Four critical key performance indicators in your practice

By Roger P. Levin, DDS

Introduction

How is your practice performing? Key performance indicators (KPIs) will tell you. KPIs point out those factors primarily responsible for determining how your practice is performing at any given moment. Knowing these KPIs enables you to get an accurate picture of the state of the practice. Once you possess this information, decisions can be made more effectively regarding the efficiency of the practice’s systems and how to grow the practice.

Four critical KPIs

Levin Group recommends the following KPIs be examined weekly by the practice:

I. Overall Production
II. Collections
III. Accounts Receivable
IV. Overhead

I. Overall Production

Nearly all practices have the potential to grow significantly by reorganizing and implementing systems in the office. Once efficient documented systems are implemented, practices are better positioned to achieve greater success.

Although most dentists know their production numbers, remember that production is only an indicator of how busy the practice is — it’s not an indicator of efficiency. This number reflects the scope of dental services provided by the practice.

Production, however, should not be the only criteria for determining practice success. While it is a critical statistic to evaluate, production must be evaluated along with other performance statistics such as budget and case completion rates to achieve the most accurate assessment of how the practice is performing.

II. Collections

A key indicator for any dental practice is collections. In fact, practices should collect more than 98.5% of all fees charged to patients.

Collections have an impact on the practice’s financial health and cash flow. Collecting money at the time of service is possible only if production increases through convenient and easy payment methods. If not, production (dental supplies, laboratory costs) should be managed carefully. Variable costs that remain stable no matter the level of production (rent, staff compensation). Overhead should always be paid. Whatever the source of the expense, overhead should be watched vigilantly. It is also important to be sure that each addition to overhead provides the practice a return on investment. By following a series of key business management strategies, a majority of practices can reduce overhead significantly. By doing so, it is possible to achieve overhead of 60 to 61 percent once all management systems are properly in place. Remember that reducing overhead by just 8 to 9 percent over the career of a dentist can translate into financial independence years earlier.

III. Accounts Receivable

If reviewed on a regular basis, accounts receivable can be an excellent indicator of the financial outlook of the practice. What percentage is acceptable when reviewing accounts receivable? The objective should always be to collect at least 90% of all money due to the practice at the time of service. A total of 98.5% should be collected in the next 31 days.

Many practices allow accounts receivable to expand beyond an acceptable range. Levin Group recommends that no money be owed to the practice past 60 days. Money due past 60 days is uncollectible 50% of the time. With few exceptions, payments due past 60 days is uncollectible 50% of the time. With few exceptions, payments due to the practice past a certain time are nearly impossible to collect.

IV. Overhead

Overhead is composed of fixed costs that remain stable no matter the level of production (rent, staff compensation). Variable costs change depending on levels of production (dental supplies, laboratory costs). Fixed overhead must be paid whether or not the practice is operational and often causes financial stress if not managed and controlled. As the practice grows, fixed overhead must be managed carefully. Variable overhead needs to be managed as production increases through careful inventory control and ordering systems.

Many factors increase overhead, including new materials and technologies that dentists would like to have. Whatever the source of the expense, overhead should be watched vigilantly. It is also important to be sure that each addition to overhead provides the practice a return on investment. By following a series of key business management strategies, a majority of practices can reduce overhead significantly. By doing so, it is possible to achieve overhead of 60 to 61 percent once all management systems are properly in place. Remember that reducing overhead by just 8 to 9 percent over the career of a dentist can translate into financial independence years earlier.

Conclusion

To get a clear picture of how the practice is performing, four KPIs must be examined. All practices should develop clear key performance indicators and targets. The dentist must always know the practice’s financial situation. This is accomplished by continually benchmarking against set goals in each key performance indicator category.

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About the author

Dr. Roger P. Levin is founder and chief executive officer of Levin Group, Inc., a leading dental practice management consulting firm that provides a comprehensive suite of lifetime services to its clients and partners. Since 1985, Levin Group has embraced one single mission — to improve the lives of dentists.

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