MANAGEMENT & MARKETING

(Editor's Note: This quarterly JCO column is compiled by Contributing Editor Howard Iba. Every three months, Dr. Iba presents a successful approach or strategy for a particular aspect of practice management. Your suggestions for future topics or authors are welcome.)

This month we revisit the issue of fees. As Dr. Juan Morales states in his article, fees are usually based on what the other orthodontists in the community are charging, rather than on the expenses and target income of a particular practice. Dr. Morales presents a system to help determine fees in relation to actual costs, and he has made that system easy to use by installing it in a computer software program.

As with most calculations of overhead and time utilization, it can be tedious to determine the parameters needed for the program. Once they are established, however, the system allows you to factor in a variety of elements—broken appointments, partial treatment, patient cooperation, changes in costs, and others—and still quickly evaluate the impact on the fee. This allows you to develop a rational fee structure based on specific expenses and needs, which in turn can help in setting practice goals.

Although Dr. Morales owns the program, it is "freeware", available to anyone who wishes to download it from the Internet.

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Are the Fees Right?

Like any other enterprise, an orthodontic practice can be deemed economically successful only if it is profitable. While the orthodontist can certainly experience other satisfactions, such as the creation of beauty and the recovery or preservation of health, a practice must be financially viable in order to survive. In today's competitive environment, that means paying attention to both ends of the economic equation: costs and fees.

The customary way to set fees has been to ask two or three colleagues in the same general area what they are charging, then adjust the going rate depending on relative experience, competitiveness, and other factors. Starting orthodontists tend to set their fees lower in an effort to bring new patients into the practice. The problem with this approach is that without an in-depth knowledge of the baseline expenses of the practice, a downward spiral can be started, eventually taking the practice below its break-even point.

This article presents a computer software system designed to help the orthodontist set fees based on individual overhead factors. Such a fee structure can, in turn, help swing the balance toward financial success.

System Philosophy

The Cost It! system (Fig. 1) is based on the philosophy that a patient seeks the professional services of an orthodontist whose main assets are knowledge and experience, and whose medium is the actual office time involved in delivering the service. The system provides a cost-per-time analysis of the fee-for-service approach. Thus, a

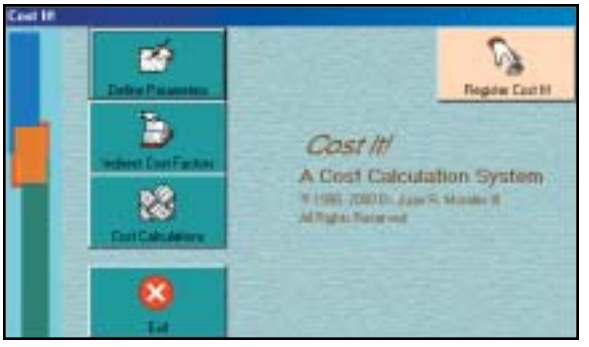

Fig. 1 Cost It! entry screen.

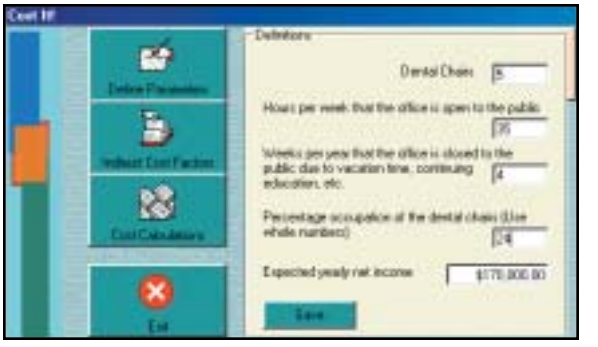

Fig. 2 Definition of parameters screen.

treatment that requires more office time, whether because of intrinsic complexity or patient cooperation, will be more expensive than a treatment that does not involve as much time and effort.

Before calculating income per unit of time, Cost It! requires the practice to perform an internal audit of the following variables (Fig. 2):

- Number of dental chairs—the maximum number of patients who can be seen at any one time.
- Hours per week the office is normally open—the maximum time available to generate income.
- Weeks per year the office is closed—the time that must be deducted from the maximum time available.
- Net income forecast—an important concept that incorporates the target net income into the calculations from the beginning, instead of the more usual "take whatever is left at the end" approach.
- Indirect cost factors—the usual expense items (staff salaries, taxes, rent, utilities, dues, continuing education, etc.), forecast on an annual basis (Fig. 3); these can be adjusted at any time during the period.
- Percentage of occupation of dental chairs—the percentage of total time that the chairs are occupied with income-producing patients (not including idle time, retention checks, paid-up treatments, emergencies, no-shows, etc.).

This last figure, which will usually be 20-25%, is the most difficult to determine. There are two methods that can be used to calculate percentage of occupation:

1. Direct measurement. A different dental chair is chosen at random every day for two weeks. Every time that chair is occupied by an active, fee-paying patient, a stopwatch is used to record the time from when the patient is seated until he or she is dismissed. At the end of the two-week period, the daily time recordings are averaged. This figure is multiplied by the number of chairs and then divided by the total time available for treatment in all chairs.

2. Approximation. The practice can estimate the amount of appointment time required for an average treatment. If patients are seen once a month over an average 27-month treatment, the calculation might be as follows:

No. Appts.	Appt. Type	Average Duration (mins.)	Total Time
2	Bonding	120	240
7	Archwire changes	30	210
14	Checks	15	210
3	Emergencies	15	45
1	Debonding	60	60
	TOTAL		765

This total time represents 51 time slots of 15 minutes each, or an average of 1.88 time units per month over 27 months. If the practice has 400 active, paying patients, there are a total of 752 units per month for paying patients.

A practice with five dental chairs that is open seven hours a day, 22 working days per

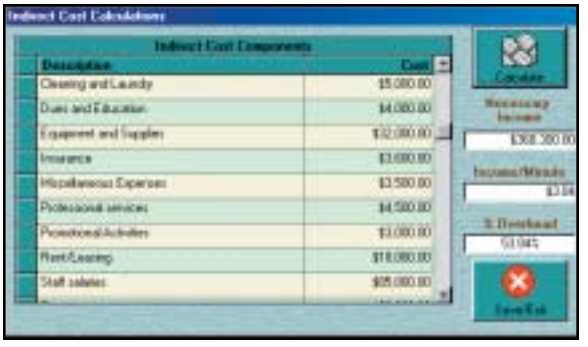

Fig. 3 Indirect Cost Calculations screen. Default figures are based on median overhead and net income from the *1999 JCO Orthodontic Practice Study.*

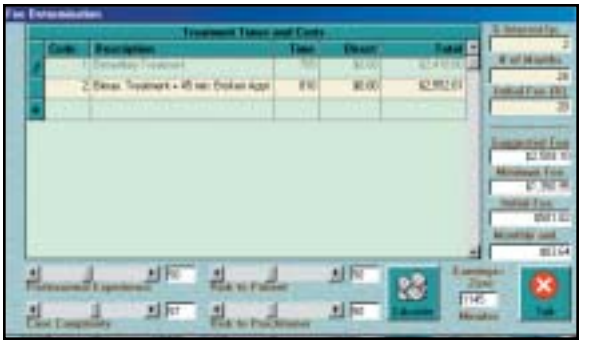

Fig. 4 Fee Determination screen. Note impact on Case 2 suggested fee from 45 minutes of added time for broken appointments and 2% inflation adjustment.

month, will have 3,080 available 15-minute time units. The percentage of occupation would then be 752 divided by 3,080, or 24%.

Using the Software

Once the above parameters have been plugged in, the Calculate button on the Indirect Cost Calculations screen (Fig. 3) is activated. The system then determines the necessary income required to meet the target, as well as the overhead percentage. Based on the amount of available chairtime and the percentage of occupation, the system also calculates the income per productive minute that the practice needs to generate. If any of the cost factors are changed, the calculation must be updated.

The third button on the initial screen (Fig 2), Cost Calculations, is selected to determine the fee structure. The user enters an optional treatment code, a description of the treatment, and the total number of minutes required to treat the case (Fig. 4). Cost It! then calculates a fee based on income goals and occupancy levels. Several other factors entered by the user will also affect the calculations:

• % of Interest/yr.—an annual inflation factor reflecting a potential increase in the cost of money and subsequent loss of buying power over the length of the contract.

• # of Months—the number of monthly payments to be made by the patient.

• Initial Fee (%)—the percentage of down payment.

• Professional Experience, Case Complexity, Risk to Patient and Practitioner—four sliding scales that are initially set at 50%, but can be adjusted upward or downward depending on the case.

A practice with considerable doctor and staff training and expertise can thus justify a higher fee for the same service as performed by a less experienced practice. Cases that are more complex or riskier, due to pretreatment health conditions or intrinsic difficulty, can also be charged at a higher fee. In addition, these scales allow adjustments to be made for stress factors related to patients' and parents' attitudes.

Broken appointments can be factored in simply by adding an appropriate amount of time to the total (Fig. 4). This calculation emphasizes the true impact of lost time on the total fee structure.

Cost It! takes all the above entries into account in calculating the suggested fee, initial fee, and monthly payment. It also provides a minimum fee, which is the least that can be charged for the practice to cover its overhead. This would be the bottom-line amount for professional courtesy. Double-clicking on this figure recalculates the initial fee and monthly payments to reflect the minimum fee.

Finally, there is a calculation of the number of minutes of total treatment at which practice earnings drop to zero. Once this amount is exceeded, the orthodontist is actually digging into his or her pocket every time the patient comes in for treatment. By using this figure, the orthodontist can set a limit to the extra treatment time that can be allowed before additional fees are charged.

Discussion

The system assumes a familiarity on the part of the practice with the number and duration of appointments required for any particular treatment. It can also be applied to partial treatments and transfer cases, where most orthodontists could previously only guess at appropriate fees.

Under the Cost It! system, if a patient is seen less frequently, and the amount of office time devoted to the treatment is thereby reduced, the fee will be less. There are only two compelling reasons for seeing patients less often: either to provide more free time for the orthodontist or to provide time for seeing more patients. In the first case, the percentage of occupation by paying patients will certainly go down, meaning the orthodontist's income per productive time unit has to increase to generate the same net income. In the second case, the net income forecast for the practice should be increased, thereby raising the amount of income per minute.

Conclusion

Cost It! is a mathematically determined computer model that allows any practice to set its own fee structure based on its individual needs and goals. Whenever any of the efficiency, production, or cost factors are modified, the entire fee structure is automatically recalculated.

A free demonstration version of the software is available for downloading from www.dvmnet.com/costit or by visiting the Product News section at www.jco-online.com. The only difference between the demo version and the registered version is that indirect cost categories and figures cannot be modified in the demo version. Upon registration (which is also free), the user receives a code that will make the demo version fully functional.

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