

# Increase Your Profits in the Rapidly Changing Dental Market

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Today's Dental News



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A private dental practice comes with its own unique set of personal and business benefits. Dentists with their own practice not only enjoy business and management autonomy, they also are in a position to employ greater control over the kinds of patients they want to see, as well as the kinds of treatment options they can offer while benefiting from high profit margins.

However, the dental healthcare ecosystem has changed dramatically. The market has evolved, the costs of running a dental practice have skyrocketed, regulatory policies have become far more stringent, and compliance does not come cheap. Practice administration costs also have increased, while reimbursements have dropped substantially.

## **The Business Challenges**

A large majority of dental practices today are either in a state of financial stagnation or battling revenue losses. Dealing with rising costs is a daily challenge as well as one of the biggest reasons why more and more dentists are forgoing the chance to run their own practice and opting for salaried positions with corporate healthcare groups or multispecialty practices.

Each year, the cost of running an office goes up. And much like other business establishments, dentists need to rework their financial structure accordingly. Staff compensation, lab expenses, and dental supplies account for about two thirds of total practice overhead. If not managed well, they can leave a dent on profit margins. Rent, new equipment, utilities, and technology also are variables that can impact profits year on year.

The need for healthcare IT adoption is another area of concern. More than 90% of physicians have transitioned to electronic health records (EHR) to comply with meaningful use. Yet adoption among dentists has remained sluggish, mostly because there is a lack of federal financial incentives to adopt EHR technologies.

However, increasing adoption of secure digital image exchange and secure exchange of continuing care records in healthcare will lead to dental patients expecting their dental caregivers to adopt these technologies.

Security and breach notification requirements, applicable state laws, and HIPAA privacy requirements also place pressure on dentists who are keen on exchanging continuing care records with other healthcare practitioners for referral purposes to quickly adopt new tools, workflow processes, and safeguards, which do not come cheap.

According to the [Michigan Center](#) for Effective IT Adoption, the average five-year total cost of an in-office system is \$48,000, while the cost of a cloud-based system sits at \$58,000. Furthermore, while HIPAA compliance secures patients' privacy, the drafting of HIPAA business associate agreements with vendors will lead to additional increases in legal bills.

Private dental offices also need to contend with changing reimbursement models as well as competition with hospitals and corporate managed healthcare practices. The healthcare sector in general is seeing a change to the reimbursement process with an increased focus on accountability and the linking of reimbursement with quality and outcomes.

Dental patients, particularly millennials, are more focused on comparing value and quality with cost of services. This shift to more value-based payment models has led both public and private payers to experiment with alternatives to fee-for-service healthcare.

For example, the [Accountable Care Organization](#) brings together providers in contract with a payer to deliver high-quality care to specific patient populations with the intent of avoiding duplication of services and to reduce instances of medical errors. Private practitioners who join such a program will require additional staff, though, which again means an increase in costs.

And while non-healthcare based businesses can offset these increased costs by passing them on to their consumers, healthcare practices don't have that luxury. Even as dental practices struggle from a dip in reimbursements and a fall in profit margins, the cost curve is constantly rising.

Most dental practice owners will at some point question the possibility and feasibility of running a profitable practice in today's tough market. While it's not easy, it's not impossible either, provided owners realize that a dental practice is a business. It also is subject to all the regular marketing and business changes that impact other non-healthcare businesses in addition to oral healthcare regulations. Here are 6 things to keep in mind.

### **Work on 5-Year Financial Projections**

Knowing where your practice is headed in the next 5 years can give you a realistic understanding of where it stands and the kind of improvements and changes that are needed. Working on a 5-year projection for both your revenue and your practice expenses also places you in a better position to plan a realistic practice budget while giving you the space to plan and implement workable production goals minus the burdens of unplanned financial moves.

### **Plan a Budget**

The importance of a budget cannot be overemphasized, but only a few dental practices have any kind of budget allocations. With a budget in place, you will be able to compare actual dollars spent to your budget figures and see where your practice stands. This kind of financial intelligence is absolutely necessary if you want to identify problem areas and gain insight on things that are working according to plan.

### **Identify New Channels of Revenue**

Dental practices are increasingly exploring ways in which they can diversify their revenue streams. You might want to look at introducing new services, technology, and treatment options. You also could consider employing a new dentist or even joint ventures to generate new revenue opportunities. As technology and the market change, it will become necessary to supplement your present revenue source with feasible alternative streams of income.

### **Increase Revenue from Payers**

Negotiating managed care contracts is another practice survival necessity. You can't avoid the rise in costs or beat decreasing reimbursements. What you can do, though, is negotiate managed care contracts as a way of increasing revenue from payers. Even a small percentage increase can make a huge difference to your overall practice revenue.

Another step you can take is to consider and calculate the number of patients and average revenue you earn from different payers. Try to renegotiate with the lowest payers if possible. If that doesn't work, it is best to terminate those payers and instead fill the empty appointment slots with higher-revenue patients.

### **Plan Your Patient Flow Increase**

Simply increasing your patient flow is not the correct solution to increasing profits. You need to focus on increasing the flow of the right kind of patients. Consider seeing more commercial patients to increase your practice income. More commercial patients can mean you will need to let go of a few regular but low-income patients. While it is a tough decision to make, balancing your patient mix is necessary for running a profitable practice.

### **Prepare for New Care Delivery Models**

It has become crucial for dental practices to prepare for new care delivery models such as patient-centered medical homes and accountable care organizations, especially given that the healthcare sector is shifting from fee-for-service reimbursement models. It is best that dental practices prepare for these transitional challenges:

- Ensure you have better systems to measure performance against highlighted goals including cost and the quality of care provided.

- Improve finance and accounting functions and update contracts.
- Plan for increased flexibility in billing and collections.
- Use data and analytic tools to gain deeper insight into healthcare quality measurements and overall costs.

## **Conclusion**

The dental healthcare sector is changing rapidly. In addition to market fluctuations and regulatory changes, providers are looking at a tech-savvy and highly entitled patient base. Unless owners adopt a more forward-thinking and flexible approach to running their practice, they will be hit by slow practice growth and revenue stagnation.

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