Profitability – A Goal For Every Small Business Owner

ORTHO2

by ***Char Eash***

Sometimes it seems like speaking about profit is taboo in orthodontics today. The word "Profit" is many times contrived as a means to compromise with orthodontic care, end result or patient experience. It is actually the opposite in meaning as the most profitable orthodontic practices I work with provide a quality end result and a positive patient experience while creating a secure team environment. Orthodontics is a small business which must create a profit to be viable.

There are many systems that contribute to profitability other than the new patient process. Orthodontists are spending many dollars on marketing systems that may grow the practice externally when internally they are losing money day-to-day on systems that are not being tracked. I get very discouraged when I hear an orthodontist state that they have not taken a paycheck for a period of time. They are the CFO/CEO of the practice and should be compensated as any employee for their contribution to the organization.

I would like to address the systems that create profitability in the orthodontic practice which in turn supports a positive business plan.

1. Let's begin with a business plan. Do not be in survival mode! Every great business has a business plan. Every time I read the book "Starbucks Experience" I remember that vision began with the 50 cent cup of coffee. The business plan was created to get people paying 50 cents for a cup of coffee to pay $5.00 for a similar product while enjoying the process.

   First there was a business plan and we all know how that plan played out! With any orthodontic practice we need a business plan. This plan would include days and hours to be worked for the year, goals set for each day to be worked both contracts and receipts, the number of employees needed to facilitate the goal, a job description for each team member that outlines how they will contribute to profitability, the schedule set to support the practice goals, and the marketing strategy internal and external to support the plan.

2. Set up your profit and loss statement to reflect the industry standards. The key items to compare are staff salaries, clinical supplies, lab supplies, lab costs, office supplies, rent, and newly added IT/social media costs. These line items define the profitability of the practice. Prior to hiring that new team member, you must review the percentage to income to verify you have the income to add that position or even replace that position.

   When deciding on equipment purchases ask the question how will this item create profitability for the practice, and how will the taxation or depreciation dollar affect your bottom line? A profit and loss statement should be reviewed quarterly at minimum! How many million-dollar businesses do you know of that do not have a budget for key line items? Not many successful ones!

3. Treatment times define the profitability of the orthodontic practice. In a slower economy I have seen practices choose to see their patients more often just to fill the schedule. That may or may not affect the value per visit when reviewing the debond analysis. Let's get patients through treatment while at the same time creating the highest value per visit on a timely basis. While monitoring treatment time, two services that kill profit are emergencies and over-extended retention periods. Have an emergency policy for brackets off and broken appliances. Once the policy is established stick to it. Chances of relapse are more

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present in practices that have a long retention period. This, in turn, creates the possibility of retreatment. Retreatment due to non-compliance burns profit as it is very difficult to charge what is needed per visit.

4. You cannot grow a practice by lowering or manipulating fees. Fees need to be set based on the complexity of the case and the number of visits you calculate it will take to achieve the desired end result. After a review of the debond analysis and how the fees for each case type may play out, it is easy to calculate what the fees standards should be, based on a minimum of $250 per visit. If participating in insurance plans review with the financial/insurance coordinator how the orthodontic fees may be billed to maximize the policy and fee structure. Discounts with fees kill profit in many cases as the combination of fee discounts exceed a safe 8% threshold. In some practices fee reductions could reach 20% if a fee is given that includes a paid in full discount, second phase discount, and sibling discount. What is the threshold to treat a case and have it be profitable for the practice? You should know this answer.

These are just a few systems that create profit and continue to build the business of orthodontics. If you had to sell your practice today could you maximize the practices value by presenting a low overhead and positive cash flow?

About the Author

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