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Ten critical numbers to watch ... and how to track them

By Allen Schiff, CPA, CFE

As a CPA who specializes in consulting services for the dental industry, and as a member of the Academy of Dental CPAs (ADCPA), I am often asked to discuss the critical numbers within clients' practices, and how to track them. Although there are many critical numbers within a dental practice, this article will focus on 10 of them — those I feel are most crucial to a practice's financial success.

Dental overhead

In order to have a profitable practice, you must control overhead and know how to identify areas of opportunity within the overhead if these costs get out of control. You should meet regularly with your CPA and have him or her review your profit and loss statement. If you don't understand something, please ask your CPA.

Profit and loss statement

Here's a suggestion when you meet with your CPA. Ask him or her to prepare your profit and loss statement in a categorized format. At the ADCPA and in conjunction with Dr. Charles Blair, we developed a categorized profit

and loss statement. The categories will identify the first six critical factors for you. They are:

- ⇒ Personnel costs
- ⇒ Variable costs
- ⇒ Facility and equipment costs
- ⇒ Business expenses
- ⇒ Discretionary costs
- ⇒ Owner's compensation

Personnel Costs

This category should consist of salaries broken down by departments: chairside, clerical and hygiene, as well as the related payroll taxes and fringe benefits such as retirement plan contributions and health insurance. In addition, I like to include the costs associated with using outside services such as temporary dental employment agencies. A common mistake is including the cost of an associate. This should be placed in the owner's compensation section of your profit and loss statement. Total personnel costs should range between 24 and 28 percent of the practice collections.

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TEN CRITICAL NUMBERS...

Variable costs

Variable costs include dental supplies and lab fees. At the ADCPA, we like to show these separately on the profit and loss statement. In addition, we like to budget these at 6 percent of fee income for dental supplies and 8 percent for lab fees.

We also like to break down these costs for internal control purposes. When was the last time you typed in the keywords “dental supplies” on eBay? You will be amazed at the volume of dental supplies sold on eBay. My question to you is — when was the last time you checked your own inventory shelves to ensure that what was ordered and delivered actually made it to the supply shelves, and not to eBay?

Please keep in mind that if you have a CEREC, the costs associated with it should be charged to lab fees and not dental supplies. The theory here is that your CEREC has replaced your dental laboratory. As a result, these costs should be part of your lab fees and not your dental supplies.

Another good reason to keep these costs separate is to track your dental supplies. Bookkeepers often code a check to dental supplies because the check is written to a dental supplier. Many dental suppliers today provide three or more services: dental supplies, dental equipment repairs, and dental equipment purchases. Therefore, it is important within recordkeeping that these checks are coded properly within the general ledger software.

Facility and equipment costs

This category should include depreciation of equipment, interest costs to carry your equipment, the rental costs of your facility and equipment, and personal property and real estate taxes attributable to these items. If you recently purchased your dental practice, then the costs associated with the amortization of your acquisition should be included here.

I like to budget 10 percent of the collected fee income within this category. Almost half of this amount can be attributable to rent, which is out of your control once you select a location, so it is important to control the remaining 5 percent of this category.

Business expenses

Within business expenses you will see the typical “A to Z” items such as advertising, bank charges, continuing education, dues and subscriptions, insurance costs, office supplies, uniforms and laundry, and utilities.

These costs are budgeted at 11 percent of your collected fee income. Some of the larger items within this category include advertising and marketing at 1 to 2 percent of collections, office supplies at 2 percent, and professional fees at 1.5 to 2 percent. Be sure when you purchase computers and office furniture that they are not placed in the office supply account.

We often see telephone costs much higher than they should be within a dental practice. Upon further investi-

gation, we often discover the Yellow Pages advertisement is part of telephone costs. Be sure to instruct the bookkeeper that these costs should be reclassified into advertising costs.

Discretionary costs

At the ADCPA, discretionary costs include the business portion of your automobile costs, charitable contributions, gifts, life and disability insurance, and travel and entertainment. This category can also include other discretionary costs such as dues, subscriptions and certain continuing educational costs. Consult with your CPA regarding this category. I like to budget discretionary costs at 2 percent of collected fees.

Owner's compensation

The owner's compensation section of the profit and loss statement includes your compensation, your family's compensation, and your associate's compensation. I also include the retirement plan contribution that was made on your behalf, as well as the profit of the practice. The budget for this department should be 35 percent of your collected fees.

Other critical numbers

In addition to the practice's overhead and the six critical numbers outlined above, I like to review other key performance indicators (KPIs) of the practice to assist the owner with the practice's profitability. As I mentioned earlier, there are many critical numbers within the practice. Here are the four that get the least attention but have the most impact on the profitability of the practice.

- ⇒ Mix of fees and procedures
- ⇒ Dental hygiene benchmarks
- ⇒ Budgeted hourly rates
- ⇒ Monthly new patients and internal marketing

Mix of fees and procedures

Periodically we like to look at the mix of fees and procedures within the practice. Most practice management software can generate various practice management reports that contain the necessary information to analyze your productivity.

We like to benchmark the overall productivity at 75/25, that is, 75 percent for you and 25 percent for hygiene procedures. If you are able to attain these KPIs, you will see the profitability of your practice grow!

Dental hygiene benchmarks

Here is another idea that takes coordination between your front desk and hygiene department. There should be a correlation between what you are compensating your hygienist for and what the hygiene production is. A 3 to 1 relationship is what we prefer. In other words, if you are compensating your hygienist at the hourly rate of \$40, then his or her production should come to \$120 an hour.

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We often see recordkeeping mistakes here. Many practices still credit the hygiene department for the doctor's portion of the exam. The ADCPA has discussed this topic at length and concluded the doctor's portion of the exam should reside with the doctor and not the hygienist.

Budgeted hourly rates

We also budget daily production. We use \$3,200, which is comprised of \$2,400 for the doctor and \$800 for the hygienist. We feel this is an attainable goal. For example, the doctor should be generating \$300 an hour or \$2,400 daily. The hygienist should be generating \$700 to \$900 per day. This per diem amount for the hygienist depends on coordination with the front desk, as well as determining the need for a hygiene assistant.

Monthly new patients and internal marketing

I bet you have attended practice management seminars and been confused about what the lecturer said about active patients. The current benchmark for the industry is a patient seen within the last 18 months. Most practices need between 1,500 and 1,800 patients. Some practices only see one patient in the morning and one in the afternoon. The number of patients to support a practice of this type would be less than the benchmark.

Most of the dental practices I visit have forgotten the power of internal marketing, and it is critical for the entire team to be committed to the concept. Your practice goal should be 12 to 15 new fee-for-service patients per month.

Selecting a dental CPA

A dental CPA specializes in services for dentists. Unlike an ordinary CPA, a dental CPA has in-depth knowledge of the dental industry and highly specialized professional skills that help dentists take full advantage of practice management issues, as well as tax breaks within the dental industry. A dental CPA has special training to minimize your tax bite while maximizing your wealth. If you would like to locate a dental CPA in your area, visit the ADCPA Web site at www.adcpa.org, or e-mail me at aschiff@schiffcpa.com. You could save thousands, even tens of thousands of dollars on your next business decision.

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