



# Practice Transitions Made Perfect™

## Newsletter Article Reprint

### Fees and the New Year

January 2010

As we all know, the recession adversely affected every segment of our economy last year. A reduction in new patient flow and treatment acceptance has been seen almost everywhere. In general, we've seen anywhere from a 10% to 30% decline in practice revenues in 2009 compared to 2008. With the New Year however, the cost of operating your dental practice will probably continue to increase as it has every year; with increases in supply costs, rent, insurance, and staff compensation as well as every other cost of running your business.

There are only two possible ways to make up for the increases, either work more or raise fees on the services you provide. Since this economic environment and your practice makeup may not yield higher profitability, we will focus on increasing your fees.

We recommend that each practice develop a fee schedule that accurately reflects the quality of care it provides. All fees for services once set should be increased at the same rate across the board, at least three percent (3%) per year. As a point of reference, the CPI increase for medical care services was approximately 3.2% for the period ending on October 31, 2009. Trying to adjust individual procedure fees based on the perception of adverse patient reaction usually proves to be a waste of time and energy. Your primary business goal is to operate your office at optimal capacity doing the type of dentistry that you want to do.

If your fees are below the median fee schedule for your area, you should consider an immediate increase of all of your fees of approximately 10%. If your practice overhead is 65%, a 10% increase of your fees will yield an increase in profit of approximately 30%. If your overhead is 75%, the same increase will yield a profit of 40%! We suggest that you maintain your fees in the 80th percentile for your area.

Also, keep in mind that it is usually not possible for doctors who do not increase their fees annually to catch up, or make up, for years when they did not incrementally increase their fees by simply submitting a larger fee increase in any one year. Here are some things to consider in conjunction with your fees:

#### Staff Compensation

While most offices raise staff compensation annually, that is not necessarily the best way to do it. Whether as a result of merit or just time, and while it is certainly welcomed by the staff, annual salary increases become an expectation. With that, unless the staff understands that their compensation is directly related to the overall financial health of the practice, they are unlikely to support your efforts. Accordingly, we suggest that you raise your fees in conjunction with the increases in compensation, making sure that your staff understands that their increase is tied to your fee increase. From there, they should be more willing to assist in the implementation, presenting, supporting and defending the updated fees with your patients. Additionally, they will make sure that there are regular increases in your fees.

#### Lab Fees

Generally, fees for laboratory related services should be in the range of five to seven times your laboratory costs. If your annual lab costs are higher than eight to ten percent of your production, that may be due to a disproportionate mix of some services that are lab intensive, or, most often, that your fees are not high enough.

#### Free Dentistry

We suggest that you monitor the amount of professional courtesy discounts or free dentistry by entering a \$0 fee for those services and tracking them on your production reports. You may find that the cost of your discounts is higher than you expected.

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### Communications Strategy

Studies have shown that it is easier and more cost effective to increase business from existing patients than to create new ones. Marketing is becoming more important as doctors constantly look for ways to get more patients into their practice. Most however, spend virtually all of their marketing efforts on new patients forgetting about the existing patient base.

You should be communicating with your existing patients at least every six months. A simple informational letter about changes in your practice or new procedures can be delivered for free via email or for minimal cost using regular mail. Now is an opportune time to reconnect with your patients, talk about the upcoming year and, at least remind them that their insurance benefits that have been reset as of January 1st.

### Treatment Presentation

Many of our successful offices have also revised their treatment presentations to reflect the recession. As we have always advocated for comprehensive treatment planning and presentation, many offices are now offering a deferral of the “complete” treatment plan in favor of a segmented plan.

While a comprehensive plan should be presented, if it is not accepted for economic reasons, consider offering to complete the treatment in segments over a defined timeline. Normally this will result in quadrant treatment that can be accomplished in only a few appointments with a minimum of time lost from work. Patients will be able to see immediate results of the treated area and will probably be more inclined to want to complete treatment.

The health of your practice depends on a regular review of your fees. If you don't know how your fees compare to others in your area, ADS Florida can assist in your determination.

As we all know, economies are cyclical and as they turn down they will also turn back up. Now is the time to comprehensively evaluate how your practice is positioned and make plans for the New Year.

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H.M. Hy) Smith, MBA is a 35 year veteran of practice transitions. Hy consults with doctors and nationally as Director of Transitions Strategies for Pride Institute. Hy has authored several books on transitions, continues to lecture nationwide and formerly served as President of ADS.

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