

# Benchmark Your Dental Practice for Success

BY ELLIOTT TRACY, CPA

*What is benchmarking and why is benchmarking in a dental practice so important?*

*How does my dental practice compare to other practices?*

*What are the most important figures that I should be benchmarking?*



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These are many of the questions that I hear on a regular basis when talking with dentists about their practice. My answer to them is always the same: benchmarking provides knowledge, and that knowledge can help your practice become more profitable.

Many dentists do not perform any kind of benchmarking in their practice and therefore never realize the true potential of their practice. With minimal improvements a practice can see a significant increase in cash flow and a better bottom line.

**Benchmarking is the process of comparing your practice data to a data from other, similar practices, and using the outcome to determine how your practice is performing**

When you have benchmarking data, especially on a continuing basis, you are able to identify problems that need to be addressed, find appropriate solutions, and then monitor the success of the changes.

In this article, I highlight the Key Performance Indicators that every dental practice should be benchmarking on a regular basis to reach maximum profitability.

## ❶ Office Production per Dentist

A healthy dental practice has approximately \$900,000 or more in gross annual production. Any production below that amount is not producing enough. What steps can a practice take to improve their production? Consider putting in place daily goals and monitor production more regularly, or consider reviewing your fee schedule and evaluating whether your practice fees are comparable to others in your area.

## ❷ Net Income (Excluding Doctor Compensation, Depreciation & Amortization) as a % of Production

The healthiest dental practices have net income that is 45% of office production. If it is any lower than 45% then the expenses of the practice are too high. This benchmark on its own is valuable, but drilling down into the expenses that make up the dental practice will also be valuable. A practice could be meeting this benchmark and still have a lot of improvements in its operations, but the benchmark does provide an overall sense of “How is the practice doing?” and “Am I being rewarded fairly for my hard work”.

## ❸ Support Staff Labor as a % of Production

Labor is generally the largest expense on every dentist’s income statement, which is why it is one of the benchmarks that is monitored regularly. A healthy practice will have labor costs at approximately 25% of its production. Labor includes wages, payroll taxes, and benefits paid for the employee—including retirement plan contributions. This benchmark is a little tricky because one could argue that it is okay for the labor costs to be 30% if you are providing your employees with superior benefits. However, what a practice wants to avoid is being overstaffed or not efficiently using their resources.

## ❹ Dental Supplies as a % of Production

In general, dental supplies as a % of total production should be roughly 4% in a healthy practice. Issues with dental supplies tend to be easy to solve when the percentage is higher than the benchmark. Practices should be reviewing their supply purchases and identify if they are overstocking.

## 5 Lab Fees as a % of Production

Lab fees can mean a couple of things in a practice, but most importantly they are an indicator that the practice is providing higher value procedures. Lab fees that are at 10% are considered healthy. If this ratio is lower, then the practice may not be doing enough high-value procedures. If the ratio is too high, then the practice should be evaluating their contract to determine if those fees are fair. A healthy practice should aim for 8–10% when compared to production.

For a practice that produces their own crowns with milling machines, lab fees can be an interesting topic as they will obviously have a lower % of lab fees. However, it is still very important to track the supplies used for the crown production and include them as lab fees rather than dental supplies. This allows us to track the effectiveness and utilization of that expensive milling machine.

## 6 Occupancy as a % of Production

Occupancy includes expenses like rent, telephone, utilities, maintenance and insurance, and can be the hardest of all the expenses to influence since the majority of the expenses are fixed. Generally, a healthy dental practice would like its occupancy total to be no more than 6% of its production. If your occupancy is higher, it could mean a couple of things; either your practice isn't utilizing all of your space efficiently or the rent in your office is too expensive.

The occupancy benchmark is completely different when the dentist in the practice also owns the building. There are numerous tax laws that surround this scenario and those should be discussed with

your tax advisor, but from a practice management standpoint it makes it easier to handle and plan for cash flow when the dentist also owns the building— not to mention the benefit of creating equity in the building and having more control over the space.

## 7 Production Per Hour

This benchmark measures a couple of things: 1) How hard is the dentist working? 2) Is their time being used efficiently? The healthiest dental practices will produce at least \$900 per hour. A dental practice producing under that amount has improvements that can be made. An additional factor that influences this ratio is the number of operatories. A dental practice may be limited in their production if they are limited by space and have a limited number of operatories.

## 8 Total Hygiene Production as a % of Total Production

Hygiene should represent at least 33% of a dentist's practice production. If hygiene production is lower, it indicates that the hygiene department may not be busy enough.

## 9 Hygiene Compensation to Hygiene Production

Another very important benchmark related to the hygiene department is their compensation compared to their production. In a good dental practice this amount is approximately 33%. So, if you are paying your hygiene staff \$40 per hour then they should be producing at least \$120 per hour.

## 10 Average Monthly Production in Accounts Receivable

Accounts receivable are a part of every practice, but the age and amount of the accounts receivable

is most important. To maximize cash flow a practice would ideally collect everything upon the patient's visit, but with payer delays and patients slow to pay it becomes increasingly difficult. The healthiest practices have no more than one month's production in accounts receivable at any time. If a practice has more than one month's production in total accounts receivable, then the practice should re-evaluate its revenue cycle management process for improvements.

These are the most common benchmarks that a consultant will look at to gauge how healthy a practice is and find areas for improvement. Having a consultant look at all your benchmarks is a great start to assessing the health of your practice. Having quarterly or monthly meetings with a consultant is even better, as you can focus in on a few benchmarks that you've identified as needing improvement and then monitor the results of any changes you've made to your practice.

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