Assessing your practice success

By Dr. Ehab Heikal, Egypt

How is practice success determined? This is not an easily answered question. It is virtually impossible to point to one positive practice statistic. Yet in today’s fast-paced world, everyone wants a quick fix. We are programmed to want cut-and-dried solutions and easy answers for everything. Unfortunately, there is no simple equation to measure practice success.

Sometimes it is tempting to view overhead as the barometer of practice success. The overhead is the amount spent to generate a specific sales amount (fixed costs). It varies from industry to industry, and since reliable data is very rare in our area, thus I will use the example of the average overhead rate in the west. For example, 40 percent generally is regarded as an ideal overhead percentage for a general practice (it could reach 66% as an ideal in USA). In our area, it could be far lower, it reaches 15% in some cases, yet I will stick to the high measure international measure just for the sake of the example.

So does attaining the ideal overhead ensure success? To answer this question, let us examine three clinic or dental centers’ situations.

**Dental Center A:** Has an annual production of $250,000 and overhead of 40 percent. If having the ideal overhead is all that matters, this practice is successful. However, at $100,000 production, can be considered decidedly below average.

The center’s ability to invest in staff, technology or continuing education also is limited. By all definitions, this center is unsuccessful even though the overhead percentage may be on target. Clearly, overhead is not the true indicator of success, yet magic numbers also are sought elsewhere. Many view production as the only figure that truly matters. High production means a great deal of revenue is coming into the practice; surely, that is a good indicator of success.

**Dental Center B:** To address that issue, let us examine dental center B, which has an annual production of $1.1 million and an overhead of 85 percent. Although the production of this center is extremely high, the overhead is equally high. Should this center be defined as successful? $1.1 million sounds wonderful. However, appearances can be deceiving. Although the gross revenue measurement may be impressive, the reality of everyday profit creates the same scenario for this dentist as it does for the one in center A. With both having an approximate net profit of $350,000 - $450,000, there is little difference between centers A and B at the end of the day.

**Dental Center C:** Now consider C, with an annual production of $150,000 and a 50 percent overhead. Although this center has an overhead slightly higher than recommended, the overhead picture is much better than that for either A or B. It is a good bet that the dentist in C is substantially better off. If center C is managed and operated properly, the dentist will have a fairly low-stress environment with substantially higher profit.

The moral of the story: When comparing these three centers, keep in mind that the percentage of overhead is not the only factor to consider. It is only a ratio and always needs to be viewed in context. Despite the excellent overhead of 40 percent, center A with $250,000 in production cannot be deemed as financially successful as center C with $800,000 in production and a 50 percent overhead. The same philosophy must be applied when assessing all areas of the dental center to evaluate opportunities for improvement.

**Key Performance Indicators (KPIs)**

We often tend to look at only one aspect of the clinic’s performance indicators. Dentists need the total picture to determine the success of their clinics and plan for the future effectively. It is unwise to rely on a single number or statistic. For this reason, you can use key performance indicators (KPIs) to determine the health of your dental office. The following KPIs are among the most crucial for dental practices:

- **Production** (Total income)
- **Collections**
- **Production/collections ratio**
- **Number of new patients**
- **Number of referrals**
- **Total of accounts receivable (Uncollected payments from patients)**
- **Average production per patient**

Only through consistent tracking of critical KPIs can the clinic truly determine its situation.

No single number or statistic determines clinic success. A clinic that relies on one statistic to determine the state of the clinic will not achieve an accurate assessment. In today’s increasingly competitive field of dentistry, dentists must consistently analyze and monitor clinic KPIs. Dentists who are keenly aware of clinic performance are able to effectively adjust strategies to meet the demands of our ever-changing economic and technological realities and achieve both professional and personal success.

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