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MANAGEMENT & MARKETING

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In this month's column, Dr. Gene Gottlieb presents his philosophy of orthodontic fees. He discusses the problem of deciding what to charge and what represents a fair fee. Establishing a fee that both the orthodontist and the parent or patient feel good about can be difficult. I have found one of the advantages of orthodontic treatment is that it is a discretionary or elective service, and generally people are willing to pay more for something they want than for something they merely need. Nevertheless, as Dr. Gottlieb points out, the final decision on acceptance will be values-based. That being the case, it seems logical that the more we can enhance or clarify the value of orthodontic treatment, the better our case acceptance rates will be, and the greater the satisfaction will be for all parties.

Orthodontic Fees

There was a time long ago when a group of us, unable to sleep and having had it with K-rations, began bidding up the price of a theoretical corned beef sandwich to some astronomical amount. I have no doubt that if the corned beef sandwich had suddenly materialized, the price would have been paid.

Major-league ball players can demand and receive millions of dollars a year for their services, even if their accomplishments are modest. There is a large enough audience and a relative paucity of capable players, giving the players an advantage in negotiations that the ticket-buying public does not have.

The price of a gallon of gasoline is higher in my town than anywhere else in the state. Residents suspect this is because we are a small, isolated community without ready access to cheaper gas, and because gasoline is a commodity we have to have.

The price of almost any product, or the fee for almost any service, depends on a number of considerations other than the cost to produce it not least supply and demand. People generally assume that it is easier to determine what it costs to produce a product than what it costs to produce a service, but there are unpredictable variables at play in either case. Ultimately, the price is determined by what a sufficient number of people are willing to pay and by the desired profit of the producer in other words, what the traffic will bear.

How Is a Fee Determined?

Many years ago, it was reported that the average orthodontist would have to reach age 45 or so before catching up with the earnings of a truck driver who began a career at age 18. These figures may or may not apply today, but the basic principle does. The orthodontist, who invests years and large sums in education and in establishing and building a practice, starts a career years later and dollars behind. Those early capital expenditures and debts eat into the earnings of the orthodontist in the years up to age 45, which are among the most productive years in the average orthodontic practice.

It is a strange fact that experience is not highly valued in determining orthodontic fees. The fees of the most experienced orthodontists are only 10% higher than the fees of brand-new orthodontists. There is also no reward in fee differential for better work or greater patient satisfaction, although

these may be reflected in greater numbers of referrals.

Quality of education is not highly valued in determining orthodontic fees by much of the public or by third parties. As much as half of the orthodontics in the United States may be performed by general practitioners, reportedly at fees similar to specialists' fees. Third parties do not consider education and training as a measure of competence in deciding who will perform orthodontic treatment in their programs, or for what fee.

Continuing education is a requirement in many states, but there is no organized national continuing-education program, nor any reward in fee differential between an orthodontist who keeps up with the latest developments in the field through courses, meetings, journals, and books and one who does not.

The fact that people tend to place convenience of location high on their list of reasons for choosing an orthodontist suggests that orthodontic treatment has some generic quality in the minds of much of the consuming public. To those people, the fee must also have a generic quality and quantity.

Does Competence Count?

It is not so strange that competence, itself, is not a specific consideration in the determination of a fee, except as an orthodontist might have a high assessment of his or her own abilities. Patients have no real way of judging competence in advance, so they depend on peripheral factors recommendations by dentists or over-the-fence neighbors, and first impressions of the office, doctor, and staff. Nor do they have any reliable way to determine whether treatment has been performed competently, although they have a right to expect that an orthodontist or dentist offering the service to the public has been trained, has been licensed by the state, and can do what he or she says must be done.

Nevertheless, a determined non-complier can make a fool of the best orthodontist. Our best measure of competence appears to be the post-treatment models, x-rays, and photographs. But they may not tell the whole story. It is a rare orthodontist who can produce records for a dozen patients even 10 years out of retention.

Given that uncertainty, to an extent much greater than is true of a price for a consumer product, an orthodontic fee involves a leap of faith on the part of the patient and an obligation on the part of the doctor to perform competently for a reasonable fee.

The Doctor's Dilemma

The amount of time that an orthodontist and staff spend on a patient is only roughly predictable, and subject to numerous variables. No orthodontist can predict for certain what the future mix of cases will be or what the future case acceptance rate will be. The setting of fees is thus a kind of crap shoot, under the expectation that the income from the cases that present next year will be equal to or better than the income for the current year.

In a similar way, fixed fees are also a kind of crap shoot. The usual expectation here is that some cases will finish sooner than estimated and some later, and that the differences will balance out. In some practices, a refund is given for cases finishing earlier than planned, but monthly charges are resumed for those running overtime.

Open-ended fees are making a small comeback, perhaps because they no longer have the drawback

they once had that the monthly fee had to be collected at the monthly visit. If parents were short of funds to pay the monthly fee, the patient often didn't show up for the appointment. Today, the extension of intervals between visits to six or eight weeks has broken that tie and made the monthly fee reasonably a fraction of an annual fee.

Average full-treatment child and adult fees are published periodically and are common knowledge. There are minor geographic variations in fees, which are also published. These data undoubtedly form a basis for setting fees in a new practice and for raising fees in an established practice. Orthodontists have come to recognize that fees must be increased regularly to at least equal the increase in the orthodontic price index, in terms of increased costs of materials, staff, and a host of other overhead items.

In addition, many systems have been extrapolated for dividing a full-treatment fee into its basic ingredients; these can be useful in fee presentations, in setting equitable fees for transfer cases, and in determining fees for other than full-treatment patients. Some practitioners have even tried using cost-accounting methods to assign exact costs to every procedure performed in their offices. Although it would be virtually impossible to quantify all of the myriad tasks of an orthodontic practice, these methods may have limited value in holding down overhead or in assigning fees for added services such as TMJ treatment. In reality, as I have already discussed, there is much more to a fee than the actual cost of producing the service.

What Is a Fair Fee?

Everyone would agree that a fee should be fair, but what is fair? Is it fair for an orthodontist to expect patients to pay for a big, posh office, or a large staff, or more expensive appliances, or high salaries and generous employee benefits? Is it fair for an orthodontist to take longer than average to treat cases and to be paid accordingly? Is it fair for an orthodontist to have a high standard of living, perhaps higher than his or her patients, and expect them to support that? The fact of the matter is that all of this is so much smoke. A fair fee is what the doctor and the patient agree is fair. The doctor presents a fee; the patient accepts it or not.

Orthodontists have one tremendous advantage over many other service providers: prospective patients are likely to place value before price. Public satisfaction with orthodontic treatment is generally high, and if payment arrangements can be flexible enough to suit an individual's ability to pay with a bank plan or other factoring plan available for those who need it most people will place greater value on the service than on the fee.

Modern Practice and the Future

Perhaps it is this point alone that patients value the service more than the fee that permits orthodontists to quote a fee and accept a patient into the practice before performing a full diagnostic workup. This procedure is practical and even effective from a management point of view, but questionable from a professional point of view. It depends on the patient already knowing the value of the service. People who do not know the value of the service can only concentrate on the size of the fee.

The recent proliferation of management service organizations has brought with it the possibility of greatly increased numbers of case starts, largely through the skillful advertising of low monthly fees. Given the orthodontic economic equation (fees X case load - expenses = profit), this places the emphasis on more case starts at low fees rather than on the traditional fewer case starts at higher fees.

Such a condition existed once before, in the 1950s, when the number of orthodontists was small and the number of people wanting orthodontic treatment was large. In those days, case starts kept increasing and fees remained the same. This situation did not last. As the number of orthodontists increased, supply caught up with demand, and fees had to be raised. It remains to be seen whether the current situation will last. If fees in MSO practices cannot remain low enough to be attractive, or if overhead rates continues to rise, or if the number of potential patients declines as the most eligible ones are used up, some other arrangement will be necessary.

Third parties have made a significant change in the doctor/patient relationship in many ways, including fees. These organizations know the going range of fees in an area. Negotiating on behalf of large numbers of patients, they can determine what fee amount, when added to their administrative costs and their profit, will finance a benefit that will be salable to the patients. The only ways to maintain third-party profits and attractive premiums are to limit the services or lower the fees.

Despite these developments, the future of orthodontics remains bright not least because it is largely an elective treatment, and the participation of orthodontists in third-party programs is, in most parts of the country, still elective as well. However, if the day comes when third parties are allowed to control the orthodontic equation, and especially to dictate fees, all bets are off. □