The Bio-Engineering Co.

Where's the Money Part-III, your Net

The only realistic way of looking at net is through your expense category's yearly percentages. The expense categories, along with their *average* percentages, which I have used for my Super Support Practices, in order of their average values are shown below. You should be close to the average, but may vary between the high and low percentages:

- **Salary-Related:** Avg = 24.3% High = 33.7% Low = 14.8%
- **Occupancy:** Avg = 9.6% High = 16.0% Low = 0.3%
- **Clinical Supplies:** Avg = 7.2% High = 11.5% Low = 3.7%
- **Laboratory:** Avg = 6.1% High = 15.9% Low = 0.5%
- **Promotion/Advertise:** Avg = 2.6% High = 4.0% Low = 0.5%
- **Miscellaneous:** Avg = 2.3% High = 5.7% Low = 0.1%
- Clerical Expense: Avg = 2.0% High = 4.0% Low = 0.3%
- Purchased Services: Avg = 1.9% High = 4.3% Low = 0.3%
- Utilities/Telephone: Avg = 1.6% High = 7.3% Low = 0.4%
- Patient Refunds: Avg = 1.1% High = 2.8% Low = 0.2%
- Team P&PS: Avg = 0.7% High = 8.8% Low = 0.0%
- Total and NET: Avg = 59.4% Net = 40.6%

It is difficult to relate your practice one-to-one with these categories and percentages, so we will just refer to the average percentages of the **major** categories above (85% of expenses) and discuss what might make them get out of control. See the attached PDF for a full explanation of what is included in these categories.

In general, practices that use a monthly budget end up with a higher net than practices that don't. Why? Because they are aware of when they are getting out of control and do something about it. If you want a Monthly Budget Control system, it is included in the "Goal-Attaining & Reporting Kit".

In general, if your treatment fees are low in your area you will collect less $ net than you should. Your salaries will probably be lower, but everything else will probably cost you the same as everybody else. Also, if you accept lower fees from your patient's insurance you will receive less net for the work you do. Every $1,000 drop in a fee is a $1,000 drop in your net!

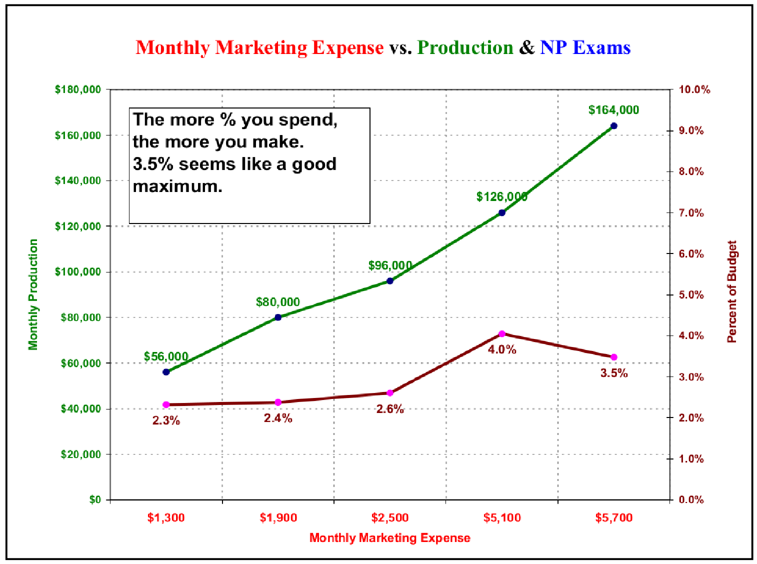
Salary-Related: Our ongoing example $1.5 M practice, employing about 7 full time staff would pay about $30,000 (@ 24.3%) per month ($4,000+/team member) for all staffing expenses except P&PS. The average *collections* per staff member are about $215,000/year or $1,800/mo. If you divide *your* average monthly collections by *your* total full time staff (*excluding* lab and sterilization staff) you should be close to $1,800. A *not*-so-well organized/scheduled practice on the average pays for one more employee than necessary, which is a loss in net of about $50,000/year (a 3% increase to 27% in salary-related overhead). Multi-doctor/multi-office practices tend to have more staff overhead than the average in order to cover the offices; it is best to hire part-time staff if overstaffed. Practices also have higher staff overhead if they have long-term team members (for decades). If a doctor employs family members who don't really do a full days work, most that expense is actually part of their net income.

Occupancy: Our $1.5 M practice with two offices would pay about $12,000 per month (@ 9.6%) if they have been in their offices for decades with the same computer system. A practice that buys a new computer system is probably reducing their net by about 1% per year for 3-4 years. A practice that is building a new $1 M office (paid out over 15 years) would pay about $8,000/mo—if built, your loss in net would be the difference between $8,000/mo and your present expense for *that* office. Thus, if you now pay $3,000/mo you will have a drop of $5,000 (4%) per month in your net income for 15 years. If not a new office, there will be office repairs and refurbishing expenses of about 1-2% per year for a few years that will reduce your net.

Clinical Supplies: For the average $1.5M practice (225 Comprehensive starts/year), clinical supply expenses comprising equipment, brackets, bands, wires, and other necessary clinical supplies is typically 7.2% or $110,000/year. Equipment only affects the monthly clinical expense when it is purchased. Brackets are a major cause of clinical expense averaging from $75 to $250 per Comprehensive Tx start. Thus, for $1.5M practice with about 225 Comprehensive Tx Starts it costs from $17,00 per year to $57,000 per year, which is an extra $3,500/mo (3%) off your net. Frankly, you use what you use and probably won't change so the best way to help your net is to have a good purchase control system and not waste money on supplies you won't use. Having a specific person in charge of supplies is the best way to reduce your costs.

Laboratory: For the typical $1.5M practice the cost for patient models, retainers, and special appliance usually adds up to about $5,000/mo (4%). If you have an in-house lab you will probably pay the same amount in supplies and lab staffing. If you purchase the typical 10 Invisalign, 5 SureSmile and 3 Bracket-Setup patient-start services per year you pay about $2,500/mo (2%). All of this gives a total lab expense of about $7,500/mo (6%). One hundred Invisalign starts/year will *add* about $150,000 per year (10%) to your lab expense totaling about $16%—similarly for SureSmile or Bracket-Setup services starts.

Promotion/Advertise: I did a study of dozens of my Super Support practices and found that there is indeed an increase in new patient exams, and thus production, for an increase in Promo/Ad expenses. Of course the better your marketing the better your results no matter what you spend. The best marketing is internal marketing with a good TC program and pleasant staff, but TV and billboard advertising can also help, but it is expensive. Having a good website for your possible patient's to check you out on helps (see the management pearl "Orthodontic Websites that Work"). If you *don't* spend much on your Promo/Ad and your net is low, you might want to invest in realistic programs to increase it (see the management pearl "Marketing your Practice"). If you include "entertainment" (of referrers) or golf clubs, etc., expenses they are actually part of your net and should be considered as such.



Miscellaneous: From the attached listing of miscellaneous expenses it is obvious that they refer mainly to Taxes, Insurance, CC, etc. But many practices include vehicles and even planes in this category. Obviously, even if you use your vehicle/plane to transport your team from the main office to other offices, the cost of the vehicle/plane is mostly part of your net and should be considered as such. Miscellaneous can also be a catchall for whatever you can't fit into another category, and this is not a problem unless those amounts are large.

Associates: This is a category that is not an expense, but a direct reduction in *your* net. The more time you want off, but still want the treatment days filled, the more you will spend on your associate. The same is true for a partner who works more days/year than you do. The key is to either accept a lower net or be as productive/day as possible, thus increasing your production, collections and net. See the management pearl "Compensating an Associate" for more on this subject.

I hope that this pearl has given you better insight into how to evaluate and control your net.