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## 8 Steps for Creating an Annual Business Plan for Dental Practice Success

Debbie Castagna

Castagna Coaching, Corte Madera, California, USA

### ABSTRACT

**Background:** Understanding the steps to creating an annual business plan is a cornerstone of dental practice success. This article provides dentists and managers a blueprint for annual planning.

**Types of Studies Reviewed:** This article was written to help guide dentists to take control of their overhead and have a deeper understanding of the business side of running a successful practice. Studies reviewed include information cited by the American Dental Association, American Dental Education Association, and experts in dental Practice Management.

**Results:** There is a strong correlation between business owners who are satisfied with their practices and those who are actively involved in planning for business success. Annual planning is a process of review of prior year overhead, of the development a budget for practice expenses, personal compensation, workdays, and production goals for the upcoming year. Dentists who take control of the business aspect of their practices have a greater chance of achieving their financial goals.

**Practical Implications:** Given the importance of business acumen to running a successful practice, this process guide dentists in making well-informed decisions for themselves and their staff members.

### KEYWORDS

Overhead; annual planning; production goals; forecasting

### Introduction

What separates a dental practice that succeeds over time from one that does not? Is it the doctor's clinical skills? Communication skills? Business skills? Yes, yes, and yes.

The American Dental Education Association (ADEA) publishes an annual "Preparedness to Practice" survey where graduating dental students are asked about their confidence in being ready for entering professional practice. In 2021, nearly 90% of respondents agreed or strongly agreed they felt clinically prepared to begin practicing dentistry. 98% reported they felt well prepared in terms of their communication skills.<sup>1</sup>

Business skills, however, were another story. Of all seniors graduating from dental school who responded to the same survey, only 58% agreed or strongly agreed that they felt prepared to manage a successful business and had the skills to tackle such things as managing finances, enacting a business plan, scheduling for efficiency, and billing for dental services.<sup>1</sup>

Additionally, the cost of a dental education is on the rise,<sup>2</sup> the overhead costs associated with delivering dental care is increasing,<sup>3</sup> and reimbursement rates from dental benefit contracts have been stagnant for decades and in some cases are even on the decline.<sup>4</sup> These are all things that can make owning and operating a dental practice even more challenging.

The intent of this article is to provide readers with a roadmap for developing an annual plan that when put into action will result in a practice that meets overhead expenses and allows for a profitable practice that can support a dentist's overall professional and financial goals.

### Step 1: Gather Information and Necessary Documents

First and foremost, a dental practice must start the annual planning process by gathering all the necessary information and documents. Having all this information at hand will make the process go smoothly and assure that the plan is based on reliable data.

A profit and loss statement is a document typically created by an accountant. It provides information about your production and collections amounts, write-offs or adjustments, categories of overhead expenses, depreciation amounts, doctor's business associated expenses, and whether the practice is making a profit or operating at a financial loss.

Next, accounting information will need to be readily accessible. Most practices are going to use an accounting software program like QuickBooks or Quicken.

Business checking account transactions as well as credit card statements for the past 12 months need to be gathered and are usually easy to access and download from banking and credit card website portals.

The final necessary document is a copy of the adjustment summary report that can be run from the practice management software. This report shows all adjustments including everything from senior discounts to amounts written off due to reduced reimbursement from participation in dental benefit plan contracts.

A practice must gather the following documents and pieces of information before starting the annual planning process:

- (1) Profit and loss statements
- (2) Accounting information

**CONTACT** Debbie Castagna  [debbie@castagnacoaching.com](mailto:debbie@castagnacoaching.com)

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- (3) Credit card statements for the previous 12 months.
- (4) Business checking account transactions for the previous 12 months.
- (5) Adjustment Summary from your practice management software.

## Step 2: Analyze the Profit & Loss Statement

A Profit and Loss Statement, otherwise known as an Income Statement, shows the practice revenues minus expenses to determine the income generated during a specified period. The profit and loss statement should include the gross annual production, the adjusted annual production, the annual collections amount, the overhead expenses, and ultimately the profitability of the practice.

The gross annual production represents the total amount of charges for dental services. The adjusted annual production is determined by deducting any adjustments and write-offs from the gross annual production. Adjustments and write-offs typically represent discounts on fees charged for dental services due to dental benefit contractual agreements.

To readily see the full impact of reduced fee-for-service plans, always post your usual, non-contracted fee and then after receiving payment from the dental benefit plan, write off the difference between your usual fee and the contracted amount. Be sure to label the adjustment with the appropriate title, for instance, “MetLife PPO Adjustment” or “United Concordia Write-Off.” It’s an extra step for staff, however, it’s important to be able to run reports and see the impact of those adjustments. Often, simply seeing what is being written off is the motivation it takes to determine if participation in a particular plan makes sense.

When practice finances don’t seem to be trending in the right direction, many dentists just assume they just haven’t produced enough dentistry and think that doing more dentistry is the answer. They don’t recognize the impact adjustments and write-offs are having on their bottom line, they fail to notice an issue with their ability to collect, or they automatically blame their high overhead.

Collections is the actual dollar amount the practice receives for all the dental services provided. A healthy collections ratio is typically considered 98% of the adjusted production.<sup>5</sup> If a practice is collecting less than 98% of its adjusted production, it may be an indicator of inadequate financial policies, inattention to accounts receivables, or even embezzlement.

Additionally, a dentist must determine if the overhead amount reflected on their profit and loss statement truly represents their practice’s actual expenses or if it’s artificially inflated because the dentist is running personal expenses through the business, which of course, as this indicates tax fraud, it is not recommended.

## Step 3: Forecast Expenses for the Upcoming Year

Armed with current and accurate practice overhead, step 3 involves forecasting expenses for the coming 12 months. The prior year’s expenses will provide an important frame of reference.

Expenses are generally fixed or variable. Fixed expenses remain the same regardless of production and include items like rent or medical premiums. Variable expenses fluctuate according to production, and include costs associated with labs and dental supplies. Each category should be reviewed to determine what may or may not change over the projected year.

Here are Examples of Questions to Ask When Forecasting Expenses:

- Will raises be given to team members?
- Will additional hygiene days need to be added?
- Will costs associated with team benefits like medical, 401K, CE, uniform allowances increase?
- Will there be continuing education investments in the upcoming year including travel expenses?
- Does the practice anticipate investing more in marketing and advertising?
- Is the landlord likely to increase the rent?
- Are there plans to equip an additional operatory or purchase large equipment?
- Will there be any leasehold improvements made in the facility?
- Does the doctor anticipate taking out a new loan or paying off an existing loan?
- Does the doctor plan to set more money aside for retirement?

Depending upon profitability, some of these questions can be challenging. It may be difficult to give salary increases when, for instance, insurance adjustments go up and profitability goes down.

## Step 4: Determine the Production and Collections Goals for the Upcoming Year

The total production goal for the year should be the sum of all of the practice expenses plus the amount of profit necessary for the doctor to have adequate take home pay. The amount of take-home compensation should be determined by the doctor’s need to manage debt and provide for personal and family expenses as well as meeting short and long term personal financial goals.

One must also take into consideration that the amount produced is not always the amount collected. In a healthy practice, the collections percentage should be 98% of the adjusted gross production amount or higher. The collection percentage is calculated by dividing the adjusted gross production amount by the collections amount. By setting a collection goal of 98%, one can calculate the amount of production needed in order to meet a specific collection amount for the year.

## Step 5: Determine the Number of Workdays for the Upcoming Year

Next, calculate the number of productive workdays by month for the upcoming year for doctors and hygienists. Be sure to consider holidays, vacations, continuing education, and flex/bonus days. Then, add up the total days per month to arrive at the total number of workdays for all providers who bill for services.

Here's an example:

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Doctor	15	14	15	15	15	12	15	15	15	15	13	13	172
Hygiene	18	17	18	18	18	15	16	18	18	18	15	15	186

### Step 6: Establish Hygiene Production Goals

Hygiene production goals are determined before doctor production goals because hygiene production is more predictable. Hygienists generally see the same number of patients in a day and their procedure mix is much less varied than a doctor's.

To begin this calculation the hygiene daily (or hourly) production average for the last 12 months must first be determined. This example will use \$1500/day as the 12-month average.

If \$1500 is the starting point, is there potential to increase the goal for the next year? For instance, since last year's average was \$1500/day, and fees are being increased by 5%, it's reasonable to increase the goal to a minimum of \$1575 per day.

Besides annual fee increases, there are often other opportunities to increase daily production averages. For instance, a greater focus on periodontal diagnosis, treatment planning, and patient education, may lead to greater case acceptance of necessary periodontal treatment. Creating a protocol for recommending preventive measures like sealants and fluoride treatments to patients who could benefit from these interventions may also increase the hygiene averages. Additional team training to increase the variety of product and treatment options can often benefit both the practice production and the patient's oral health.

Once these opportunities have been explored and decisions have been made to implement them, a new daily or hourly hygiene goal can be determined for the next year. After hygiene goals are established and the calculation for the annual hygiene production is complete, subtract the total from the new minimum production goal. That number is the starting point for determining the doctor's production goal.

### Step 7: Establish Doctor Production Goals

This step determines the daily amount the doctor must produce in order to meet the goal they have set for their annual take home pay. This involves subtracting the annual hygiene goal amount from the annual total practice goal amount and dividing it by the number of days the doctor will work in the upcoming year.

Once this daily doctor's goal is calculated, it should be evaluated to make sure it is reasonable and achievable. If the doctor's daily goal is higher than the amount the doctor produced daily over the past year, then the practice must figure out how to increase its production and/or decrease expenses.

Increasing production could entail learning new techniques to achieve greater case acceptance, increasing marketing efforts to attract more new patients, offering more flexible patient financing, increasing the number of patients pre-appointed into the recare system, strategically blocking the

schedule to meet daily production goals, following up with patients who have delayed treatment needs, adding new procedures into the service mix offered. Additionally, a practice may need to consider raising fees, especially if they have not been doing so on an annual basis or reducing participation with low reimbursement dental benefit contracts.

### Step 8: Develop an Action Plan for the Upcoming Year

Developing an action plan that will help accomplish the established goals is the final step. It's not enough to create a set of goals without this final critical step that will put the plan into motion and maximize potential.

The goals, and how they were determined, should be shared with the team. The team should discuss the plan and come to consensus on the areas of potential and determine priorities. For each action, a timeline should be established for milestones and completion, and specific tasks should be assigned to specific individuals.

Team support is important, and the plan should be discussed in such a manner where each individual feels appreciated and heard when offering their opinions. Additionally, the doctor as the leader of the team must help each team member understand how a more profitable practice creates more opportunity for increased compensation, enhanced employee benefits, and professional growth through additional continuing education.

Besides the financial gains, a well-run, efficient, and collaborative workplace leads to less stress and greater job satisfaction for all. According to the ADA Health Policy Institute's findings in 2022, staff shortages in dentistry are prohibiting practices from meeting patient demand, creating a bottleneck in dentistry's post-pandemic recovery. (9) When it comes to your team, never lose sight of the fact that retaining them is key to long-term success.

### Conclusion

Building a great practice that is also a great business – the challenge may be daunting, yet worth the effort. Today's successful dentist accepts the fact that practice ownership means developing business acumen, as well as a great team. They know that seeking guidance and utilizing the expertise of other professionals is vital to a thriving practice that consistently succeeds on a business level while also satisfying a dentists need to do excellent dentistry and attain personal goals.

Such professionals may include an accountant and bookkeeper, a human resources expert, a financial planner, OSHA and HIPAA compliance specialists, and someone to help support the technology and cybersecurity needs of a practice. Additionally, business coaches and dental consultants work with successful practices to help with strategic planning, marketing, branding, and reputation management. Coaches and consultants are also critical to practices during transitions when a dentist buys or sells a practice or needs to make significant changes with dental benefit contracts. Thriving practices also take advantage of membership in professional dental organizations that offer an array of resources for practice success.

## Disclosure statement

No potential conflict of interest was reported by the author(s).

## Notes on contributor

*Debbie Castagna* in a consulting capacity, or to hear her speak, is to understand why she is one of the dental industry's most successful and highly respected consultants. Her aim is simple—to offer sound, significant service to her clients and audiences. She is the owner of Castagna Coaching, a company that provides dental practice management consulting services and has also published practical training materials, including *THE DOCTOR AS CEO* and *THE ULTIMATE STAFF*. She has been a featured presenter at, the American Dental Association, California Dental Association, FDI World Congress, Thomas P. Hinman Dental Meeting, Chicago Midwinter and Greater New York Meetings, the Yankee Dental Congress as well as many other state and local and international organizations and groups. Debbie has authored numerous articles for industry publications, including *Dental Economics*, *Dental Tribune International*, *Dental Products Report*, *Progressive Dentist Magazine* and the *California Dental Association Journal*. She has been recognized by *Dentistry Today*

as a "Leader in Consulting" every year since 2005. She is also a Past President of the Academy of Dental Management Consultants.

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