

## K.P.I.'S – WHAT THE...?

Key Performance Indicators (KPI) are not about how much money you have in your practice bank account, but more about understanding the financial health of your practice. The reason most practices don't monitor even basic KPI's is because like profit and loss statements or their income tax return – they just don't understand them. After studying oral health for years and attaining the status of dentist or specialist, barely more than a few hours would have been spent on any business training.

Many of you will have begun your career as an employee (public/private) and then perhaps become an associate to gain additional clinical and practice management experience before you purchase a practice or start your own practice. Regardless of how you get there, the business of dentistry requires continuous professional development in **both** clinical and business management to be successful. The greatest frustration in practicing dentistry is the constant challenge of staffing and personnel management which is followed closely by mastering the art of managing a business.

Once you operate your own practice your role as a dental clinician must expand to that of manager, leader, salesman, marketing manager, mentor and entrepreneur. In most cases you will have had no training in any of these areas and the development of these skills may not come naturally. The solution is obviously simple for the operation of a successful dental practice, you must either learn the skills required or engage professional people in the areas you can't or don't want to master.

Following is a short list of financial terminology & KPI's:-

### 1. CASH FLOW

There needs to be more flowing in than out but just because the business shows cash in the bank account does not mean it is profitable. Some business expenses and suppliers may not have been paid yet, GST and other taxes may still be unpaid and some deposits may not be income (transfers/loans from other accounts).

### 2. PROFIT AND LOSS STATEMENTS

Also known as Income and Expenditure Statement, this shows dental income earned and the expenses such as wages, lab fees and rent required to earn the income. It is for a period of time which is usually 12 months but can be broken down into quarterly or monthly periods. Hopefully at the end of 12 months the income is greater than the expenses and a profit is achieved. The profit and loss statement will also have non-cash items in it such as depreciation which is the reduction in value of the practice assets and equipment. Also where the practice is repaying a loan the repayments will usually include both interest and some reduction in the loan (capital repayment). Your accountant will split the repayment so that interest expense is shown in the profit and loss while the debt reduction goes in the balance sheet.

### 3. BALANCE SHEET

Also known as Statement of Assets and Liabilities, unlike the profit and loss statement which shows activity over a period of time, the balance sheet is a snapshot of the business's net assets at a point in time. The balance sheet shows what assets the business owns (bank, debtors, equipment, goodwill) and deducts liabilities (loan's, tax debts, outstanding suppliers) that are owned by the business to give a net "value" of the business at a point in time.

### 4. KPI

Key Performance Indicators are financial ratios that dig below the surface of the profit and loss statement and balance sheet to explain or indicate what is driving the business. Some of the more usual KPI's are:

a. AVERAGE DAILY PRODUCTION

This is dental income generated each day per dentist. In some practices this is broken down further so as to measure on an hourly basis.

b. NEW PATIENT NUMBERS

Number of new patients booked for the month and often split into internal (referred by an existing patient) or external (from advertising or other sources).

c. OVERHEAD RATIO

This is the ratio of overhead costs to gross revenue which shows how much income is needed to cover fixed costs of running a business, such as rent which cannot be attributed to a specific part of the work operation. The lower this ratio is the better.

d. DEBTORS RATIO

This shows the number of days on average that a patient invoice is outstanding. The faster you collect your fees, the lower this number will be.

Care must be taken when using KPI's to explain the activities of the business as a single KPI on its own may give an incorrect analysis. For example, if I told you that surgery A had a debtors turnover of zero in that they collected 100% of fees on the day of treatment every time, compared to surgery B which had a debtors turnover of 30 days meaning on average it takes them 30 days to collect their fees after treatment. Which is the better surgery? Most people would say surgery A for obvious reasons, but it is possible that surgery B has many more patients with high end work because they give their patients the opportunity to pay for expensive treatment over time. So while surgery A collects its debts faster, Surgery B may be busier and more profitable because patients are given time to pay for their treatment.

Overall, it is essential that dentists know their practice statistics and how to interpret them will be the key ingredient to your success. Basic KPI's should be collected and reviewed at least monthly. Some practices will engage a management consultant to assist with the practice development or utilize the services of their accountant to educate them about the relevance of proper practice monitoring and how the statistics/KPI's relate to each other.

The data collected for KPI analysis must be accurate which means, the correct recording and allocation of expenses is essential at the bookkeeping stage. Unfortunately this initial stage of data collection and recording is often neglected as practice's cut corners and shave costs on bookkeeping services. This is a false economy as not only may you get misleading and unreliable statistics but these figures will be used by your accountant to prepare financial statements, income tax returns and BAS (GST) returns which may also be incorrect.

If, like most dentist you are not monitoring any KPI's then you should start with at least one – average daily production. The main reason for this is that if you feel that business is slowing down because the appointment book is not completely full then this KPI will give you the truth as to the impact on your fees and profit. Understanding your numbers will help you manage both your practice and your stress levels because you will know what is really going on in your business.

MW Partners deals with financial issues for dentists on a daily basis including taxation matters and educating dentists to understand their numbers. Our range of services is extensive and if you would like to discuss any matters which concern you and are a member of the ADAVB, your first consultation is completely free of charge. Please call 03 8825 5400 to make an appointment.