



## You Don't Know COGS

I feel like I've been beating a dead horse. You don't know COGS—that is, you don't know the costs of your goods and services.

I've been saying this since I got my MBA. I've been saying it daily since 1999. And you're going to have to hear this again, because it is absolutely worth repeating.

In 2005, your income peaked at \$219,000, and you've been losing \$4,500 a year ever since. Now you're down to \$175,000. The bottom line is that when I got out of school 30 years ago, there was only indemnity insurance and only 5 percent of the dentists did not take it in their practices. The other 95 percent did. That was in 1987.

Today, only 5 percent only take indemnity insurance. Meanwhile, 82 percent take PPOs, 8 percent take HMOs, and 4 percent sign up with discount dental plans.

I used to do the dentist method—I'd take my costs, figure out my profit and arrive at a price. I'd send that price to the indemnity insurance companies, which would decide the percentage they'd pay. They'd say, "We'll pay 100 percent of cleanings, exams and X-rays; 80 percent of root canals and fillings; 50 percent of removables, etc."

As the years went by, the formula changed from "cost plus profit equals pricing" to the insurance companies telling us what our price is and making us subtract our profit—if we want any—and what we're left with is the budget to do all the work.

We have the entire dental industry based on an indemnity insurance model from 30 years ago!

Now that 82 out of 100 dental offices are currently in a PPO system, where their fees are given to them, income for dentists is on a downward spiral and you're all just going along for the ride.

### **Solution: syncing software**

I'm going to propose a solution that kills two birds with one stone. The first bird is you losing more and more money every year, while the other bird is something I am sure we can all agree on—our

practice-management software could do a better job in helping us watch our money. I don't know why we even call it "practice-management software" when what it really keeps track of is patients. It might as well be called "patient-management software."

Does your software hook up to QuickBooks, or whichever accounting software you're using? You know—accounting software, that thing keeping track of your payables, receivables, sundries, supplies, mortgage, equipment costs and more. Accounting is part of management, the last time I checked.

Payroll is approximately 28 percent of your costs, so your practice-management software should include a practice's payroll information.

If all you have in your practice-management software are your patients' names, their insurance companies, their addresses, their X-rays, and their health histories, you're at a disadvantage. Sure, you know where they live, that they've had three cavities in four years, and that they're allergic to penicillin ... but guess what you don't know? You don't know COGS!

Now these guys are sending you PPO plans and you're blindly signing up for them, saying, "Sure, I'll do a cleaning, exam and X-ray for \$100." Yet while your hygienist is in the room doing all of that, you have no idea what the cost of those services and the goods used are. That's insane to me.

It's the same everywhere I look and the same with every dentist I speak to. Most dental consultants will agree: It's beyond "common" that a consultant will go into a dental office that's taking a dozen PPOs and will tell the doc, "OK, you're collecting \$800. Of your 12 PPOs, we're going to drop four. Your revenue will go from \$800 to \$700, but your net income will go from \$150 to \$175."

What does that mean? It means that you, the doc, are doing some of those plans at a loss, but because you have no way of seeing that through your practice-management software, you've been throwing money away.

So how do you know if you're making money or losing money? Unless your practice-management software syncs up to your accounting software, you have no idea—until you go out and get that consultant.

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by Howard Farran, DDS, MBA, publisher, *Dentaltown* magazine

### Supply and demand

Of all the docs I've listened to and spoken with over the years, I have yet to hear one tell me that he wished his practice-management software integrated and communicated with QuickBooks online. Instead, when I ask dentists what keeps them up at night, they say, "I can't decide if I want to learn how to do Invisalign, place implants, study sleep medicine, or learn more about TMJ."

I'm like, "You don't even know the costs of goods and services in your own office!" There are a thousand and one benefits to having that data communicated between software. But many programs don't share that information—and that must change.

That's why we've seen overhead creep up. In 1970 the average overhead was 50 percent; now it's north of 65 percent. You've gone from half overhead to two-thirds overhead. You don't know COGS.

You're signing up for all these PPOs that are constantly factoring in numbers that you're not watching, yet every time your practice-management software company asks you what features you'd like to see added or improved, communication with your accounting information is at the bottom of the list. Are you kidding me?

Whenever enough dentists have sent in a suggestion, practice-management software companies have worked

it into the programming. That means more and more stuff gets added for all users. Consultants will come into your practice, run a simple report and tell you that you're not using 80 percent of all the bells and whistles of that software. Why? Because it's overwhelming. There are

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a thousand pages and just as many buttons—the vast majority of which you likely don't need, and it was a mistake to want them in the first place.

Instead of the polarizing system of having patient and insurance info over here, and then all my payables over there, the time has come to demand that these two vital sides communicate. Your practice-management software can't even generate payroll, for Pete's sake! You have no data in there!

### The fine print

You're all working very hard to lose money. Here are some facts. You're going to keep being offered PPO plans. You're going to keep having costs, and you're going to keep offering services—and if you don't start demanding that your practice-management software communicates with your accounting software, then you're going to keep losing money no matter how hard you work.

Call up or write to your software rep. Tell them that you don't care how many different notification sounds you can choose from. Tell them you want a system that truly manages every part of your practice, so you can finally know your COGS! ■

## > Howard Live

Howard Farran, DDS, MBA, is an international speaker who has written books and dozens of articles. To schedule Howard to speak at your next national, state or local dental meeting, email [rebecca@farranmedia.com](mailto:rebecca@farranmedia.com).

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