



HOW TO Create A Budget *for Your* Dental Business

Jim Poole, MBA; David A. Little, DDS; Randa O'Connor

Creating an operating budget for your dental business may not sound like fun, nor is it the reason you chose to go to dental school. However, financial metrics serve many purposes that can benefit your personal and professional life: as a guidance tool to understand how your business is growing/declining; for visibility into what part of your business requires attention; to predict your income; and to reduce the risk of embezzlement. Ignorance is not bliss when it comes to operating a business and handling your cash.

Helping people through dentistry is a noble endeavor. In addition to helping people, you are probably working hard to build a financially secure future. In our February article, entitled “How to Write A Business Plan,” we addressed the need for a plan to achieve your personal and professional goals. To execute your business plan you need to understand your business finances and how to create cash flow. A budget can provide the guidance and discipline necessary to monitor your progress and to identify your successes.

There are 3 financial documents you should use regularly to manage your business: an income statement, a balance sheet, and a cash flow statement. We recommend that you gain an understanding of these concepts and employ a trusted accountant who is familiar with dental businesses to manage these metrics. You work hard. We want you to reap the rewards of your hard work by letting others aid you in their fields of expertise. Remember, what gets measured gets done.

An income statement is a summary and tracking tool of your production (revenue) and your expenses. Some people call an income statement a *P and L* for profit and loss. The term you use is not important, but the concept and act of creating and monitoring your budget is pivotal to understanding the key drivers to your business success. You can create your budget based on the previous year’s experience and outcomes combined with your desired growth for the year. We have added industry benchmarks for your reference. It is important to break down your budget into quarters and to track the outcomes. Measuring and understanding the variance between your expected budget and actual dollars is the information you need to make managerial decisions and continuous improvements to your dental business. You don’t want to wait an entire year before realizing you have major problems that could have been already identified and addressed.

“Checking the results of a decision against its expectations shows executives what their strengths are, where they need to improve, and where they lack knowledge or information.”—Peter Drucker

Income Statement

The itemized expenses below should be categorized into the following: quarterly budget, quarterly actual, quarterly variance, annual budget, annual actual, and annual variance.

Benchmark Clinic operating days

- 1. Production
 - Operative
 - Hygiene
 - Write-offs
- 20%-25%** 2. Salaries and compensation
- 5%-10%** 3. Employee benefits
 - Payroll taxes
 - Health insurance
 - Life insurance
 - Retirement plans
 - Automobile expenses
 - Car allowances
 - Other
- 2%** 4. Travel and conferences
 - Airfare
 - Hotel and lodging
 - Conferences and seminars
 - Meals
 - Car rentals
 - Office meetings
 - Other
- 5%** 5. Office occupancy
 - Rent
 - Utilities
 - Depreciation
 - Taxes and licenses
 - Other
- 5%** 6. Office operations
 - Telephone and answering service
 - Stationery, brochures, business cards, etc.

- Office supplies
 - Bank charges
 - Liability insurance
 - Furniture rental and depreciation
 - Repairs, maintenance, and cleaning
 - Computer operations
 - Dues and subscriptions
 - Postage and freight
 - Laundry and uniforms
 - Plant service
 - Other
 - 1%-5%** 7. Marketing and promotions
 - Advertising
 - Publicity and promotions
 - Other
 - 1%-2%** 8. Collection expenses
 - Collection expenses
 - Recording fees
 - Audit reports
 - Credit card expenses
 - Interest expenses
 - Loan servicing fees
 - 2%-5%** 9. Professional services
 - Legal
 - Accounting
 - Auditing
 - Outside consulting
 - Outside computer services
 - Contract labor
 - Professional fees
 - Other
 - 8%-12%** 10. Laboratory fees
 - 6%-9%** 11. Dental and hygiene supplies
 - 2%-4%** 12. Miscellaneous expenses
 - 57%-84%** 13. Total expenses before doctor's salary
 - 14. Doctor salary
 - 15. Total operational expenses
 - 16. Contribution to net profit
 - 17. Profit pay paid (Profit pay should be paid quarterly but accrued monthly, based on the practice meeting its profit goals.)
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18. Net profit (loss)

A balance sheet is a financial statement that provides a snapshot of your dental businesses' assets and liabilities. It is called a balance sheet because assets = liabilities + owner's equity. For the purpose of this article, we are going to focus on current assets and liabilities as they provide insight into your working capital and cash flow. The key to success is managing your current assets and liabilities effectively and efficiently. Implementing systems to understand and manage accounts receivable, collections, inventory, and accounts payable can reduce the stress of daily operations. We want you to focus on dentistry and patient satisfaction, not on how to stretch every dollar and make payroll next week.

Your current assets consist of cash and accounts receivables. Billing and collecting accounts receivables are major sources of stress in the dental industry. The goal is to collect your money effectively and efficiently. You presumably did not go to dental school to serve as a community lending institution. Collecting money from patients and insurance companies is not easy, and too often dentists take a loss for services rendered. The financial/insurance policies that you offer to your patients are your choice. We recommend that you develop and communicate your financial policies frequently and consistently to avoid confusion.

Balance Sheet 3/31/07

1. Current assets
 - Accounts receivable
 - Cash
 - Inventory

2. Current liabilities
 - Line of credit
 - Accounts payable
 - Taxes

Cash flow statements are arguably the most important financial statement to track, because for small businesses "cash is king." Cash flow statements are unique from income statements and balance sheets because they specifically look at cash, not credit. Your cash flow is correlated to how you run your business:

patient base, new patient growth, patient satisfaction, patient recall and adherence, case acceptance, staff turnover, technology investments, accounts receivable, collections, inventory management, accounts payable, rent, equipment, etc. The cash flow statement may be used as an indicator of financial health. Strong positive cash flow (in particular, cash flow from operations) usually indicates exceptional performance. You may use this statement to create future budgets and to determine the optimum timing of significant investments.

Cash Flow 3/31/07

1. Operating
 - Over-the-counter collections
 - Insurance collections
 - Add back of depreciation
 - Change in working capital
2. Investing
 - Capital expenditures
3. Financing
 - Cash from loans
 - Dividends/profit paid

Cash flow from Quarter 1 of 2007

"The future you see is the future you get."—Robert G. Allen

We understand that being a dentist means wearing many hats: practicing the art of dentistry, managing patient expectations and satisfaction, leading and managing a dental team, and managing the daily operations of a small business. Understanding cash flow and the financial health of your business is an important aspect of your career choice and should not be ignored. We hope you have gained a basic understanding of an income statement, balance sheet, and cash flow statement. Please take the time to find and employ a talented accountant who is experienced in the dental industry to guide and manage your business finances. Your future depends on it. Good luck and please contact us if we can be of further assistance to you. ■