

5 Ways to Reduce Overhead to 50% ...without working alone

by Ken Runkle – America's Profitability Expert™

Want to put more money in your pocket every month? Reducing your overhead is essential to maximizing the profit in your practice.

We do not have any cute gimmicks or parlor tricks here, just some proven principles based on twenty-four years of experience in helping dental practices reduce overhead and maximize profit. These principles have been effective in every dental practice we've worked with regardless of region or specialty. Follow a few and you will see your overhead decrease and your profits increase. Follow them all and your practice may quickly join the upper tier of practices in the country.

1. Adjust Fees. [80th Percentile]

If your practice fees are not currently in the eightieth percentile of dental fees based on yearly reports, your overhead is probably way too high. The higher your fees, the lower your percentage of overhead will be relative to your fees.

There are several good resources in the dental community to use as measurements for where your fees currently rank. The National Dental Advisory Service and the Udell Webb Leadership Institute both provide good annual reports in regard to dental fees.

If you lack the confidence to raise your fees, you may need to raise your dental skills. For your own sake and the sake of your patients it is important that you have the level of dental skills necessary to support your fee level so you don't feel like you're taking advantage of people. Raise your fees, but raise your skills to justify your fees.

Note: If you are a specialist, your practice fees should be in the 90th percentile.

2. Reign in Net Production

The difference between gross production and net production should be within 4%. Impossible? No. We have clients whose practices fall well within this range. But, it does take time and focus. If your numbers are way off here, it is not a quick fix. It may take three years to fully reign in the numbers in this area.

What does a 4% difference really mean? If your gross production is \$1 million, your net production should be \$960,000. Crazy? We've seen it happen successfully over and over. Here are a few specifics that will help you:

Family and staff should account for no more than 1 to 1.5 percent. Courtesies for friends and others should be no more than 1 to 2 percent. And, do not forget to include adjustments in determining the difference between gross production and net production. For example, adjustments should be made when a patient has \$1,000 of dental work performed and insurance covers 80% or \$800. You would adjust the 20% or \$200 out of the gross versus net production equation.

3. Collect What You Produce

We ask each of our client practices to always set their monthly collection goal at one-hundred percent of all production. You should collect 100% net-to-net. Here is a million dollar practice example from one of our clients. February gross production was \$122,000. We found \$10,000 in insurance-related adjustments reducing net production to \$112,000. The goal of the front office is to collect \$112,000. This particular practice collects only \$108,000 in that month. Not bad, but \$112,000 would be better and should always be the goal.

The more you collect, the lower the percentage of overhead will be overall. In the \$112,000 a month example, if you only collect \$80,000 and your overhead was \$55,000, your percentage of overhead was about 69%. That is way too high. If in that same example, you collect \$110,000 and your overhead remains the same, your percentage of overhead drops to 50%. It's not magic, simply collect what you produce.

4. Keep Numbers In Check

There are four main expenses in a dental practice. As the CEO and owner of the practice, it is essential that you not only know these numbers at all times, but that you also keep them in line with the following standards.

Staff expenses should be no more than 20 to 25% of your total expenses. Elevating per staff production will keep your percentages down in this area.

Lab costs should be kept to 10%. Shop around and remember to charge patients about five times your lab cost.

Supply expenses must remain at no more than 5% of total expenses. Again, shop around to maintain quality at a good price.

Your facility expenses should not exceed 5%. If your facility is part of your marketing approach, it can be a little higher. But the principle is to keep it near five percent in order to keep your entire expense ledger within the parameters necessary to get it down to fifty percent overall.

If your numbers are currently far from these percentage guidelines, begin now to set goals and make changes to bring these four main areas into alignment.

5. Produce Big

A great way to bring your percentage of overhead into satisfactory alignment is to produce more dentistry. The more you produce, the more expense percentages fall.

Let's look at a quick example. One dentist with 2 front office staff, 2 dental assistants and 2 dental hygienists produces \$600,000 of dentistry a year. His staff expenses, as a percentage of his net production, are more difficult to keep in check than our second dentist. Dentist number two has the same staffing configuration, 2-2-2, but produces \$1.2 million a year. On a percentage basis, his staff expenses are much easier to keep in check. Dentist number three is an over-achiever and produces \$2 million a year with the same staffing configuration, 2-2-2. We find that not only does she have the lowest staff expense percentage of the three dentists, but also that she has by far the highest paid staff members.

Produce more and your overhead will drop. It's that simple.

Unwieldy and misaligned overhead percentages can seriously suppress practice growth and profitability. At the same time, if you can work hard to get the

numbers lined up with the principles above, your overhead will be working for you instead of against you.

Here's to a profitable life and practice.

– **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.