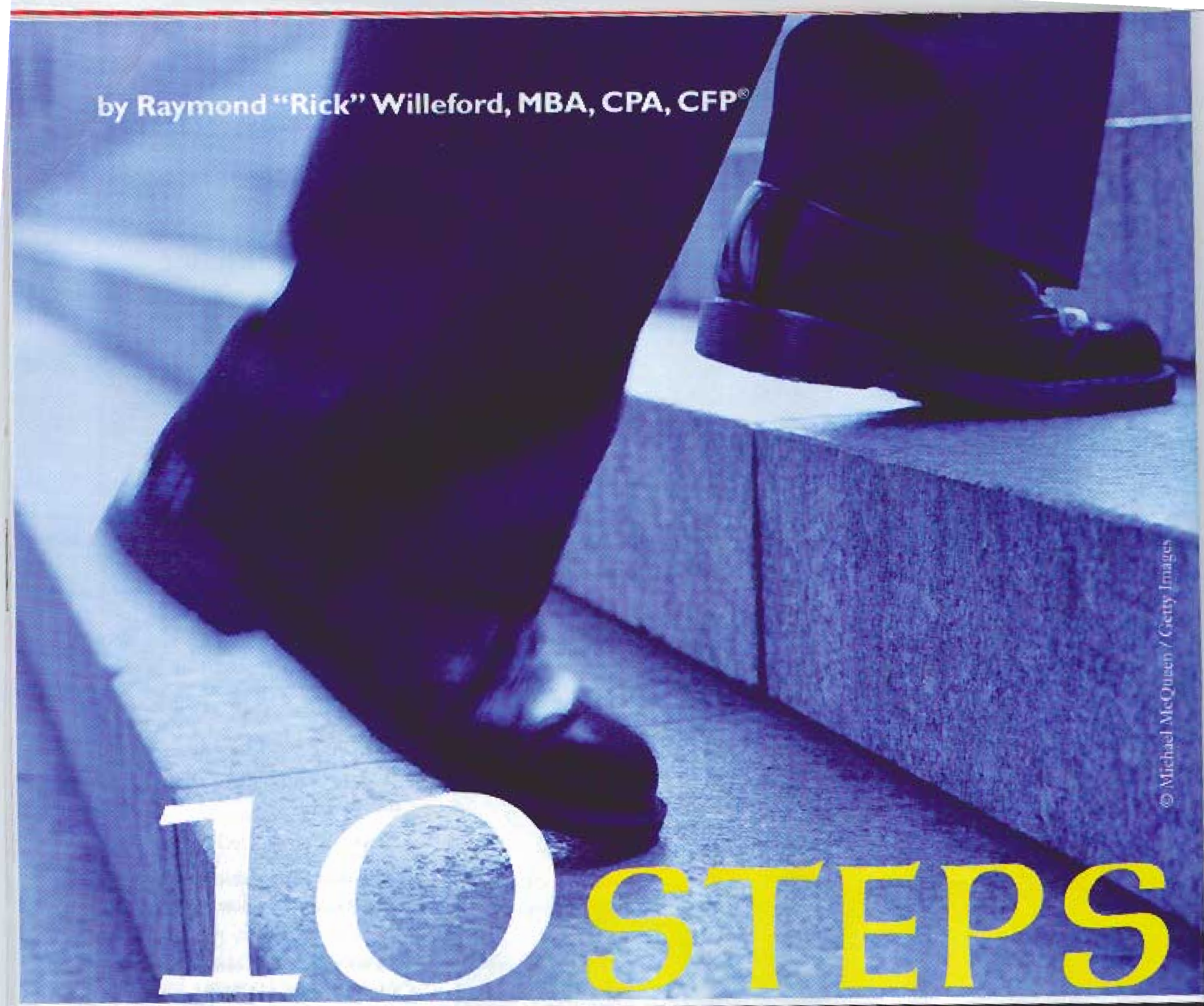
by Raymond "Rick" Willeford, MBA, CPA, CFP®



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# 10 STEPS to a financially healthy practice

## Part 2 of 2

Most dentists receive comprehensive training in school on the clinical aspects of a practice, but business management courses — although often quite good — are not as readily available. When it comes to something as important as the financial health of a practice, doctors should be practicing by design, not by default. As a CPA who has specialized in working with dentists for 30 years and as president of the Academy of Dental CPAs, I have found that having a profitable practice enables the dentist to do the exceptional dentistry he or she has been trained to do as well as gives the dentist more control and more choices.

In Part 1 (see the June issue of *Dental Economics*®), I covered the first five steps to building a financially thriving and healthy practice, which included setting personal and professional goals, living "under" your means, identifying the right financial partner, budget and spending, and investing in technology. This article will cover the final five steps and provide a detailed roadmap to success.

### Step 6: You get what you pay for

The single largest overhead expense for a practice is team compensation, or taxes. (See Step 5 in Part 1 of this series). When you are hiring, the marketplace will give you excellent feedback on the going rate for the position you are trying to fill. You can also look at surveys, but remember, they are averages and the supply and demand of employees in your area will ultimately determine the cost of hiring your team members.

In addition to having a healthy fee schedule, you need to have a healthy procedure mix to generate good production figures. Rather than be a "refer-o-dontist," become proficient at offering a wide array of services if you want to remain competitive and truly serve your patients.

But as much as we focus on compensation, studies show that money is probably number five or six on the list of what gives employees job satisfaction. Once we understand this, we know that more money will not turn a dud into a superstar, but other nonmonetary things — such as appreciation and recognition — may be more effective. Mistakenly believing money is the primary motivator, doctors often try to coerce behavior from employees with some type of bonus system, which usually ends up being unsuccessful. But bonuses based on productivity, which essentially means sharing profitability with the team, work well to enhance the financial health of the practice by giving people ownership and control over their roles in the practice's success. Team members will realize that their bonuses are directly tied to the production of the practice, and understand that they have a role in helping patients accept treatment and influencing weaker team members to improve. An effective bonus program is simple to execute, well-defined, and announced to the team in detail. I like to use a three-month moving average. Giving quarterly rather than yearly bonuses will have a greater impact. I also recommend that the profitability, or the percentage of profitability, in the bonus program be shared equally among all team members, not based on seniority.

### Step 7: Make up your mind to set and raise fees

Patients generally have no concept of what fees should be and are more likely to base the "value" of the practice on the way they are treated by the team, not the treatment given by the doctor. Often, the biggest problem with charging patients appropriately and raising fees is the eight inches between the doctor's ears. Doctors, like most people, are uncomfortable with confrontation. They don't want to have to justify what they charge to patients, so they initiate a fee schedule that is similar to or just below another practice in the neighborhood. Just charging what your neighbors are charging and hoping that works is *not* the way to set fees. Instead, seek out information on fee schedules and percentiles that are readily available for free, or talk with a knowledgeable consultant/business advisor/CPA. But ultimately, your fee schedule should be based on what the doctor wants to earn in a year — the formula mentioned in Step 3 in Part 1 of this series. If you want to earn $150,000 and your fees are in the 30th percentile, you will not achieve your goals. Remember, at least annually, practices should raise their fees 4 or 5 percent to be slightly ahead of inflation and the rising cost of specialized overhead expenses.

In addition to having a healthy fee schedule, you need to have a healthy procedure mix to generate good production figures. Rather than be a "refer-o-dontist," become proficient at offering a wide array of services if you want to remain competitive and truly serve your patients. In addition to appropriate "cosmetic" procedures, you may want to explore rotary endo procedures, sedation dentistry, simple ortho cases, soft tissue management, implant-supported dentures, and implants themselves. Finally, be sure you are coding appropriately to avoid fraud on the one hand or leaving money on the table on the other.

### Step 8: It's not only what patients pay, it's how they pay

Patients want to keep their teeth for life, and more and more want beautiful, healthy smiles. But you can't have a financially healthy practice if you are not charging appropriately, not keeping accounts receivable under control, or not giving patients a comfortable way to pay for dentistry. Insurance limitations are frustrating, and patients are paying more out of their own pockets.

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Patients should know about all of their payment options up front, which should include cash, check, major credit cards, and a no-interest patient payment program, such as CareCredit. Dentists need to realize that patients have other life priorities. Your competition is not the doctor down the street; it's the new couch or flat-screen television. And both of those industries already offer no-interest financing to help capture their customers' discretionary dollars. As a dentist, you are not going to be able to compete effectively without this financing option.

A practice can maintain its financial health if patients on a managed-care plan are limited to 20 percent of the base because the remaining 80 percent of patients will pay your overhead and contribute to your profitability. However, if the managed-care percentage grows, transitioning out of the plan becomes very, very painful.

Insurance is another area of payment that doctors need to manage. If a doctor chooses to accept insurance for the convenience of his/her patients or to initially build traffic in a new practice, it's important to understand the role insurance plays in the practice. If you feel you can't avoid participating in managed-care plans, limit participation to the better ones and limit the number of new patients you accept with this type of insurance. A practice can maintain its financial health if patients on a managed-care plan are limited to 20 percent of the base because the remaining 80 percent of patients will pay your overhead and contribute to your profitability. However, if the managed-care percentage grows, transitioning out of the plan becomes very, very painful. Ultimately, doctors do not want to be dependent upon insurance, by a panel that determines usual and customary fees for dental services, of which you "lose" up to 30 percent for the privilege of being on the provider list. Rather, doctors should strive to have the financial freedom of setting and collecting appropriate fees for their valuable services.

### Step 9: One thing's for certain — taxes

Taxes are for certain. In that sense, you can think of taxes as the largest overhead expense of the practice, not staff. So doctors need to get over the idea that they, or their financial advisors, are clever enough to never pay taxes. In fact, as a practice financial advisor, a CPA's primary objective is to create wealth, not to avoid paying taxes. For example, you would never want to spend money just to get a tax deduction if there's no economic reason to spend the money. Most people seem to think "deductible" means free. Sure, if you buy that piece of equipment, the tax write-off will save you 30 or 40 percent, but you still have to pay the remaining 60 or 70 percent. Often, doctors want to know about the $100,000 Section 179 allowance where you are allowed to buy $100,000 worth of equipment, and instead of depreciating it over time, you can write it off the first year. (The actual amount increases slightly each year.) If you borrow money to buy the equipment, then the option to take the big tax deduction in year one should be evaluated carefully. For instance, if you deduct the whole amount rather than depreciating it over the five-year loan, your taxable income is close to zero for the year in which you bought the equipment and you don't end up paying taxes, so you think it's time to celebrate. First, you may have dropped your income into a very low tax bracket and may not realize all the savings for which you had hoped. In addition, there's an insidious "timing difference" that will frustrate doctors forever because repayment of the loan for the equipment to the bank is never tax-deductible. Over the next four years, the doctor will most likely show taxable income, yet be "cash poor" because he/she has been paying off the loan with no deductions. This is because the timing of accounting taxable income is different than cash flow. Again, the goal is not to get out of paying taxes, but to pay the appropriate taxes in a strategic way that builds wealth. Your financial advisor, the one who knows and understands dental practices, should be proactively planning your tax strategy. There should never be surprises or penalties.

There are some very smart ways to shelter a portion of your income that help you meet long-term financial goals. First, there are basic IRAs for you and your spouse, which could be sufficient for a few years. You don't save much, but at least it gets you in the habit of putting money aside for the future. Then, there are more advanced retirement plans that allow you to put away more pretax dollars that grow tax-deferred until you spend the money later in retirement. The perennial problem is, however, in exchange for the IRS giving you, the owner, a tax deduction, you must put money in for your staff. Different plans have different requirements for staff member contributions. Again, this is an area where it is absolutely imperative that you have a knowledgeable advisor who can determine the right choice for where you are in your career. A SIMPLE