


ANNUAL PLANNING: THE LIFELINE OF YOUR PRACTICE

MEMBER ARTICLE | BY MARSHA PILGRIM, MAADOM



Annual Planning is like budget planning but on steroids. It will help give you financial stability, plan your workdays and set goals. It creates a blueprint to successfully manage the financial side of your practice, as having a profit/loss statement handed to you does not help you manage the office. Every CEO knows their numbers and how they're important to running a successful business.

I recently talked with another dental spouse who had just opened a practice. They were struggling to understand the business side of the office. I remember being in her shoes 38 years ago. Every March, our accountant would hand us a profit and

loss statement that said we made a profit. The funny thing was, our bank account didn't show that. Then he would tell us we owed the IRS money for making a profit. After going through this cycle for a few years, I figured there had to be a different way. We thought we were successful until we went to the bank for a loan to pay the taxes. They made us feel like we were failing as a business. It wasn't until we switched to a local credit union and they looked at our numbers to tell us how great we were doing compared to other dental practices they worked with. I knew right then that I needed to understand the numbers. Fortunately, I met a dental consultant who taught me about annual planning; it changed my business world.

Making an annual plan allows me to know where our money goes and what our budget is. It takes time to do, so we do ours during our annual corporate meeting. You must have good information and categorize your expenses. The first order of business is to have a chart of accounts. You need to know what you are spending on payroll, dental supplies, and office supplies. Next is understanding what percentage of your production is being spent on each category and how it compares to the industry. This is important for making business decisions like what you are spending in payroll before you decide to give raises. By basing the numbers on production, you can account for increases in your lab and supply bills as your produce more.

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Track your adjustments to production to understand how much dentistry you are giving away or what the cost of being in network with an insurance company is costing you.

The next step in the annual plan is to forecast next year's expenses. There needs to be a discussion on purchasing new equipment, office improvements, pay raises and benefits for staff, marketing changes, and adding an associate. There will be some variable expenses that change based on your production. If you do more crowns, your lab fees will increase. We keep a "wish list" folder all year and add ideas of things we would like to do or add to our practice. It helps forecasting if we know what these ideas will cost. Once you have numbers, you need to figure out how much you need to produce to afford your forecasted expenses. We create a worksheet to calculate a maximum pay raise percentage and then figure out how much this increase will cost us. Sometimes we have to adjust the percentage we give but we know how it will affect our expenses.

Goal setting and determining workdays are my favorite part. Have this meeting with the staff to look at the upcoming year and plan when the doctor and staff will be taking days off. We look at holidays, dental meetings, and school schedules to lay out the calendar for the upcoming year. The staff can plan days off when they know the doctor will be off, which helps them plan for their personal budgets and how they will use their PTO. It helps reduce stress when we know the plans for the upcoming year and can plan accordingly.



During this same meeting, we look at our production numbers for the previous year. We talk about how we can increase production and whether we will raise our fees, add new services, and add new staff or hours. The staff keep track of their daily and monthly production numbers as they set new goals based on decisions we made. After the daily goal is set and number of workdays is determined, we can adjust next year's production goal to see if our forecasted expenses will work. If not, we will go back through those forecasted expenses and make changes.

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MEET THE MEMBER

Marsha Pilgrim, MAADOM, first trained as a dental assistant in the US Navy. She then became office manager for her husband's practice, which she has helped run for over 35 years. Marsha also worked 15 years as a dental consultant and is a certified trainer for Dentrrix.

Marsha is a lifetime member of AADOM, certified consultant with Bent Ericksen & Assoc., and a member of the Academy of Dental Management Consultants.

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We have “numbers meetings” each month to look at where we are with our expenses and meeting our goals. Sometimes we adjust our expenses to add things from our wish list folder that we had to cut. Looking at these numbers each month helps the staff understand where the collections are going and if we are collecting enough to pay the bills.

The first year we created an annual plan, we had unexpected expenses like having to replace a broken sterilizer and handpiece. We went over our annual plan and decided to do less marketing and add to our new equipment. When we understand we could handle the unexpected expenses, our stress levels went down. We added our forecasted expenses in QuickBooks and run a comparison each month to see how we are doing.

Don't be afraid to start; ask for help. You have to understand your numbers in order to make decisions like “Can we afford to hire a new hygienist?” and “Can we pay her what she is asking?” Be a well-informed CEO and CFO of your business! ■



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