JCO-Online Copyright 2003 - VOLUME 35 : NUMBER 9 : PAGES (541-543) 1998

MANAGEMENT & MARKETING

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As you no doubt have noticed, there is a new face and name attached to this column. For the past eight years, Dr. Mel Mayerson has brought a vast knowledge and passion to Management & Marketing. On behalf of all JCO readers, I would like to thank him for his efforts.

In this month's column, Bill Brady, President of Orthodontists Fee Plan, gives us a realistic evaluation of the costs of financing payments for our patients. For years most of us have realized that orthodontists are not very good bankers, yet every practice day we continue to perform this function. Mr. Brady's article makes us take a hard look at the financial losses we accept simply by financing payments in-office.

Although OFP benefits directly from orthodontists outsourcing their fee payments, I feel Mr. Brady's suggestions can be beneficial even if you do not choose to use outside financing. In my own practice, I have found that reduction of the payment term has met with minimal resistance and has allowed us to reduce our delinquencies and costs.

Payment Flexibility vs. Shorter Treatment Times

The practice of orthodontics is becoming more efficient and patient-friendly than ever. Innovations in archwires and bracket systems continue to reduce treatment times. The number of appointments per case can sometimes be reduced to 14 or fewer, making treatment more convenient for parents and adult patients.

These trends are great news for patients, because time and comfort are what they value most. But consider the doctor's side of the equation. Many practices are not getting paid in full over 24 months. Some are more lenient and flexible with their terms, stretching the payment period to 28 months or longer.

This article will discuss a way to offer patients the benefits of shorter treatment times, satisfy their needs for payment flexibility, and still be paid before the end of treatment.

The Problem

The typical practice may ask for an initial payment of $1,000 and monthly payments over 24 months. In reality, however, the office may be routinely reducing or even halving the initial payment, then stretching out the number of monthly payments. A common fee arrangement is to hold the initial payment to $500-750 and the monthly payment to $100. With a $3,500 fee, this results in 27 to 30 months of payments.

Adding to the problem are three costs associated with receiving a fee over time:

- *1. Time value of money.* According to Blair/ McGill & Company, an orthodontist loses 7% of the value of a fee when payments are spread over 24 months.1 The longer you extend the payments, the more you lose.
- *2. Costs of billing and collection.* These range from 2-5% of the fee.

- *3. Costs of uncollected fees.* An average practice writes off 3-7% of its production due to inappropriate financial arrangements and ineffective collection practices, in the estimation of Jackie Shoemaker of J.M. Shoemaker Consulting, Inc.2 Even offices with excellent financial systems lose 1-2%.
- *4. Costs of prolonged treatment.* If your practice generates a gross revenue of $100 per patient visit, then each visit costs the practice $50-60. If treatment is extended from 24 to 30 months, the extra six appointments cost you $300-360. Not only that, but other patients might have generated more revenue for you during that time.

Together, these costs can reduce the value of your fee by 12-24%.

The Competition

In addition to the problems of payment flexibility and costs, there is competition. An orthodontist will be at a competitive disadvantage when another specialist can produce results of equal quality in less time. If the word spreads that another doctor in town is finishing cases in 16 months instead of 24, whom do you think patients will call? If this has not yet happened in your town, then you have the opportunity to be the first to deliver what patients really want.

Competition is not limited to other specialists. Orthodontists also have to be concerned about the $99/month clinics or general practitioners in the area.

Every practice has a number of patients who want to avoid an initial payment or who prefer lower monthly payments over a longer period. Today, even middle-class families are living paycheck to paycheck or are clinging to their savings. You certainly don't want to lose them to the competition.

The Solution

Our data on more than 3,000 practices show that 20-30% of new patients need some flexibility in financial terms. The remainder will agree to an initial payment of 25-30% if you have a good fee presentation.

The solution, therefore, is not to offer flexible financing to all patients, nor to set your practice's initial payment and monthly terms to accommodate the 20-30% who want flexibility. This would be the tail wagging the dog.

Figure 1 shows how monthly fees increase as the payment term is shortened, assuming a $3,700 total fee and $800 initial payment. Most patients will accept the higher payments without complaint. To gain the patients who want more flexibility, however, it is beneficial to offer a third-party plan with low payments extending beyond the treatment time.

Some orthodontists are concerned about losing patients with such a system, but we have found that new starts actually increase. The critical factor is how the treatment coordinator presents the payment options. There are three simple keys involved:

- 1. Present a written menu of options, including a flexible third-party plan.
- 2. Present the same options to every patient.
- 3. Let the patient or parent choose.

With a professional-looking, written menu of two or three payment options, you will have more than

95% of your patients paying you with desirable terms or in full, either directly or through a third party. For the remaining 5%, you may choose to extend more lenient terms, but only as a last resort– and only if your practice is willing to take the risk.

Flexible payment options give you an effective means of protection against the competition, without sacrificing the integrity of your financial policies. You can even charge more than your low-cost competitors, because most people would rather drive a Lexus than a Yugo. They may not be able to buy a Lexus, but they can lease one from a third party for $350 per month. Convenient, flexible payment options will appeal to budget-conscious families who want your Lexus-quality services.

With the means to shorten the payment period, you will have the ability to use new technology and techniques to shorten treatment times. Hundreds of offices we work with have dropped from 30 to 24 to 20 to 16 months for payment, with nothing but positive results for their practices and their patients. The patients are able to enjoy the convenience of shorter treatment times and fewer appointments, while the orthodontists reduce their costs, improve profit margins, and start more patients. □

FIGURES

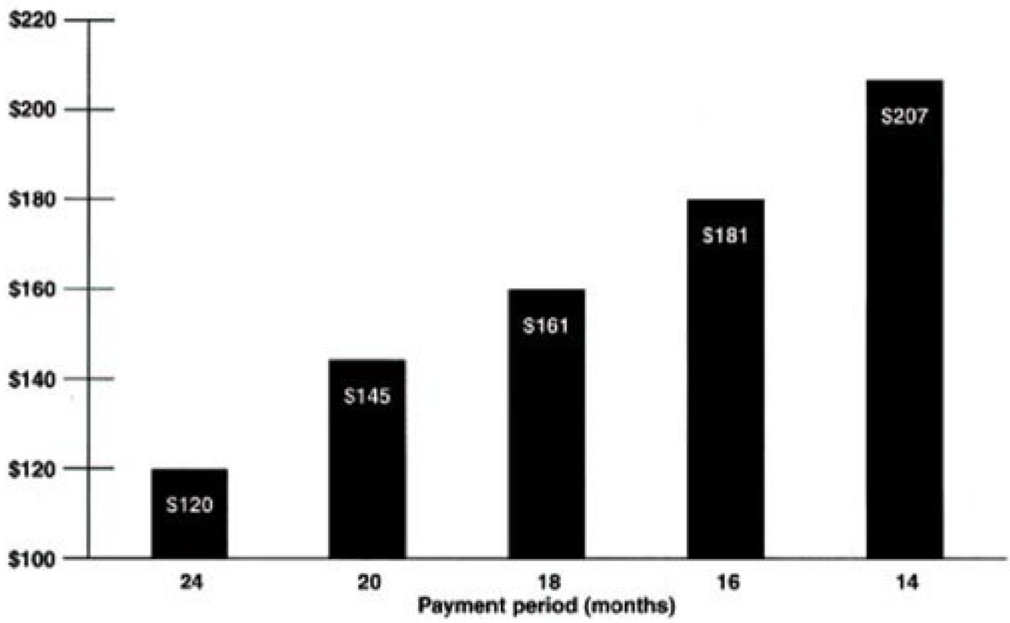

Fig. 1 Increase in monthly fees with shorter payment periods, assuming $3,700 total fee and $800 initial payment.

REFERENCES

1 "Present value of 24 monthly payments of $125 each is $2,722.45, based upon a discount rate of 9.5% (prime plus 1%). Counting the $1,000 down payment, the total present value of [a $4,000] fee is $3,722.45." Blair/McGill Advisory, April 1998, p. 7, Blair/McGill & Company, 4601 Charlotte Park Drive, Charlotte, NC 28217.

2 J.M. Shoemaker Consulting, Inc., P.O. Box 277, Vero Beach, FL 32961.