

Overhead Analysis of a Dental Practice

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Thomas & Fees Practice Sales

“What planet do you live on?” That was the response I got from a dentist when I suggested that his practice overhead was way too high. We were discussing listing his practice for sale and he wanted to list it for \$450,000 and I had to explain that his take home pay just didn’t warrant that price. When he asked me why, I had to tell him his overhead was the culprit.

Let me give you a quick lesson on how overhead affects practice value and your take home pay. Let’s say you gross \$500,000 annually. That’s above average for many dental practices. And, let’s say your overhead is 78% or \$390,000. In this scenario your net would be \$110,000 and the value of your practice would be approximately \$200,000. That’s okay, but not great. On the other hand, let’s say you grossed \$500,000 and kept your overhead to 63% or \$315,000. In this scenario your net jumps to \$185,000 and the value of your practice increases to \$370,000. That’s a huge difference and we see that all the time. Also, the \$75,000 difference in net between the two practices is for only one year. After ten years you’ve lost three quarters of a million dollars profit and that’s for the same number of days worked and the very same workload. (These values do not include the accounts receivable)

I was a practicing dentist for 15 years. And, I’m not pretending that I was some kind of business super star. But, I did manage to keep my overhead at 55% of income. How you ask? I followed a budget.

But, I was lucky too. My dad owned a building supply company and dinnertime conversation was lots of talk about how to maximize profits and keep overhead down. Plus, I liked math. When I went into practice I hired Thomas & Fees Accountancy Corp. and Alan Thomas was my CPA. When he sent me my first profit and loss statement (P&L) I studied it carefully and called Alan with a couple of questions. I remember him asking in amazement, “You actually read it? I think most of my clients just throw it in a drawer.” Not me. I knew instantly that controlling those numbers was the key to practice profitability.

Now, I'm not suggesting that keeping overhead in line is an easy thing to do. Because, it isn't. You have to work hard to keep your practice numbers under control. It takes due diligence and self-control. You have to improve your leadership skills and learn to control the costs, especially salaries, lab fees and supplies.

Most businesses, except the U.S. Government, run on a budget. It's standard operating procedure. And, each and every month that document is examined and tweaked by pencil pushers to make sure all the expenses are in-line. Budget is a term heard often in business but not applied enough in dental practices.

Simply put, a Budget is a planning document used to look forward in your business to anticipate the cost of doing business and to look backward at the history of your business to see where you made mistakes. A Budget can help you track progress and learn lessons that can be applied to the future. It's a powerful tool if applied properly. It gives you a visual picture of the goals you reached and places where you fell short in your expectations. But, a Budget is useless unless you apply the lessons you learned from the past and make the necessary changes and then maintain the discipline to stay within the bounds set forth by the budget. In other words, a Budget is as good as the person being guided by it.

This article is not about Budgets. It's about analyzing your overhead. You can't write a Budget until you understand how your practice numbers match up to norm.

So, what should your overhead be? That's a good question? A better question is what do you want it to be? A good place to start is by doing an analysis of your overhead. Do you know what the optimum percentage should be for each overhead expense item listed on a dental office income and expense statement?* The Overhead Analysis (OA) is the norm. You can use it to compare how you are doing. If you are below the norm, good for you. If you are above it, you need to see why and make some changes. Once you see where you stand you can get serious about writing that Budget.

You can handle your overhead one of two ways. You can participate in the decision making process and decide what you will spend in each overhead expense category or you can wait until the end of the month and see how much money was spent in each overhead expense category. The money left over at the end of the month will be your take home pay. Your action or inaction decided your salary.

Take a long hard look at your leadership skills. Are you in charge of your office? Or, do you abdicate your power to the staff? Not sure? Well, have you ever said something like, "Oh, I can't extend my office hours because my staff wouldn't let me?" Really? Who's in charge of the office? And how would you handle this? Your front office gal says, "I need more help doctor. I'm swamped up here." Do you automatically hire another person or do you take time to analyze the situation and come up with a solution that keeps your overhead percentages in line? If you don't, you've just reduced your take home pay. Let me give you a good example. My front office gal told me she didn't have time to make hygiene re-call appointments. And my hygiene schedule was suffering. I could have hired a full time person and reduced my net by \$25,000 per year. But instead, I hired a gal to come in 3 hours 2 nights a week, when patients were at home, and do re-call appointments. For an investment of \$60 weekly, less than \$3,000 per year, I more than doubled my hygiene and increased patient treatment across the board. That decision was a money-maker for the entire staff.

Don't blame your staff. Good leaders keep team members aware of budget concerns, overhead percentages, and practice goals. Good leaders make team members accountable for those numbers by establishing an equitable bonus system and weekly meetings to review the budget. Everyone should treat the practice like their very livelihood depends on it – because it does.

If you aren't doing it now, NOW is the time to get involved with the business end of your practice. Your practice profitability and your financial future depend upon it. It's not how much you gross each month that counts. It's how much you can keep. And, what you can keep depends upon your overhead.

*Our Parent Company is Thomas & Fees Accountancy Corp. They have been working primarily with dentists for over four decades and are considered experts in the Industry. If you are unsure what the optimum percentages should be for each item in your overhead, please call (714) 544-4341 and ask for a complimentary Overhead Analysis of a Dental Practice. Expense percentages differ according to the type of practice being analyzed. Be sure to specify the type of dental practice you own. (Single practitioner, owner with one associate, orthodontic practice, endo, etc.)