



### Strategies to Take in Tough Economic Times

This is the second in a series of three articles about strategies to take to assure your practice is running as efficiently as possible. Maximum efficiency for maximum profitability is essential when there is a slowdown in the economy and you feel the tightening of family wallets. There is just not as much room for error when you feel your profit margins are shrinking. There are three essential areas within your practice that you want to make sure are running well: a **practice business plan that defines and monitors goal numbers, well organized front desk systems** and **great customer service**.

The last issue of *PMM* discussed what you can do on the business planning side of your practice by creating a **practice business plan** that defines the following: goal numbers, break-even point, collection, production, producer (Dr., hygiene, hospital) work days and producer production. These numbers are necessary for front desk systems accountability and goal monitoring and will tell you if the practice is performing at a level that will meet your financial needs. Also, if goal numbers are not being met, then you will discover what part of the practice (goal number) needs attention.

This issue will discuss **monitoring overhead expenses and goals** (practice vital signs). The next issue will discuss **front desk systems** and **customer service**.

### Monitor Overhead Expense Budget

All financially successful businesses run on a budget. A monthly budget amount should be defined for each expense category of your practice. I recommend that the dentist reviews the practice's profit and loss statement each month or on a quarterly basis, which helps monitor the budget that has

been set and make adjustments when necessary. **When expenses get out of control it is usually the dentist's salary and/or retirement contributions that are reduced to make up the difference.**

Simply concentrating on high production values does not guarantee that your office will have a healthy overhead expense percentage. It is important to assign a monthly dollar amount to cost categories, especially those of dental and front office supplies because the staff makes the purchases within these areas. I recommend that the staff member responsible for making purchases is given a monthly dollar amount and a monitoring system to keep track of purchases month-to-month so they stay within the monthly budget goal. If an overhead budget monitoring system is put into place and followed throughout the year, then an increase in net profit will be achieved.

### Suggestions to Reach Goals

A total overhead expense budget goal percentage depends upon the size, debt service and maturity of the practice. A general guideline of a total overhead percentage for a pediatric practice can range from **52 to 62 percent**.

#### Breakdown of Total Overhead Percentages:

- **Miscellaneous (four to six percent):** advertising, business insurance, property taxes, misc.
- **Office (three percent):** bank charges, credit card fees, billing and collections, office supplies, postage, printing.
- **Professional Development (one percent):** dues and subscriptions, staff continuing education.
- **Dental Supply (four to six percent).**
- **Lab (a quarter of one percent).**



- **Facility (eight to ten percent):** rent, repairs, janitorial, laundry, telephone, utilities.
- **Professional Advisors (two to four percent):** legal, consulting, accounting, payroll
- **Labor (18 to 24 percent).**
- **Staff Benefits (two to three percent.)**
- **Staff Payroll Tax (two percent).**
- **Owner Benefits (one to three percent):** doctor, payroll tax, auto, doctor continuing education, travel, dining, retirement, doctor insurance.
- **Owner Income (30 to 48 percent).**
- **Equipment, Depreciation & Debt Service (three to ten percent).**

## Monitoring Practice Goals & Vital Signs

When one measures a goal, one pays attention to that goal. This is a universal law of business that doctors need to incorporate into their practices. It is also said that things cannot be improved unless they can be measured. The purpose of monitoring is to measure and improve. Monitoring provides accurate data to show if goals are being reached so the right decisions can be made to continually improve the practice.

Therefore, monitoring practice goal numbers and vital signs is a complete practice system that should be a part of every practice. A team can easily increase production by 10 percent when using a goal monitoring system because the team is focused on the end result. Also, goal numbers can be used as a benchmark for staff performance, especially with front desk staff. If you have not monitored goal numbers in the past and your team is wondering why you now want to make monitoring part of your practice culture, then your response could be: "I have learned that it is a smarter way to run a business when you make a business plan for the year and track its progress. That way we can work more effectively as a team to ensure the practice stays financially healthy and continue to support a high level of customer service and deserved wage increases and benefits."

## Monitor Goals Closely

There are three areas of productivity in a pediatric dental practice that should be looked at separately (restorative, recall and hospital) instead of one total practice production number at the end of the month. I strongly recommend that daily producer goals (doctor and hygiene) are monitored each day to know how the productivity of that area of the practice

is performing throughout the month, instead of finding out at the end of the month that it is behind goal. This way, appropriate steps can be taken to increase that part of the practice in a timely manner. In a mature pediatric dental practice, recall can grow to become 50 to 75 percent of the annual production.

Meeting the goals (practice vital signs) month-to-month can vary depending upon the time of the year, so monthly totals should also be tracked on a year-to-date basis. These vital signs should be discussed monthly as a team. If any vital sign is not meeting the standard objectives, then the team should decide what they can do differently to help the practice in meeting that particular goal.

Some goal numbers are monitored on a daily basis so that immediate actions can be taken for improvement. Other numbers are not as time sensitive and are looked at on a monthly basis.

## Monitor Goals Daily

- Scheduling goal for each producer: The scheduling coordinator at the front desk must try to schedule appointments so that each day meets each producer's scheduling goal.
- Production goal for each producer and the total practice: The scheduling coordinator must monitor the production of each producer (restorative, recall, hospital) with some type of monitoring system to see if they are meeting their daily producer production goal. If doctor production is under the desired value, then the team must focus on filling the doctor's schedule with treatment that has been diagnosed from new patients, recall exams, emergency patients or patients that have had treatment diagnosed and have not yet scheduled their appointments.

If the hygienist's production is below expectations, then the team must focus on filling the hygiene schedule with new patients or patients due for their recall appointments.

- Appointment Scheduling Effectiveness Ratio = 
$$\frac{\text{\# of appointments seen}}{\text{\# appointments scheduled}}$$

Goal is a 95 percent show rate.



## Monitor Goals Monthly

- Producer and practice total production.
- Number of days worked for each producer.
- Total practice collection.
- Collection ratio: 98 percent+ (unless reduced fee plans are used).
- Scheduling effectiveness ratio: 95 percent show rate.
- Accounts receivable (AR) total: one to one ratio to monthly production.
- Total of AR in 61+ days: not more than 18 to 25 percent.
- Collection at Time of Service: 35 to 45 percent.
- Adjustments to Production: two to four percent.
- Adjustments to Collection.
- New patients: 65–75+ new patients/month are needed to maintain and grow an average pediatric dental practice.
- Percent of patients in recall: goal is 75 percent.

## Monitor Goals Yearly

It is important to know how the practice performance compares from year-to-year. A dental practice should grow two to four percentage points above the national inflation rate each year.

Often, the inflation of dental supplies and services is greater than regular consumer products. Therefore, you want to see your dental practice production and collection increase five to seven percent per year to stay even. To experience true practice growth, the increase should be even higher.

If you have successful numbers in your practice, then it is a reflection of a good team effort that has resulted in satisfied patients. Satisfied patients return to the practice, accept treatment plans, pay for treatment and refer new patients. Start making plans now to run your practice more efficiently in 2009 by having a practice business plan and an overhead budget and goal monitoring system in place before the end of 2008. When these actions are applied to a practice, there is always an increase in profits and more peace of mind for the doctor.

### Plan Now For a Better 2009 with Better Business Tools!

Put the right business tools in place to run as efficiently as possible:

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|--|-------------------------|
| • <i>Practice Vital Signs &amp; Goal Monitoring System (standard)</i>                | \$495                   |
| • <i>Overhead Budget Monitoring System for Dental Staff</i>                          | \$75                    |
| • <i>Customized Dental Practice Business Plan</i>                                    | call for quote          |
| • <i>Front Desk System's Check &amp; Training</i>                                    | call for quote          |
| • <i>Practice Goal Calculating Tools; Collection, Production, Producer, Workdays</i> | coming soon to web site |

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American Academy of Pediatric Dentistry  
211 E. Chicago Avenue-Suite 1700  
Chicago, IL 60611- 2637



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