# Best Practices: Expense and Revenue Management

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Practice profitability is determined by a simple formula: revenue less expenses equal profit. This means there are only two ways to increase profitability: increase revenue or decrease expenses. It’s critical to understand which of the two you can more easily influence and which will impact profitability the most — and to develop a proactive plan based on your vision for the practice, your patients and your future.

## DEVELOPING A VISION AND PLAN

Depending upon the doctor, a practice will proceed toward one of two destinations: the one he or she has chosen or the one that “just happens” or what I call the default choice. If the choice is to be reactive, this can lead to unplanned, uncontrollable external forces that impact the practice negatively. The other option is to be proactive. This requires a vision and a plan that embraces and maximizes every opportunity. Even though the proactive path requires time and energy, done right, the potential for success is exponentially increased, as is the doctor’s peace of mind. Of course, no one has the power to fully predict their future, but those who develop and implement a vision and plan have a better chance at predictable success.

The ideal plan involves both the doctor’s “head” and “heart.” It’s very possible to build a practice that is successful and that provides exceptional patient care and value. It starts by defining the vision. The vision provides clarity on what the leader/doctor wants for patients, the team, his or her life and future. The vision becomes the benchmark for all the decisions in the practice. The plan is the development of policies designed to achieve the vision, including the practice management of revenue and expenses.

## MANAGING EXPENSES

Many dental teams I’ve talked with believe managing expenses is the easiest and most efficient way to increase profitability. The problem is, most expenses cannot be reduced and most will go up over time. When dentists start looking for ways to cut costs, it’s often a reaction to economic pressure rather than an execution of a proactive expense management plan.

When you examine a practice's expenses, there are some that are variable and often depend upon production, such as payroll, benefits, dental supplies and lab fees. Others are fixed and non-negotiable such as rent, insurance, taxes and utilities. Some of the variable expenses should be considered investments in success and not targets for savings, unless there is obvious waste. For example, delivering an exceptional patient experience requires an exceptional team who is an investment, not an expense. Dental supplies, lab fees and office supply expenses are such a small percentage of the practice's costs that even a huge savings in one of these areas (which is rare) will not significantly impact profitability.

To effectively manage expenses, start by knowing your fixed costs - those checks you write every month to stay in business. Next, identify all variable costs and make sure they represent an appropriate percentage of production. Here are some national averages to consider:

### Fixed Expenses

| Expense | Percentage |
|---|---|
| Rent & Utilities | 3 - 5% |

### Variable Expenses

| Expense | Percentage |
|---|---|
| Dental Supplies | 6 - 8% |
| Lab Fees | 6 - 10% |
| Office Supplies | 3 - 5% |
| Promotional | 2 - 3% |
| Payroll | 16 - 24% |
| Payroll Taxes | 1 - 2% |

If there are expense areas outside the percent range, look for waste and fix it. If all of your expenses are appropriate, your focus should then turn to revenue management.

## MANAGING REVENUE

It's been my experience that most doctors and hygienists are often under-producing and practices fail to plan to produce to goal, which directly impacts profitability. Here are three ways to manage revenue that can dramatically impact practice production and profitability.

**1.** Treat more patients. The practice should have 1200-1600 active patients per doctor, depending on days worked per week, and 600 patients per hygienist. These are active patients in continuing care. The best place to look for new patients is in your current patient base. Make it a process, a habit, to ask every patient if they have friends or family members who want an exceptional dentist. Then give them your referral cards to distribute.

**2.** Increase true treatment acceptance. True treatment acceptance is **NOT** the percent of patients who accept some level of care. It **IS** the percent of treatment accepted versus the total treatment recommended. Unfortunately, many practices have substantial amounts of incomplete dentistry sitting in their books and have no idea because they don't effectively track treatment acceptance. These patients often did not commit to care because the practice failed to communicate the value of care or because the patient had a barrier and they were not given a solution. For example, when patients' dentistry requires an out-of-pocket investment, cost can become a concern. For many, financing with a healthcare credit card, such as CareCredit, can enable them to accept what's being recommended versus only what their insurance benefits cover.

**3.** Increase collection rates. Practices are not lending institutions. Accounts receivable balances should be restricted to only money due from insurance companies. The practice should never have patients owing money. It's important to have an established financial policy with payment options limited to cash, check, major credit card and a healthcare credit card. Carrying accounts receivables costs the practice money in hard costs, damaging patient relationships and decreasing cash flow.

Ultimately, the goal is for revenue to exceed expenses, providing the profit and working capital necessary for the doctor to realize his or her vision. Straine specializes in helping practice owners create long-term plans with short-term strategies that deliver immediate results. Learning how to recognize and maximize opportunities for profit and pleasure is the value proposition I have built our entire organization around and it has provided immense satisfaction to me and the thousands of practice owners with whom I've consulted.

**Kerry Straine,** Certified Professional Behavioral & Values Analyst, holds a Bachelor of Science in Business Administration with a concentration in Accounting and has been in business and financial management for more than thirty years. It was Kerry's education and experience in accounting that led to the development of The Straine Management System™, the premier platform that provides strategic planning, leadership and team development, policy and management system design, training, monitoring and coaching for dental professionals throughout the United States and Canada. Kerry's contribution to the dental industry earned him the award for Best Practice Management Consultant in the Nation.