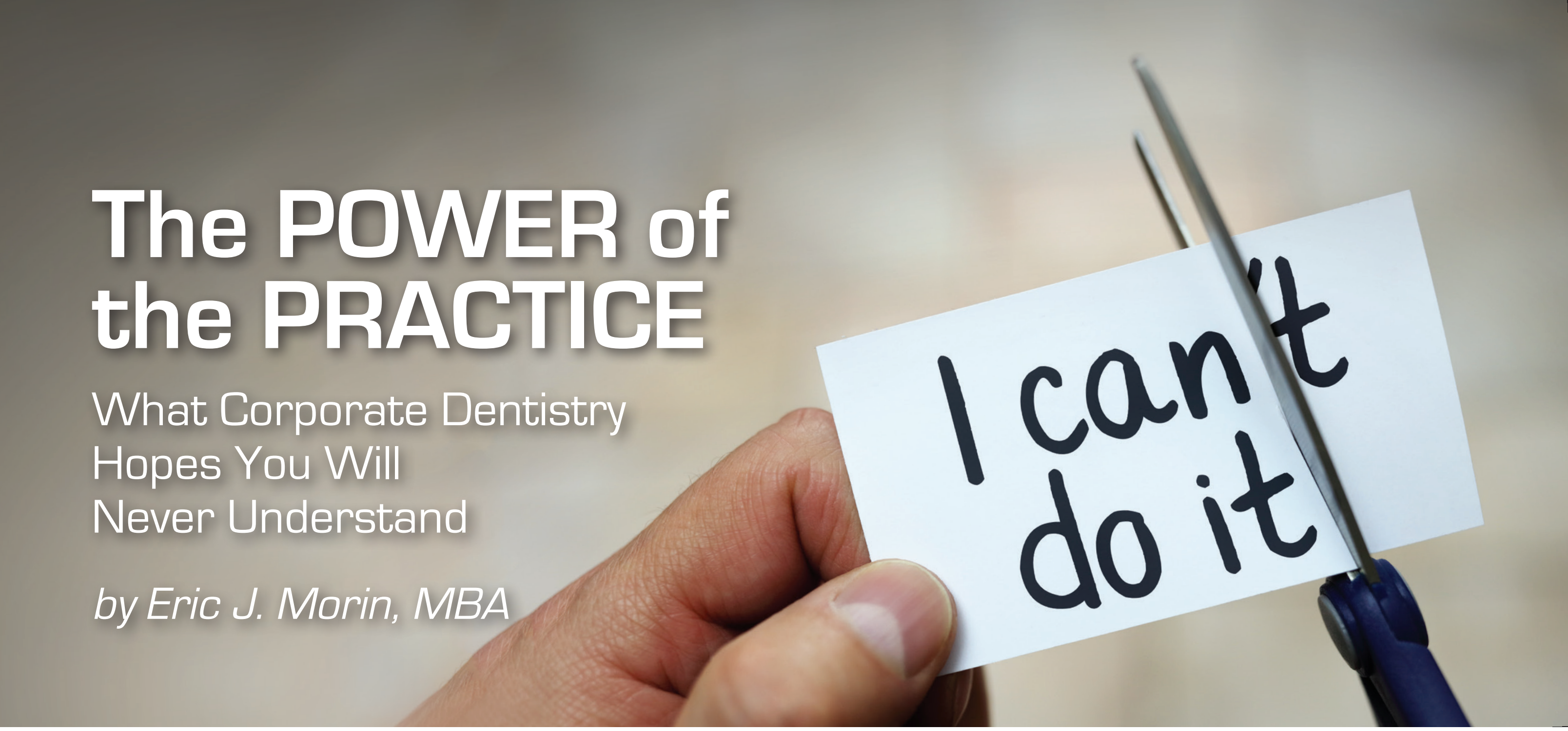
The POWER of the PRACTICE

What Corporate Dentistry Hopes You Will Never Understand

by Eric J. Morin, MBA



As we get ready for 2017, I encourage you to take another look at your practice. What are your goals for 2017, and how will you accomplish them? What will you do differently this year than last, and how will that impact you?

Perhaps your practice is in a healthy place and you do not desire growth. You need to understand, however, that you should always seek new patients, because patient attrition will occur. The balance of gained and lost patients can be equal if you are not interested in practice growth; without new patients, your practice will decrease each year.

Have you ever wondered why so many banks have no problem lending to a dentist? Financially speaking, a dental practice is one of the lowest risk, highest return businesses in the United States. The key to success is unleashing the financial strength of your dental practice.

The industry is buzzing about corporate takeover of dentistry. Such news either creates concerns regarding whether a corporation might affect your business, or contemplations on whether you should sell your practice to one of these companies.

What the corporations know is, if you put the right systems and processes in place, and activate the potential of your practice, it can become extremely profitable. The truth is that there are very few investments that have such a low risk and such a strong rate of return. The good news for you is that you already own this asset. You just need to unleash its potential.

Thinking about selling your practice?

Your dental practice is an amazing asset. If you're thinking that corporate dentistry is paying as much as 80-100% of collections for a practice, and therefore it could be a great time for you to cash in, you could be making a huge mistake. Here is an example of what the financial side of a sale really looks like:

Example

Let's assume that your practice is collecting 1.5 million dollars, and you are offered 100% of collections for your practice. If the sale proceeds were treated as capital gains (20% tax rate), then the after-tax income would be $1,200,000. If we then invest those dollars into the market and maintain an after-tax return of 5%, the doctor would earn an annual income off the sale of $60,000. Let's now assume that before the sale, the doctor was living on an after-tax income of $300,000. The doctor would take an **annual pay cut of $240,000, or a loss of 80% of his or her annual income.**

Most individuals tend to spend what they make, so we can assume that during retirement, the doctor will continue to need $300,000 a year. (actually, spending often increases during retirement, due to a person's increase in free time, but for this example we will assume that spending remains constant.) Due to the need to tap into the principle to make up for the difference between the $60,000 and $300,000, the sale proceeds would only last for **approximately 5 Years!**

The good news is, financial freedom can be accomplished without having to sell your practice. ***If proper systems are put in place, the practice can continue to grow, even while you reduce your clinical hours.***

To do this, you will need to focus on these key areas – and a few others.

Master First Impressions

Have you ever wondered what it sounds like when a prospective patient calls your office? You should! It matters greatly and directly affects how many new patients you acquire. If your phone is not answered properly, you could be losing patients every day.

Here is an exercise. Walk in your front door and see what the office looks like. Are your patients greeted with an experience so positive that they will tell their friends about it?

I recently went to a dermatologist who had a beautiful new building. There were no patients in the lobby except for me at 8am. Once I was greeted, I knew why. Even though the facility was amazing, to greet me, the receptionist continued her phone conversation and shoved a clipboard in my face. The rest of the visit went about the same way. The first thing I did after I left was call my wife. She asked if she should book her appointment with this dermatologist, and gave her a resounding, "No!"

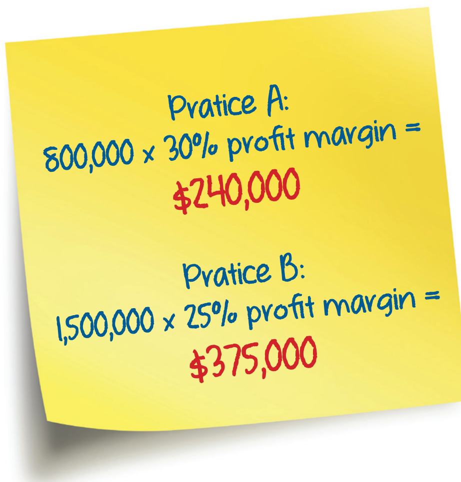
Interestingly, that morning the doctor was at a Chamber of Commerce meeting, trying to market the practice. He didn't understand the real problem. ***Approximately 65% of your new patients should come from referrals, and the first people patients refer are usually family.***

To sum up, make sure your patients have a "wow" experience.

Start Focusing on The Top Line (Revenues)

Many accountants and consultants make a living helping businesses cut costs to improve profitability, but the key to success is to focus on the right area.

Consider the example below. Would you rather have Practice A at a 30% percent profit, or practice B with a 25% profit margin?



As a dental practice owner and the main producer, you have limited time to focus on the business. I would encourage you to put that energy, first and foremost, into growth.

Recommit to Marketing

Has anyone ever told you that marketing is an expense? After working with hundreds of doctors all over the country, I can tell you that that this could not be further from the truth. ***Marketing is an investment, because it has a return. There is a direct correlation between marketing dollars and practice growth.*** Here is a good exercise for you as you prepare for the new year. Find out how much money you spent on marketing in the past year.

Marketing Expense / Total Collections = Marketing Ratio

This formula will give you the ratio of collections spent on marketing. Next, track your growth. If your marketing percentage is below 3%, I can almost guarantee you that too little marketing is one of your main problems.

Learn About Your Financials

You probably know a dentist who hands his or her accountant a shoebox full or receipts at tax time each year. Some of you reading this might be that doctor. Don't feel bad if you are; you certainly are not alone. I would encourage you to learn the difference between your profit and loss statement and your balance sheet. Do you know how to extract important information? In your annual meeting with your accountant, ask for an explanation on the difference, and have them walk you through your financials together. ***Just as patients can make wise decisions once they are informed, you will have the power to make good financial decisions once you understand your company's financials.***

Reconsider Where You Get Business Advice

I have had the honor and pleasure

to work with some amazing accountants during my career, and the value of a good accountant cannot be understated. However, an accountant's job is to focus on taxes and expenses, not growth of your business. Because of this, do not be surprised that your accountant is focused on cutting costs. The latter is much more difficult to accomplish, and so oftentimes, consultants and accountants go after the easier, and more likely to be accomplished, task.

Instead of cutting staff, set revenue goals that will excite your team and line up with your own desires. This strategy will also make it possible to incentivize your team. I can assure you, the morale is always higher in offices with incentives, instead staff cuts.

Set Key Performance Indicators

As the CEO of your corporation, you need indicators that show how each month is going. Financial statements look backwards and focus on what has already happened. It's important to know how you did, but it's more important to know how you're doing. ***Indicators that show how you are you doing will allow you to quickly right the ship, when necessary.*** Once a month is over, it will be too late to make changes that will affect that month's revenue.

Create strong daily and weekly key performance indicators (KPI's) to keep you and your team on track for meeting goals.

Take Another Look at Your Hours

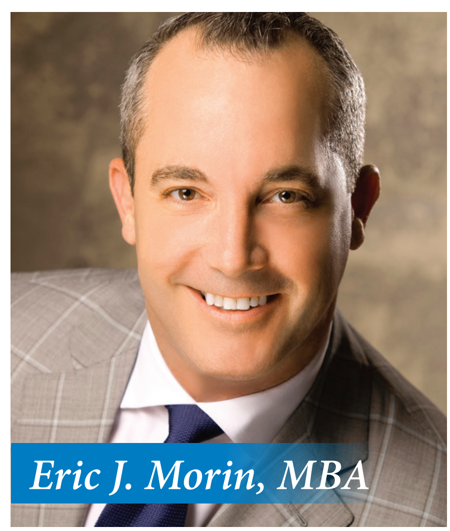
Were your hours designed for you or for your patients? ***Your hours should make appointments convenient for your target patients.*** Expanding hours is also one of the quickest ways to drive up revenues.

I was recently rushing to get to my bank before 5pm, when they close. My intention was to open a new account and deposit a check. When I arrived at 4:58, they were already closed for the day. Their hours are designed to be convenient for them. When do business owners have time to get to the bank? Shouldn't the bank's hours be convenient for account holders? Your practice is no different. If your office is not open when your patients are available, someone else's office will accommodate them.

Consider Purchasing Real Estate

Real estate is one of the best assets you can own and can have a significant impact on your net worth. It is an asset that can pay you income for the remainder of your life, and can be passed on to your family. Perhaps best of all, you know the tenant! Because you can depreciate the asset, there are also significant tax advantages. ***If you study the investments of wealthy individuals, you will find that a vast majority own real estate.***

If you want financial freedom, maximizing your dental office is certainly an excellent start. However, you must surround yourself with experienced business advisors who will provide sound advice, as trying to manage the business while also seeing patients will spread you too thin. Begin to pave your path toward financial freedom by executing the tips provided here. If you remain focused and informed, your financial future can be set in stone.



Eric J. Morin specializes in business and financial consulting for dentists. He has been in the industry for over a decade and also assisted his wife in establishing a thriving multi-doctor practice.