Crossing the Line

Understanding the Power of Leveraging to Achieve Massive Profitability

They met on a blind date in his third year of dental school and Cupid had them married the following year just before graduation. Dr. John Smart married Susan, who graduated from hygiene school that same year. They planned their future over weekends and long evenings and enlisted help from a business coach. They decided to move from southern California to the Northwest and "hang his shingle" and start a new practice.

By the time they opened the door on their new facility they owed the bank $450,000. Through aggressive marketing, they had 70 new patients scheduled by opening day. This is the story of a real practice—the names have been changed to protect the successful.

Susan took a job as a hygienist for the first six months while Dr. Smart did his own hygiene with a staff of two. Marketing continued aggressively so that the practice was averaging 50 new patients per month. By the end of the first year, Susan was working full time in the practice. The practice was open four days per week with 32 patient contact hours. By the end of year two, a second person was hired for the business area and Susan had an assistant, a fourth operatory had been equipped and Dr. Smart was looking for a second assistant.

Let's look at Dr. Smart's actual results for the first two years of practice and his forecast for year three.

Dr. John Smart's 2-Year Results

	Year 1	Year 2	Year 3
Days worked	182	184	182
Production	518,961	797,000	1,125,670
Collection	457,414	757,747	1,069,370
% Collection	88	95.1	95
Accounts receivable	75,302	74,257	75,000
Operative production/day	2,000	3,062	3,917
Hygiene production/day	851	1271	2,268
New patients	545	600	544
Staff: Admin	1	2	2
Assistants	1	2	3
Hygienists	1	1	2

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Dr. Smart and his team, at their Annual Planning meeting, established their new goals for year three. The biggest change was equipping the fifth operatory and hiring a second hygienist two days per week in month two and expanding to full-time by month six.

Let's take a look at Dr. Smart's financials to see when he "crossed the line."

	Year 1	**Year 2**	**Year 3 (Est)**
Income	$457,414	$757,747	$1,069,370
Advertising	20,675	21,525	22,000
Insurance	8,728	14,541	15,000
Interest	52,693	47,025	43,000
Laboratory	22,214	52,209	78,795
Office Supplies	4,983	9,036	16,040
Payroll	131,654	184,474	240,000
Professional Fees	24,698	30,791	31,000
Staff Bonus	0	23,348	40,000
Rent	60,246	60,052	60,500
Supplies	42,443	65,185	80,000
Travel, etc.	10,308	18,918	20,000
Balance of Expenses	32,225	49,838	64,000
Total Expenses	410,867	576,942	710,335
Gross Doctor Compensation	46,547	180,805	359,035
% Overhead	89.8%	76.1%	66.4%

*** Not shown are debt principal payments nor non-cash items including amortization and depreciation.**

Clearly this practice has "crossed the line" when the doctor's income doubled with an increase in collections of 41% between year two and year three. It is anticipated that in year four, as productivity and efficiency increase and debt service continues to fall, the doctor's gross income will climb to the $400,000 level and overhead will fall to the low 60 percentile. Not too bad for 182 days of work per year! Ask your Richardson Group coach how to "cross the line" and leverage your practice to high profitability and fun.

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