
4 Proven Laws for Practice Profitability

by Ken Runkle – America’s Profitability Expert™

Are there really laws that govern practice growth? In twenty-four years of helping dental practices grow, we have realized that all consistently growing practices follow a number of proven laws. We will share four of these laws that we believe, if followed, will keep your practice on the top side of the growth curve.

We make it our expectation that every practice we serve grows by a minimum of 7% annually. That may not seem like a significant number, but that growth rate enables our client’s practices to double every ten years. In other words, if twenty years ago you had a \$300,000 practice, at this realistic rate it grew to a \$600,000 practice ten years later, and is now a \$1,200,000 practice with one doctor and no associates. We find that to be a reasonable and attainable expectation for every dental practice. These laws may not double your revenue in ninety days, but you will be on course for long-term consistent annual growth.

Here are brief summaries of four of the proven laws of practice profitability:

1. The Law of the Big Four

Consistently growing practices have a firm handle on what we affectionately call, “The Big Four.” The Big Four consists of four numbers on every profit and loss statement that show practice health and propensity for consistent profitability.

We have found that practice performance can always be measured by the details of the ledger. Practices that grow closely monitor the numbers crucial to growth. Practices that do not grow ignore the important numbers. It really is that simple.

Pay attention to the Law of the Big Four and you will begin to see how and where your practice can grow.

What are the Big Four?

First, your staff expenses. Our goal with our clients is to keep staff expenses at 20 to 25% of gross revenue. Many think that is unreasonable and absolutely undoable. However, you have to realize is that this percentage is directly tied to production. The more a practice produces always reduces the percentage of staff

expenses. So a \$500,000 gross annual revenue practice with \$200,000 in staff expenses (40%) is out of control. But, if that same practice grows to \$800,000 a year with the same staff being more productive, the staff expense comes in at 25%. Obviously, a \$2 million practice with a 20% staff expense is \$400,000. The staff expense percentage is low, but the staff on a per person basis are the best paid team in the area. So, yes, keep staff costs low, but having staff perform better and more productively is the key to keeping this number in check.

Second, your lab costs should be kept to 10%. The general rule of thumb is to charge five times what your lab cost is. Either choose a cheaper lab or raise your fees to where they should be. Be wise and shop around for good long-term relationships and great prices and charge what your worth.

Thirdly, supplies should be kept to 5%. Again, shop around for good deals, but keep this number in check. If you are grossing a million dollars a year, you are losing \$10,000 for every percentage point you are over the recommended percentages.

The fourth big number of the Big Four is facility. Your facility costs should not exceed 5 to 7%. Again, the more you produce, the lower your percentage of fixed facility costs will be. Produce more and the percentage goes down. You may need to extend the payoff period for your loan to get this number in check. That is not necessarily a bad thing. Not all debt is bad debt.

The health and growth potential of any practice can easily be assessed by one quick look at The Big Four. Keep them in check and you are headed for growth. Ignore them or let them get out of control and you are losing money every year.

2. The Law of the Carrot

Have you ever seen a picture of a horse with the carrot tied just out on front of his nose to keep him moving forward? We all need carrots to achieve our highest levels of performance.

Your team will perform relative to the rewards it receives. Although you and your staff are all adults, we still tend to act like little children when it comes to behavior meeting reward or punishment. As children we had to be good to get a snack or candy. As adults, our expectations have grown to include fun trips, spa treatments, financial rewards, and a myriad of other creative options.

It is very important that the dentist also be involved in the Law of the Carrot. Dentists should set rewards for themselves as they reach certain stated expectations and goals.

Celebrate reaching practice expectations and goals. Make the rewards a big, big deal. Have fun with them.

We have found that providing staff members with bonuses and commissions helps them to get excited about practice growth. They have a sense of ownership and control over their pay and their future. Money is a great reward and as long as it is tied to performance, it will keep your expenses balanced.

Knowing and implementing this principle in your practice will immediately stimulate growth. Having a reward system in place long-term will keep your practice growing consistently every year.

3. The Law of the Touchdown

Tom Brady, three-time Super Bowl winning quarterback of the New England Patriots, has said that he has one expectation when his offensive team gets the ball – score a touchdown. In order to score in a team sport like football, everyone must know their role on the team. Everyone must be on the same page for the play that is called. And everyone must be committed to the same high level of expectations.

The Law of the Touchdown says first of all, that growing practices have high expectations. Their mantra might be, “We fully expect to collect \$1.2 million in revenue this year.” The leader of the dental team casts a crystal clear vision of what success means. In football, the goal is clear – when your team has the ball you want to score a touchdown. Scoring a touchdown equals success.

What does success mean in your practice? Is it clear to all?

Super Bowl teams are made up of players that understand their roles within the team. They are very clear about the expectations placed on them. Have you ever overheard a staff member say in frustration, “I’m just not sure what the doctor expects from me!” You are not alone. The number one issue in any relationship, work or personal, is expectations. What do you want from your staff? Do they know? Team members of consistently growing practices know exactly what is expected of them.

Finally, all team members are passionately committed to the goal. Expectations are high that all goals will be met and team members will do everything possible within their role to accomplish the goals – to score touchdowns.

Providing your staff/team a clear vision of what success means in every practice situation will give them a field to play on, rules with which to play, and plays to use to push the ball over the goal line for a touchdown.

Can you imagine football being played without end zones or basketball without hoops? It would be a very frustrating game. That is like working in a dental office without clear expectations. You never know when you score or when you're doing things right. Give your team clear expectations and they will expect to score every time they touch the ball.

4. The Law of the Net

You will never catch more fish than will fit in your net. Your capacity determines your ability to grow. In real estate, the mantra is location, location, location. In dentistry location is very important, but more important is capacity, capacity, capacity. We have found that the number of chairs in a practice has a direct correlation to the growth of the practice. Two chair practices will tend to remain two chair practices and tend to hit a growth wall.

If you have reached 80% of office capacity, it may be time to add a new room. If you have five chairs and four of them are consistently full, you may consider adding another chair now before your practice hits a growth wall.

Spend \$30,000 now for a room and gross \$150,000 more this year. That is a pretty good tradeoff. We generally find that as practices remodel for growth or build new buildings, they quickly push through growth plateaus.

When building, determine the maximum number of chairs that you would use in your wildest dreams and then add one or two. You do not have to fully equip the rooms right away, but it's a good idea to have them plumbed and ready to go when you need them. I have heard too many dentists over the years say their only regret with their new building is that they did not put in enough chairs.

What could you be doing with just one more chair?

The Law of the Net simply says that your capacity will determine your catch. Get a bigger net and you'll be catching more fish.

These four laws can be found consistently in operation in growing practices throughout the United States. Ignore them at your own peril. Embrace them and implement them and you will be well on your way to consistent annual growth.

Go for it!

– **Ken Runkle, America's Profitability Expert™**, is the founder and president of Paragon Management, Inc. and has been helping dental practices reach peak profitability for twenty-four years.
