



MGE Effective Management Series

**MGE
MANAGEMENT
EXPERTS**

THE KEYS TO PRACTICE PROFITABILITY & OVERHEAD CONTROL WORKSHOP



Profitability and Overhead Problems

The primary reasons:

1. Lack of a basic (required) understanding of business principles.
2. Dissatisfaction/stress from the practice due to management issues or lack of productivity—overwhelm.
3. Thinking like a “dentist” as opposed to a “businessperson” when managing the finances.



Your Biggest Monthly Expense

“The true loss of an organization is the difference between money it should have made (and didn’t) and the money it did make.”

L. Ron Hubbard

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Your Biggest Monthly Expense

Potential	\$80,000
Actual	<u>\$50,000</u>
LOSS	\$30,000

This loss of \$30,000 is **MORE** than any other expense In the practice.



Case History

- ▶ Solo Practitioner
- ▶ 3 Operatories
- ▶ Averages \$78,500/mo
- ▶ After 2 of 3 Sales and Communication Seminars does \$115,000/mo average
- ▶ Previous 'Loss' was \$36,500/mo



Overhead as a Percentage

When discussing overhead percentage, the focus usually goes to expenses. This is only half the equation. It ignores the more important *other half* of the equation – **REVENUES**.

Example: Under-producing office collects \$60,000 per month (should be collecting \$80,000).

	<u>\$60,000</u>	<u>\$80,000</u>
Payroll is \$16,000	27%	20%
Rent is \$6,000	<u>10%</u>	<u>7.5%</u>
	37%	27.5%

Eliminating the monthly "loss" lowers overhead by almost 10% in just these two categories.



Why You Need a Fee-For-Service Practice

- | | |
|--------------------------|-----------------------|
| <u>1993</u> | <u>2012</u> |
| \$495 Crown | \$650 PPO Crown |
| ▪ \$70 (or less) lab fee | ▪ \$150+ lab fee |
| ▪ \$ 6 /sq. ft. rent | ▪ \$23+ /sq. ft. rent |
| ▪ Hygienist \$21/hr. | ▪ Hygienist \$35+/hr. |

You're giving away your lifestyle and retirement!



Why You Need a Fee-For-Service Practice

Low reimbursement from the PPO/HMO plans can easily lead to overhead of 80%+ instead of 50%-60%.



“Control = Income”

L. Ron Hubbard

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“If one knows the technology of how to do something, and can do it, and uses it, he *cannot* be the adverse effect of it.”

L. Ron Hubbard

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Hard Sell

“**Hard Sell:** Caring about the person, not being reasonable with stops and barriers and getting him fully paid up and taking the service.”

L. Ron Hubbard

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Sales Resistance



60% Can Be Sold Comprehensive Care



What Are the Main Stops And Barriers?

- ▶ I have no money.
- ▶ I'm only doing what the insurance covers.
- ▶ File a predetermination of benefits.
- ▶ I have to check with my spouse.
- ▶ I need to think about it.
- ▶ I'm a very busy person don't have time to do this right now.



Definition of Reasonable

Accepting faulty explanations.

L. Ron Hubbard

Faulty: Incorrect, having some type of defect.

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How do you find out if their objection is faulty or legitimate?

You ask questions designed to get them into communication with you.



“I have no money”

You ask:
“Could you put it on a credit card?”



“I have to check with my spouse”

**You ask:
“What is he/she going to say?”**



Why should you persist like this through their stops and barriers?

Because it’s time for patients to start getting what they NEED and not just what they WANT.



“If one knows the technology of how to do something, and can do it, and uses it, he cannot be the adverse effect of it.”

L. Ron Hubbard



**If Control = Income
then
(what) = Control?
Hatting**

Based on the works of L. Ron Hubbard

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“I’ve learned this over the years: The entirety of our stats are internally caused. WE CAN CAUSE STATS AT WILL. External actions don’t affect them.”

L. Ron Hubbard

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**The 5 Overhead
“Sinkholes”**

While any overhead category can spiral out of control, we’ve found these five to be the most common “trouble spots.”

1. Loans/Leases
2. Advertising/PR
3. Payroll
4. Supplies
5. Lab



Sinkhole Number 1: Loans/Leases

Trouble in this category usually relates to:

1. Purchasing equipment with the hopes of increased productivity – which never materializes (you could also apply this to an office lease/move/build-out).
2. Purchasing equipment not justified from a productivity standpoint.



Sinkhole Number 2: Marketing/PR

A high marketing budget as a percentage can stem from:

1. Contracting for marketing services that exceed what you should be spending based on your collections level.
2. The marketing isn't working.
3. Exaggerated quality over quantity, resulting in less marketing potential.



Sinkhole Number 2: Marketing/PR

A new perspective on PPO/HMO write-offs:

Whatever you write-off each month is your marketing budget.

Are you getting your money's worth?



Sinkhole Number 2: Marketing/PR

For Example:

Production \$80,000
Collections \$60,000
Write-off \$20,000

Your 'Marketing Budget' for that month was 33% of your collections. Was it worth it to get your name in the book?



Sinkhole Number 3: Payroll

Your Payroll percentage should not exceed 22.5% - excluding your salary and the salary or compensation for any associates.

If your payroll is high, you can try this exercise to see what your office should be collecting at your current payroll level:



How Much Should You Be Collecting?

- A. Take your total payroll (less associates and yourself) but *including tax*.
- B. Divide this figure by 22.5.
- C. Multiply "b" by 100.

"C" is what you should be collecting.

Equation: $(A/22.5) * 100$



Example

- A. Let's say Dr. Smith is collecting \$100,000 per month with a \$33,750 payroll (33.75%).
- B. Divide \$33,750 by 22.5 = \$1,500.00
- C. Multiply "b" (\$1,500.00) by 100 = \$150,000

"C" (\$150,000) is what Dr. Smith *should* be collecting.



Sinkhole Number 3: Payroll

High Payroll normally stems from one (or more) of these five factors:

1. Low TX acceptance (poor sales, etc.).
2. Too much managed care.
3. Paying the person – not the position, or paying a fixed high wage based on longevity only – not productivity or responsibility.
4. Misallocation of personnel.
5. Non or under-productive personnel.



Sinkhole Number 4: Supplies

Primary problem here is normally budgetary. Set supply budget with whomever orders and they must stay within parameters. You might also allow them to "save" for future months, which adds accountability. The only conditions are:

1. You can't run out of or run dangerously low on supplies that are needed to operate.
2. If something breaks, the person in charge should be able to come to you for needed funds for repair.



Sinkhole Number 4: Supplies, continued

3. If production jumps spectacularly one month or more, you may have to quickly adjust the budget – especially if you are doing a lot of crown and bridge or implants.
4. The supply budget set must be REAL. If you need \$4,000 – allocate it.



Sinkhole Number 5: Lab Bills

Lab fees that exceed 8-10% are usually due to:

1. You're a prosthodontist.
2. Fees are too low.
3. Too many reduced fee, PPO or HMO plans.
4. Collection percentage is poor.
5. The other areas of your practice are underperforming.



Overhead Management & Growth

1. Keep variable expenses that fuel growth (i.e. marketing and PR) as a percentage so that the budget grows as your office does.
2. Review overhead and make adjustments at least quarterly. You may also wish to review if:
 - a. *You have an inordinately productive month or run through a period of rapid growth.*
 - b. *You add a large expense (new employees, equipment, etc.).*
