Financial goals and benchmarking metrics: Laying a foundation for long-term success

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You've recently taken on the title of practice owner. You know the members of your team, you have met some of your patients and you are laying a foundation for long-term success.

Now is a good time to examine your financial statements and the relevant associated benchmarks to develop financial goals for your practice. Which metrics should you be monitoring at this point? Here is a recommended list:

Cash flow and profit

What is your cash flow, including accounts receivable? Cash flow is not the same as profit, as depreciation is a non-cash flow expense. Debt service is a cash flow expense, but not an expense on the profit (loss) statement. Understand your accounts receivable aging schedule as follows: Is total accounts receivable less than 1.5 times production and is the 90-day balance less than 15% of the total? Ratios will vary for FFS versus PPO practices. Also, what is the break-even amount of collections you need to pay your overhead?

Production breakdown

What is your production breakdown between doctor and hygiene and, related to that, what is your collection rate? Is hygiene production three times hygiene compensation? Initially, the hygienist production ratio may be higher as you build active patient counts and doctors' schedules. What is the average daily production? Is the ratio where it should be for your practice, or is there room for improvement? Are the breakdowns of procedure production codes in line with your standard of care?

Patients and scheduling

How many active patients have you had over the last 24 months? How many openings do you have in your schedule each month? What percentage of patients are rescheduling after a broken appointment? Are you scheduling to best serve your patients, your team and your overall practice schedule? How many patients do you need to turn a profit and meet your financial obligations? An average practice may see a 10% annual turnover rate of active patients, meaning you need at least that many new patients for financial stability without growth. If you want to grow your practice, you should target at least 15% to 20% of total patients as a new patient growth goal. You should measure growth monthly and create a marketing plan to help achieve your new patient growth target.

Financial and overhead ratios

What are your key financial and overhead ratios? What are your overhead expense ratios as a percentage of overall production (supplies, lab, staff salaries, building costs), as these are key measures of efficiency and may indicate purchasing opportunities, over- or under-staffing, and/or open operatory/scheduling times. What is your owner's compensation or earnings versus associate-based compensation if you were paid as an associate first?

Insurance and fee schedule

Understand your desired patient structure. Are you a FFS- or PPO-based practice? And is your fee schedule in line with the local marketplace, or does it need to be adjusted? This will impact production ratios, as well as benchmark setting, staffing and scheduling.

Tracking these benchmarks will allow you to build a sustainable practice. When it comes to financial strategic planning, the general rule of thumb is: The longer you wait, the more it will cost you. Understanding these key metrics now will set up your practice for success in 2021 and beyond.

For guidance on developing and monitoring financial goals for your practice, visit www.bakertilly.com/industries/healthcare-and-life-sciences/dental-practices.