VITAL GUIDE SERIES

7 Finance: making a profit from dental practice

- How can a practice achieve financial success?
- How productive is your practice?
- How can the whole team contribute to an efficient working environment?

7

VITAL GUIDE TO Finance

Welcome to the seventh article in the Vital Guide Series. At the end of the article are some CPD questions, which are designed to get you thinking about the article and to help you remember some of the key points. Here, **Linda Nandlal**[1] introduces you to the idea of dental practice as a profitable business.

A dental practice is a provider of healthcare services and, to an increasing extent these days, a provider of cosmetic treatment. However, it must also operate successfully as a business. In addressing practice finances this article focuses on the need to earn a sound, but ethical profit, and how the whole team can be involved in creating an efficient working environment. This article may also interest you in particular if you are a registered DCP aiming (or aspiring) to own your own practice.

What can you learn from your accounts?

For some dentists, accounts are simply a blur of figures which are only of any use to calculate the tax liability for the year. Nevertheless there is useful information in the accounts; it is only by gaining a clear understanding of what lies behind the figures in your accounts that you can begin to see what drives the practice, and how this may relate to the organisation of your workload.

Accountants who are members of NASDA* have access to statistics based on the results of over 400 dental practices, and will be happy to benchmark your figures against these averages. The software packages used by many accountants are able to compare the income and expenditure for one year with that of the previous year, and this is useful for identifying any significant changes.

In the illustrations which follow, we will look at a simple example of a single-handed dentist, although these figures can be extrapolated for a larger practice.

The three key variable figures which contribute to your net profit for the year are:

- Gross fee income
- Materials and laboratory charges
- Staff wages.

There are of course numerous other expenses both large and small, which are necessary in any practice. These expenses should be kept under review to ensure they are reasonable. Many cannot be changed, such as rent and rates, whilst others should be challenged, such as the rate of interest paid on the practice loan. However, the three key measures, described below, should be analysed first.

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To speak to a member of the National Association of Specialist Dental Accountants (NASDA) in your area, call 0870 6010 230 or see* ***www.nasda.org.uk*.

Cut along the dotted line and keep!

Gross fee income

Almost without exception the financial success of a practice will be dependent on the amount of gross fees earned. This is the largest figure in the accounts and the one with the most potential for variation. The hours of the clinical staff are extremely valuable and every care should be taken to maximise them.

For each dentist, working seven hours a day, five days a week, 44 weeks a year (after allowing for holidays and courses), the fee earning capacity will quite simply be 1,540 hours multiplied by the hourly rate.

So if the hourly rate is £200 the possible fees per dentist will be:

1,540 × £200 = £308,000

But it is rare to find that this formula works out in practice. Fees rarely equal hours worked times hourly rate. They are a lot less. Why? What causes the BLACK HOLE? If your hourly rate is £200, it's not difficult to see that a couple of unproductive quarter hours per day lose you £100 in fees, which mounts up to a staggering £22,000 per year.

Calculate the black hole in your practice – that is the calculated earnings potential less the actual earnings.

To find the answers you need to appreciate the value of the dentist's time and how small losses day by day add up to large sums in the course of the year. Assuming a full book, two obvious possibilities are uncollected debts due from patients, and pilferage, and systems should be in place to address both.

Let us look at some other possibilities.

Price lists

The first and most obvious cause for lower than expected fees is having a price list which doesn't reflect the hourly rate of the dentist. This sounds obvious, doesn't it?

If the total time, say, for a crown is one and a half hours, plus £100 for the lab, and you are charging £350, then the practice will not be achieving its £200 hourly rate. If the dentist is slow and actually takes longer, then the hourly rate certainly won't be achieved.

Take a look at the fees and the expected time taken, and adjust the fees if necessary. Then measure the actual time taken, and see if you are still on target.

Maintenance and capitation schemes and discounts

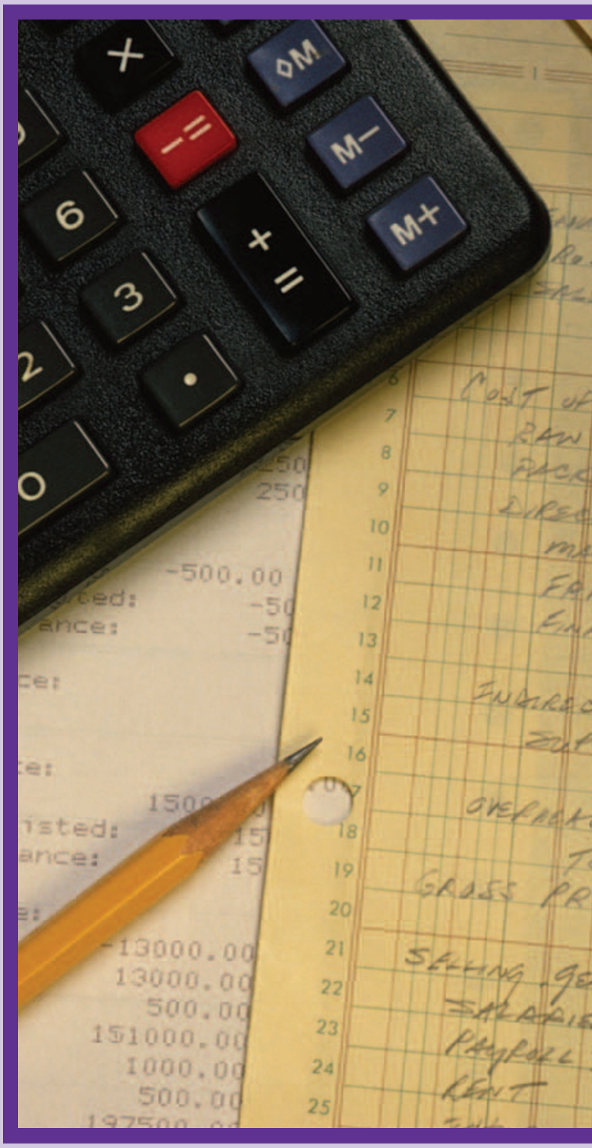
These schemes do indeed provide regular monthly cash flow, but frequently at a discounted rate. All other treatments may be offered at a 10% discount. If all patients were on these schemes you could be giving away 10% of gross fees each year – that's £30,800! And remember, that's also £30,800 off your net profit.

Your hourly rate must be calculated to absorb the effect of discounts. It is also essential to grade patients correctly on capitation schemes otherwise you are losing money on these.

Late cancellation and failure to attend (FTAs)

These can be the bane of a practice. Each half hour per day lost, at £200 per hour, costs £100, equating to £22,000 in a year.

Firstly, you must measure how much cancellations and FTAs are costing, and then you can address the problem. 'What you can measure, you can manage' is an apt saying for dental practice.



Every member of the team can contribute to avoiding losses:

- Make sure patients are aware of the charges for late cancellations and FTAs – in the welcome letter, notices in reception, and when bookings are made. But do it nicely – make patients aware of the value of the time/costs of running a practice
- Make sure you do not habitually run late. If you waste patients' time waiting for appointments you cannot expect them to pay you. Their time is valuable too!
- Enforce the charges, and de-list patients if you feel they are abusing the practice
- If you retain them, book their appointments at the least desirable and least wasteful times
- Train reception staff with reminder calls for longer appointments, and to keep a list of patients who may be able to fill late cancellations at short notice.

If all else fails, use the time productively, to plan for the next patients.

Mix of treatments

In many practices, examinations are something of a loss leader, with the fee set at a rate which does not achieve the target hourly rate. This is expected – the examination appointment provides an opportunity to educate the patient on the treatment options available. And the treatments will be costed to bring the average hourly rate up to target.

But what happens if you spend too much time doing examinations? This may be because dentally fit patients attend every six months whereas a longer interval may be appropriate, or because you have become a victim of your own success and have too many patients.

Suppose you have 1,600 patients and each one has two 20 minute examinations per year, for which you charge £45 each. This will use up 1,066 of your clinical hours at £135 per hour, leaving you only 474 hours to offer treatments earning you a higher hourly rate. It is very unlikely in this instance that your average hourly rate will ever reach £200!

The mathematics will vary from practice to practice with examination times and charges, but it is not difficult to run a thumbnail calculation for your own practice. Generally, about 1,200 patients per dentist in a private practice should be adequate to fill the available hours whilst allowing sufficient time for treatments.

Managing time in an NHS practice is rather different, since the focus is on fulfilling Units of Dental Activity (UDAs).

Take-up of treatment plans

Selling of treatment plans may not in itself be a profitable activity unless the plan is accepted. If the take-up rate is good, then this time has been an investment. If not, then it is unprofitable and will drag down your hourly rate.

Take-up rates should be monitored and low take-up rates investigated. What are the barriers to acceptance? Cost, fear, time involved, lack of understanding or inertia. Consider whether a loan arrangement for treatment funding would help – there are a number on the market.

Non-productive time

A major, but inevitable, loss of fee income is the simple fact that no dentist is 100% chargeable. As a rule of thumb we allow 20% of gross fee income to account for this. So in our example, instead of £308,800 gross, our dentist might expect to gross £247,040.

The difference of nearly £62,000 does represent a huge loss of earnings, and the practice team can help reduce this with good organisation. The 'non-productive' time will to some extent be spent in educating patients regarding possible treatments and so on, and this time cannot of course be said to be wasted – it is an essential part of the job.

The principal could think about sharing responsibilities or inviting suggestions about how efficiencies can be made:

- Is there anyone in the practice who is competent to discuss treatment plans with the patients?
- What about training as a treatment co-ordinator?
- Use your waiting room to raise awareness of treatments and options – wall mountings, leaflets, DVDs etc
- Use practice newsletters and the practice website to inform patients about different treatment options
- Is productivity lost by failing to plan properly for each day?

Cut along the dotted line and keep!

Materials and laboratory charges

The latest NASDA statistics indicate the average cost of materials and laboratory charges will be around 16% of gross fees in a private practice, and these days rather lower in an NHS practice. There may be some fluctuations with different types of practice, but surprisingly this ratio generally holds good.

You may think that if your materials and laboratory charges are, say, 18% rather than 16% of gross fees, this is negligible, but bear in mind that in a practice with gross fees of £300,000, 2% represents £6,000 less in profit, which is significant.

A higher figure for materials and laboratory charges may indicate several things; it could be there is wastage or pilferage of materials, which would need to be tackled, or the use of high quality materials and laboratories. If these higher charges are not matched by higher fees, this also needs to be addressed. Staff can help by identifying practice costs of this kind to prevent the practice profits being eroded.

Conversely, a low figure on materials and laboratories is not a cause of self-congratulation. It may indicate use of poor quality materials or insufficient prescribing of treatments, such as crown and bridgework, which are the backbone of general practice.

Wages

Wages, including employer's National Insurance for nursing, reception and administration staff, would be expected to represent about 18% of gross, in both NHS and private practices. Similarly, deviation from this average will impact on profits.

If the wages in your practice exceed this, some investigation would be appropriate:

- Do the wages include hygienists?
- Do the wages include a spouse or partner paid at a non-commercial rate?
- Are your rates of pay higher than in other practices in the area?
- Does your hygienist have a nurse; if so is this a profitable arrangement?
- Do you have additional nurses to cover absences?

A low wages figure is most likely to indicate below average pay rates or insufficient staff, particularly on reception: both of these may adversely affect the practice.

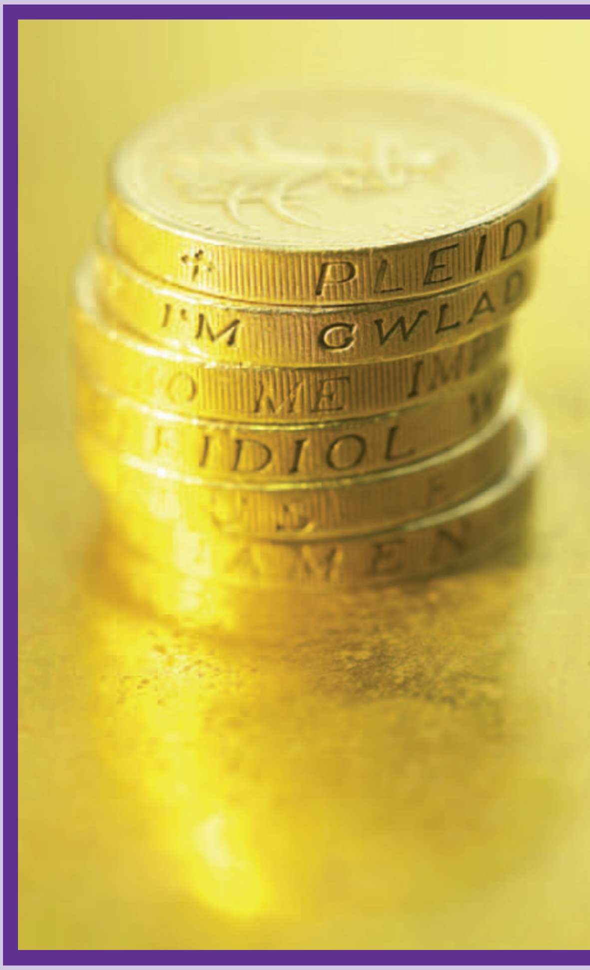
Conclusion

At my accountancy firm we have some spreadsheet tools which help you plan the gross fees for your practice both in terms of hourly rates and different treatments provided, and we would be happy to email these on request.

In the meantime, take your last accounts, multiply your hourly rate by the number of hours you work in the year, and see how this compares with the fees in the accounts.

If the actual fees are around 80% or more of the calculated fees, then you are doing all right – but do think about how the productive units might be increased. Remember – half an hour saved a day is £22,000 in a year at a £200 per hour charge rate, and much of that will go straight into profits.

And if your actual fees are less than 80% of calculated fees, think why!



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