

# KEY TO PROFITS IS KNOWING YOUR BREAK-EVEN POINT

by Julie H. Weir

The most profitable way to run the business side of your dental practice is to understand, define and know how to use your break-even point number. Many doctors try to operate the business side of their practices on *intuition*. Intuition is not a *solid numbers system* that provides feedback of concrete data for making competent business decisions. Profits in a dental practice can greatly increase when the doctor has the ability to understand the practice business numbers, particularly the practice's break-even point, and monitor these numbers with a system to keep the team and practice on course.

## BREAK-EVEN POINT

The break-even point number is the first and most important business number a doctor should know. The break-even point number will provide enough revenue (collection dollars in a dental practice) to meet expenses and profits needed for the below financial goals:

Collection dollars are needed for:

- ✓ Doctor income
- ✓ Retirement contributions
- ✓ Overhead expenses
- ✓ Increase in staff labor costs; such as raises, benefits, skill levels
- ✓ Capital improvements; such as new equipment, office remodeling
- ✓ Loan payments

## FOUR IMPORTANT NUMBERS FOR PROFIT

Once the practices break-even point is determined, other important business numbers can be calculated. Profits in a dental practice depend directly on four numbers: the break-even point, production, collection and overhead expenses. From the break-even point number *Production* and *Collection Goal* numbers and a budget for the practice can be calculated. When the doctor and staff know what the Production and Collection Goals for the practice are and have a system to work towards and monitor these goals numbers it is much more likely that *financial goals will be reached*.

Defining, monitoring and controlling all of these numbers each month will more likely result in the desired profits for the practice. Doctors must understand how all of these numbers work together.

## ACTION PLAN

1. The break-even point must be calculated and defined.
  
2. The doctor must determine what the practice will need to produce to collect enough revenue to meet the break-even point number. This Production Goal must be defined and divided among the producers in the office. Producers are the doctor,

hygienist and any team member who has a column of appointments scheduled specifically for them. Some of the specialty practices may work off of tracking goal numbers different than production dollars; such as in orthodontics it could be the number of new patient exams, records and starts.

The scheduling coordinator must *schedule* each producer's day to *meet their individual production goal*. It is important to remember that cancellations and changes in the schedule effect how much a doctor or hygienist will actually produce each day. Therefore, the daily scheduling goal will be higher than the daily production goal.

3. Have an excellent financial arrangement/collection system in the practice, so collections are 98%+ of production, the practice can collect the necessary amount off of the production to meet the break-even point number.
4. The doctor must have a defined budget for the overhead expenses of a practice. This budget should be monitored on a monthly basis. The doctor's Profit & Loss Statement (also called an Income Statement) will have the necessary information to monitor expenses.

The entire team can help the doctor control and monitor production, collection and the appropriate expense numbers for the practice budget (dental & office supplies). Each member should know what these numbers are, how they are accountable for meeting them and how to monitor them throughout the month.

## **80/20 RULE**

The 80/20 rule explains that 80 percent of the results we get come from 20 percent of our efforts. By building controls around the 20 percent of the most important business numbers, teams can reduce inefficiencies and remain focused on controlling the important parts of the practice.

It is well worth the time and effort to define and monitor the four business numbers discussed; break-even point, production & collection goals and an overhead expense budget to maximize profits, give the doctor and team more control and stop operating the business side of the practice on intuition!