand to cover that itty-bitty, little $1,450 per month rent increase. Feel like you’ve been robbed?

Moreover, there is no guarantee that the bigger, better space will bring in more patients, particularly when times get tough ... unless you develop a plan for how you will attract new patients and, most importantly, keep the patients you already have.

If you’ve already signed your profits away for the next 30 years...