



Business Metrics for the Pediatric Dental Practice

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Peter Drucker is one of the best-known and most widely influential thinkers on the subject of business management. He is often quoted as saying that **“if you can’t measure it, you can’t improve it.”** A doctor needs to know what the healthy business metrics should be for their practice and monitor these numbers on a regular basis. With this knowledge, a doctor can quantify the practice’s progress and make changes as necessary to produce the desired result. Without clear goals that can be measured, a doctor is only guessing if the practice is maximizing efficiency and profitability and does not have an accountability tool to use with staff that are responsible for scheduling production, collecting fees and purchasing supplies.

BUSINESS PLAN METRICS

- **Break-Even Point (BEP)**—total dollars needed to meet overhead expenses, capital improvements, new equipment, raises, inflation adjustment, loan payments, doctor salary and retirement contributions. For illustration purposes, this example will show calculations for a sample practice that has a break-even point of \$1,147,776.

- **Monthly Collection Goal**—break-even point total ÷ 12

- $\$1,147,776 \div 12 = \$95,648$

- **Collection Ratio Percentage**—previous year’s collection ÷ previous year’s production. A healthy collection ratio is to collect 96-98 percent of the fees that are collectable after insurance and charitable dentistry adjustments have been made.

- $\$975,000$ (previous year’s collection) ÷ $\$994,898$ (previous year’s production) = 98 percent collection ratio

- You should notice that in this example, when the BEP is calculated, the practice’s new desired break-even point requires a 17 percent increase over the previous year’s total collections [$(\$1,147,776 - \$975,000) \div \$975,000 = 17\%$]. At this point the doctor must either take action to achieve this 17 percent increase in production/collection or adjust the practice’s financial needs.

- **Average Number of Doctor and Recare Workdays/ Month**—a doctor that sees patients M-TH, four days/wk x 4 weeks/month = 16 work days/month. Restorative patients for one doctor work day are typically booked over two columns. Recare work days are calculated by one full column of recare patients booked top to bottom. If this doctor books two recare columns/day, then there would be two recare work days for every one doctor work day, thus 32 recare work days/month. If a doctor does hospital dentistry, then the average number of hospital work days per month should also be determined.

- **Producer Production Goal**—the amount of production a producer should complete each day. There can be up to four different areas of productivity in pediatric dentistry: restorative, recare, hospital and ortho. Each producer area should have its own producer code and daily goal to meet and be monitored. This will allow better analysis of growth in these areas of the practice.

- **Monthly Production Goal**—monthly collection goal ÷ practice collection ratio.

- $\$95,648 \div 98$ percent = $\$97,600$

- The total number of work days in each producer area is multiplied by their daily production goal; this total must equal the total monthly production goal for the office.

- $(16$ doctor work days x $\$2,500 = \$40,000) + (32$ recare work days x $\$1,800 = \$57,600) = \$97,600$

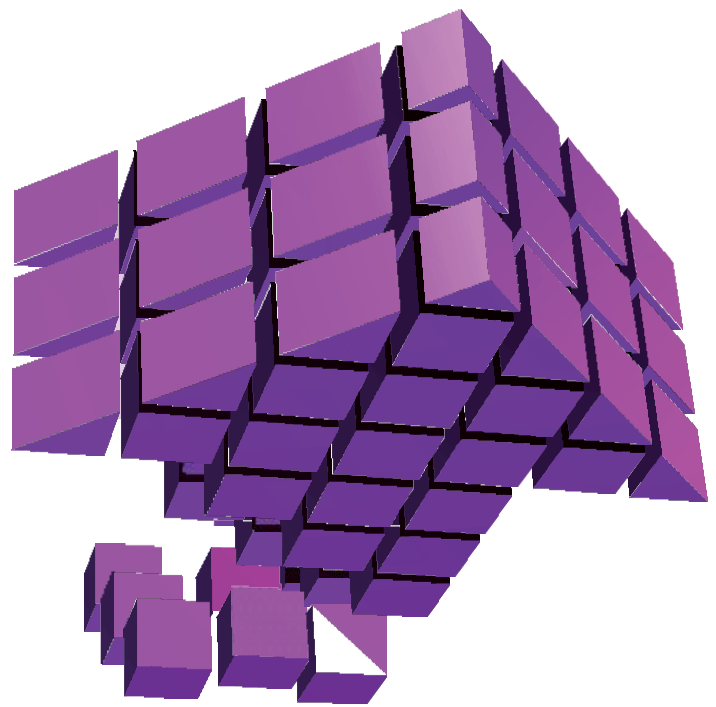
PRODUCTION METRICS

- **Restorative production**—\$2,500-\$6,000+/ day depending on the speed a doctor works, if it is calculated with full fees or reduced fees and if expanded function dental assistants are used.

- **Recare Producer Goal/Column**—add the total fee of (prophy + recare exam + ½ of 2 BWX + ½ of FL) multiply by 13. This total is the average production that should be produced out of EACH full column of recare that is being scheduled; otherwise recare is under producing in the practice.

- The practice recare should continue to grow up to 50 percent of the total practice production, depending upon the decay level of the patient population.

- When recare appointment productivity is measured as a separate producer, the doctor can see if this part of the practice is growing appropriately. All procedures that are performed on the recare patients should be included in the total recare production to accurately reflect the level of productivity; recare exam, proph, BWX, pano, FL, sealants.



- Two full columns of recare should be booked from top to bottom for every one pediatric dr in the practice. One doctor should be able to check two columns while completing the restorative procedures.
- Recare appointments are typically booked every 30 min except 40-50 min for new patients and/or patients with special needs.
- Percent of patients in recare—goal is 75 percent.
- The recare part of the practice is where growth should continue to occur once the doctor's restorative schedule is maxed out. This is where the increase in profitability in a pediatric practice will be.
- Typically when daily producer goal numbers are communicated to the team and monitored, it is easy to achieve a greater than 10 percent increase because the team is now working together with a goal number. Then, if goal numbers are not being met, the team can talk about what specific actions can be taken to consistently meet the goal number.
- Each day small dollar amounts of **missed production opportunities** can add up to large sums on a yearly basis. For example, in a small pediatric practice, the lack of goals, monitoring and/or sloppy systems can contribute to a lost production opportunity of up to \$400 per day. On a four day work week this would amount to \$76,800 per year! (400×192 work days = \$76,800). If the doctor allows this way of practicing to go on year after year, over five years, this could total \$384,000 in production and \$376,320 in lost collections that could have been income and retirement contributions for the doctor. If the practice is very large, the amount of lost profit potential could be multiples of this example.
- It is important to understand how much of an increase in production volume is required when working with reduced fee plans. If overhead is 60 percent, and a PPO plan pays 20 percent below the doctor's regular fees, the doctor will have to perform 2.5 times the same procedure to take the same dollar home vs. performing the procedure for the full fee. Since many more patients are part of PPOs and Medicaid, higher volume is required than in years past. Therefore, the doctor must clinically delegate as much as possible, utilize expanded function assistants, have excellent systems and control expenses so the practice can function at optimal efficiency.
- Scheduling Efficiency Ratio—95 percent show rate

LABOR RATIO METRICS

- Front office labor and clinical labor/total collections—18-20 percent
- Front office labor/total collections—8-10 percent
- Clinical labor/doctor production collections—14-20 percent
- Hygiene labor/hygiene production—15-20 percent
- Hygiene labor/total collections—6-7 percent
- Hygiene production/office production—25-50 percent

COLLECTIONS METRICS

- **Accounts Receivable Total**—no higher than the average monthly production
- **Collection Ratio**—96-98 percent of what can be collected
- **Accounts Receivable 61+ days**—not more than 18-24 percent of total Accounts Receivable

- **Collection at Time of Service**—35-45 percent of collections
- **Adjustments to Production in Bad Debt Write Offs & Charity**—2-4 percent of what can be collected

NEW PATIENTS

- **New patients**—55–75 or more new patients/month per one pediatric doctor is needed to maintain and grow a pediatric dental practice depending on the maturity of the practice.

FEES

- **Increase fees**—3-5 percent if they have not been increased for 12 months.

OVERHEAD EXPENSE METRICS

- Simply concentrating on high production does not guarantee that your office will have a healthy overhead expense percentage. A monthly budget amount should be defined for each expense category. Review the practice's profit and loss statement monthly to make necessary adjustments. **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!**
- Give staff members, who are purchasing front office and dental supplies, a monthly dollar amount for each category and a monitoring system to keep track of purchases month to month to stay within the budget goal. If an overhead budget monitoring system is put into place and followed throughout the year, an increase in net profit will be realized.
- A general guide line for an overhead percentage goal for a pediatric practice can be from **52-62 percent**; this percentage depends upon the size, debt service and maturity of a practice.
- If a doctor is working full-time (four clinic days/week) they should not be making less than \$300,000 for their efforts and the length of time they invested in becoming a pediatric dentist. If this income is not occurring, then it would be wise for the doctor to seek professional advisement from a dental management consultant or a CPA on how to improve the practice's bottom line. This minimum income goal is very attainable.

BREAKDOWN OF TOTAL OVERHEAD PERCENTAGES

- **Miscellaneous 4-6 percent**—advertising, business insurance, property taxes, miscellaneous
- **Office 3 percent**—bank charges, credit card fees, billing and collections, office supplies, postage, printing
- **Professional development 1 percent**—dues and subscriptions, staff, continuing education
- **Dental supply 4-6 percent**
- **Lab .25 percent**
- **Facility 8-10 percent**—rent, repairs, janitorial, laundry, telephone, utilities
- **Professional advisors 2-4 percent**—legal, consulting, accounting, payroll
- **Labor 18-24 percent**
- **Associate doctor 6-10 percent**
- **Staff benefits 2-3 percent**
- **Staff payroll tax 2 percent**
- **Owner benefits 1-3 percent**—doctor payroll tax, auto, doctor continuing education, travel dining, retirement, doctor insurance
- **Owner income 30-48 percent**
- **Equipment, depreciation and debt service 3-10 percent**

**“Do not measure your life by goals,
but what you are doing to achieve them.”**

Peter Drucker

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