Budgeting for success

By Roger P. Levin, DDS

Introduction

‘Mention ‘budgeting,’ and most dentists’ eyes immediately glaze over. But when practices don’t have a budget in place, Levin Group has heard dentists say things like:

‘It seems like there should be more left at the end of the month.’  
There’s no way we spend that much.’  
‘I’m not sure where all the money goes, but it goes all right.’

A budget is a necessary tool in your financial arsenal that allows you to reach your ultimate business goal — practice profitability.

Budgeting instills fiscal discipline. By adhering to a budget, you can better manage your revenue and expenses as you journey toward achieving greater success. The following tips can help you understand how to develop an effective practice budget:

Set a Revenue Target

You cannot know what your profit goal is unless you set targets for both revenue and expenses. Using these benchmarks, you can customize all the systems in your practice toward achieving the goal of every successful business — profit.

For your revenue goal, look at last year’s production and collections. Often, dentists first think of what they want their profit to be, without considering the revenue that must be generated to reach that number or accurately accounting for expenses. To set an achievable profit goal, you must know what your practice can actually produce in a given period. Look at the trends in your practice’s production over the past few years, such as the number of days worked, and the number of staff members. By evaluating your findings, you can begin to understand where your practice has been and set realistic revenue targets for the future. Questions you should ask yourself when you set revenue targets are the following:

• How much do you expect production to increase over the next year?
• Will you be adding staff in the next year in an attempt to increase production?
• Do you plan to introduce any new services?
• Do you intend to raise your fees?

Based on your thorough analysis, determine realistic production and collection goals for the coming year. Levin Group Method® recommends a 10-15 per cent growth per year as a good starting point.

Track Everything

Once your budget is complete, you will need to track all the critical numbers on a monthly, weekly, or even daily basis. Tracking performance and comparing it to the budgeted goals allows you to closely monitor the progress and be alerted early on if performance is falling short of goals. Key performance indicators — your most important practice numbers — provide a daily snapshot of your progress. They must be monitored and analysed on a regular basis for your budget to remain an effective guide to boosting the profitability of your practice.

Your budget should have space to accurately track your actual revenue and expenses as compared to goals. Documenting your budget and tracking key performance indicators throughout the year will also allow you to monitor your changes and adjust your goals when necessary.

Conclusion

Budgeting is more than simply jotting numbers down on a legal pad and then forgetting about it later. For an effective budget, you need to set a revenue target and track the critical numbers in your practice. Properly done, budgeting can allow you to set goals, reach maximum production levels and control overhead to the point where the profitability of your practice reaches an optimal level.

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