THE FINANCIAL GAPs AT A GLANCE

The Financial GAPs

Our GAPs method tells the dental entrepreneur the financial story of their practice. More specifically, it shows the four gaps where dollars of production leave your practice.

HOW IT WORKS

Using standard financial statements, the GAPs tool pulls the financial performance data together into one tool that shows you how production flows through your practice, resulting in your "true profit" or the dollar amount that can actually be put in your bank account.

- GROSS PRODUCTION
- 1 Effort Gap
- NET PRODUCTION
- 2 Collections Gap
- COLLECTIONS (REVENUE)
- 3 Overhead Gap
- NET PROFIT
- 4 Cash Flow Gap
- TRUE PROFIT

GAP

/GAP/ NOUN

1. a break or space in an object or between two objects.
2. a break or space between two values in the journey from production to profit.

The four financial GAPs lie between five lagging indicators, or objective metrics that can be calculated after a period of time to report on past performance.

These indicators are:

- Gross Production
- Net Production
- Collections
- Net Profit
- True Profit

The GAPs are the dollar values BETWEEN these lagging indicators:

- Effort Gap
- Collections Gap
- Overhead Gap
- Cash Flow Gap

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GROSS PRODUCTION

1 Effort Gap

The first GAP is that between your Gross Production and Net Production, or the amount you can actually collect on. We call it the "Effort Gap," because it takes effort and energy to produce your dentistry. We want you to minimize the amount of time and energy spent producing dentistry that cannot be collected.

NET PRODUCTION

2 Collections Gap

The next GAP is that between what CAN be collected and what IS actually collected. Every dollar of net production not collected comes right out of profit? Why? The dentistry, along with the effort, time, and costs has already been spent.

COLLECTIONS (REVENUE)

3 Overhead Gap

Money obviously leaves the practice as overhead expenses. These are your normal day to day operating expenses required to run your business. In the GAPs model, we remove all dentists salary from the overhead. Thus, net profit is the remaining dollar value BEFORE any dentist in the practice gets paid.

NET PROFIT

4 Cash Flow Gap

The Cash Flow GAP is the most complex and often the reason so many dentists ask, "Where did all my money go?"
Since this cash flow is NOT found on your P/L statement, it is often an unrealized expense to most dental entrepreneurs.

TRUE PROFIT

EFFORT GAP

EFFORT GAP

GROSS PRODUCTION

1 Effort Gap

NET PRODUCTION

The effort gap lies between Gross Production and Net Production. Gross production is the true output of your business while Net Production is the amount or output you can collect on. The further apart your Gross Production and Net Production, the harder you are working for your collectable amount.

That is why we call it the "Effort Gap."

How does production leave in this gap?

- **PPO write offs or adjustments**
- **Elective write offs or adjustments**
- **Membership Plan Discounts**

Gross Production is your Output

You have one master fee schedule and one master fee for every procedure. The GAPS model asks dentists to always bill their full fee, even when the contracted PPO fee is lower. In addition, never bill $0. Bill the full fee and adjust the full fee off when doing pro bono work. If you are billing the UCR or $0 for some procedures, you are understating your gross production.

Why? All your dentistry, even the amount you adjust off due to PPO contracts or the work you give away for free costs you Effort - Time, Energy, Salaries, Materials, and Value of the chair time that could have been filled with a 100% paying patient.

It's okay to have an effort gap. However, we want you to understand:

1. What is the true output of my business?
2. How much of my dentistry am I not able to collect on?
3. How many days per month am I really working for free?

We call it the Effort Gap because it takes effort to produce dentistry. Effort in the form of time, staffing, overhead costs, physical and mental energy. More isn't better when it comes to the effort gap. A large effort gap always leads to a smaller profit margin and aiming to produce more without knowing how much of that added production will end up as profit often results in more time in the practice, less time at home, and with way less profit than you expected.

HOW TO CALCULATE YOUR OWN EFFORT GAP.

EFFORT GAP

GROSS PRODUCTION

$

WHAT KPIs LIE WITHIN THIS GAP?

MINUS PPO ADJUSTMENTS

MINUS ELECTIVE WRITE OFFS

TOTAL $ ADJUSTMENTS
$

MINUS MEMBERSHIP PLAN DISCOUNTS

TOTAL $ ADJUSTMENTS/ GROSS PRODUCTION
%

THIS IS YOUR EFFROT GAP.

NET PRODUCTION

$

RECORD HOW MANY DAYS YOUR PRACTICE WAS OPEN FOR BUSINESS =

GROSS PRODUCTION PER DAY = $

TOTAL $ ADJUSTMENTS/ GROSS PRODUCTION PER DAY

This is your ACT Energy Quotient
This is the number of days you are working for free in order to afford your write offs.

EFFORT GAP

$ GROSS PRODUCTION

What's Your Production Story?

- How do you get to your production?
- Do you do a little bit of dentistry on a lot of patients?
- Or do you do a lot of dentistry on a small number of patients?
- Somewhere in between?

$ NET PRODUCTION

EFFORT GAP - SECONDAY KPIs

$

YOUR STORY

#	KPI	
1	Active Patient # per FT Dentist	
2	Annual Patient Value	
3	Production per Day	
4	Production per Hour	
5	Production per Visit	
6	Capacity % Dr. Chairs	
7	Capacity% Hygiene Chairs	

$

You can predict what your days will look like just by the number of active patients.

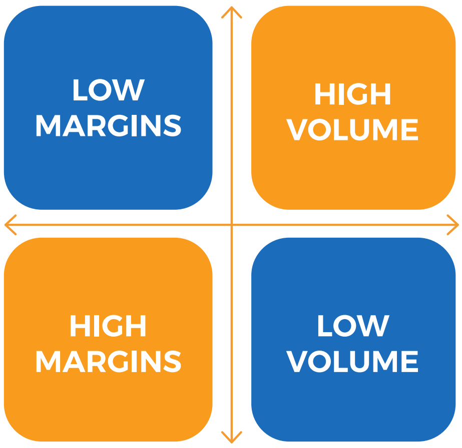
APV tells you alot about:

- Your business model
- Your level of differentiation
- Your ability to diagnose, present, sell comprehensive dentistry.

Guess what? When capacity decreases, PPD and PPH are likely to also go down.

WHAT BUSINESS MODEL ARE YOU COMPETING IN?

Low Margins, High Volume vs High Margins, Low Volume



Low Margin | **High Volume**

A dental practice with a lower profit margin resulting from high write offs, an increased collections gap and high overhead will need to see a higher volume of patients in order to attain a higher level of revenue.

High Margin | **Low Volume**

A dental practice with a higher profit margin (low write offs, low overhead, and 100% collections) needs to do more dentistry on a lower amount of patients to increase revenue.

Neither is right nor wrong and there is lots of room in between.
However, in order to succeed, different strategies would need to be employed.

Low Margins/High Volume		High Margins/Low Volume
>40%	Write Offs	0%
$200	APV	>$1500
$100	PPV	$700
2000	Active Patients/DDS	1000

Instructions

Plot yourself on the four spectrums. The halfway point is the number exactly halfway between the two extremes. Do you trend more to the right or left side?

THE COLLECTIONS GAP

NET PRODUCTION

2 COLLECTIONS GAP

COLLECTIONS (REVENUE)

EFFORT GAP

We covered write offs in the Effort Gap.

Once you adjust off the production necessary for PPO, Elective, and Membership Discounts, you are left with a dollar value called NET PRODUCTION. Put another way, this is your "Collectable Production."

This the amount that you can actually collect on. We now need to focus on the gap between how much you CAN collect and how much you DO collect. Ideally your collections, which is your business's revenue, should be 100% of your Net Production.

Every dollar value not collected comes straight out of true profit. Dental practices can and should collect 100% or more of their net production.

Collections Gap

The Silent Killer of Profit

Every dollar of NET PRODUCTION not collected is a dollar for dollar reduction of your profit. Why? Producing dentistry costs money in variable and fixed costs. You already spent that money to produce it. Thus, every dollar not collected is literally like taking money out of the owning dentist's wallet.

How to calculate the Collections Gap?

1. Calculate your collections as a % of Net Production.
2. Subract that % from 100%.
3. That difference (%) is your Collections Gap.

Want to know how much money you DON'T have due to this gap?

Net Production

- **- Collections**
- **= $ Amount of money lost due to the collections gap.**

Lastly, take that $ amount above and divide by your PPD =

The number of days you worked for free just due to not collecting 100%.

THE COLLECTIONS GAP

COLLECTIONS GAP

HOW TO CALCULATE YOUR OWN COLLECTIONS GAP.

NET PRODUCTION $

– MINUS

COLLECTIONS (REVENUE) $

This Amount Reduces Your Profitability Dollar for Dollar

= 1 $ ÷ NET PRODUCTION

= 2 %

2 Collections Gap

We covered write offs in the Effort GAP.
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Your Collections GAP

100 - 2 = 3 %

Gross Production per day

$ 1 ÷ $ =

Days working for free due to collections GAP

Days

COLLECTIONS GAP

COLLECTIONS GAP

NET PRODUCTION

2 Collections Gap

COLLECTIONS (REVENUE)

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Collections GAP
The Silent Killer of Profit

Total Accounts Receivable $	
AR>30 Days $	
AR>60 Days $	
AR>90 Days $	
Insurance Claims Aging $	
90 Day Collections %	
AR Ratio	
AR Days	
Date of Service Collection %	

INSURANCE CLAIMS AGING
The Outstanding Insurance Claims report tracks claims that have been sent, but not insurance monies received by the practice.

90 DAYS COLLECTIONS %
The % of AR over 90 days that you are able to collect.

A/R RATIO
The AR Ratio is an activity ratio measuring how efficiently the practice manages the credit it issues to patients and collects on that credit.

A/R DAYS
The approximate amount of time that it takes for your practice to receive payments owed, in terms of receivables, from your patients and insurance claims.

ADJUSTMENT %
The percentage of adjustments (write offs) compared to your gross production.

DATE OF SERVICE COLLECTION %
The amount due on DOS that is collected over the counter as a %.

ACTdental bpa BEST PRACTICES ASSOCIATION

OVERHEAD GAP

- GROSS PRODUCTION
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- COLLECTIONS(REVENUE)
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- NET PROFIT

Overhead is the necessary business expenses required to achieve your revenue and encompasses the gap between revenue and your variable and fixed expenses. In order to objectively judge a practice's overhead Gap, we instruct our clients to pull out all owner and associate wages out of overhead. While the national average is trending over 70%, we like to set a goal of 60% or less.

60% OVERHEAD MODEL

TEAM COMPENSATION	25%
FACILITY AND EQUIPMENT	8%
SUPPLIES	5%
LAB	8%
OPERATING	9%
MARKETING	3%
DISCRETIONARY	2%

OVERHEAD GAP

$ COLLECTIONS (REVENUE)

1 Overhead Gap

$ NET PROFIT

Question to ask when Overhead is high:

"Is my overhead high because I'm spending too much or because my Profit Margin is too small?

One aspect of overhead not often appreciated by dentists is that overhead is a function of revenue or collections, not production. Meaning, it is calculated as a % of the revenue brought into the business, not as a % of that which is produced.

Why is this important to note? Dentists spend their overhead costs to produce their output, or gross production. Producing dentistry requires variable costs and the more you produce, the more those variable costs increase proportionally.

There are tried and true strategies to manage overhead by controlling costs that we have successfully coached dentists to use. However, when we find a practice with a large Effort Gap and/or a large Collections Gap, the truth is Overhead will be very hard to control. Why? You need to hire enough people and order enough supplies to support your gross production. When you are unable to collect a large % of that production due to adjustments or poor collections, one can appreciate how hard it will be to get overhead under control since it is compared against actual revenue.

For many practices that have a high overhead and don't feel they are spending money foolishly, the next question is to study why it is high.

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OVERHEAD GAP

COLLECTIONS → $

60% OVERHEAD MODEL

TEAM COMPENSATION	25%
FACILITY AND EQUIPMENT	8%
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LAB	8%
OPERATING	9%
MARKETING	3%
DISCRETIONARY	2%

NET PROFIT → $

Your Overhead Story

Team Compensation %	
Facility and Equipment %	
Supplies %	
Lab %	
Operating %	
Marketing %	
Discretionary %	
Total Overhead %	

YOUR PRACTICE

Total Overhead %

60% or Less?

YES

You are good. Good job. Manage Overhead spending by setting budget to shrink Overhead even more.

NO

Keep progressing analyzing your Overhead below.

Analyze why your overhead is high

DO YOU COLLECT LESS THAN 100% OF NET PRODUCTION?

YES NO

IF YES, RECALCULATE YOUR OVERHEAD AS A % OF YOUR NET PRODUCTION.

______ %

YOUR COUNTERMEASURE TO IMPROVING OH IS SIMPLY TO COLLECT 100% OR MORE OF YOUR NET PRODUCTION.

DOES THAT CORRECT YOUR HIGH OVERHEAD?

YES NO

NOW RECALCULATE YOUR OVERHEAD AS A % OF YOUR GROSS PRODUCTION.

______ %

IF THIS % IS 55% OR BELOW, IT IS LIKELY YOUR HIGH OVERHEAD IS MOSTLY DUE TO A INADEQUATE PROFIT MARGIN AND NOT OVERSPENDING.

CASH FLOW GAP

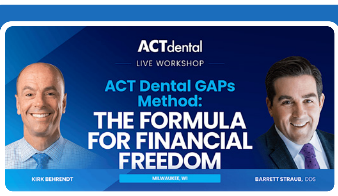
The cash flow Gap highlights all the money leaving your practice AFTER the profit and loss statement. This cash flow is normally found on a cash flow report and is the cause of most dentists wondering where all their money went.

The Cash Flow GAP encompasses loans, distributions, draws, and quarterly tax payments. Some people refer to these cash outflows as "below the line" expenditures because you won't see them on a Profit and Loss Statement. These below the line expenditures certainly are cash outflows but they are not deductible expenses and normally include taxation. This is the reason many dentists find themselves asking their accountants where all the money is.

One you know your cash flow gap and and plan for the taxable event that comes with it, you can start to appreciate your true profit. We love the idea of True Profit because it is a real world tangible idea. True Profit is the amount of money a practice owner can deposit in their personal bank account each month AFTER:

- All Overhead Expenses are paid
- Loans are paid
- Tax allocation is set aside.

The remaining amount is your true profit and is yours to support your family.



Join us for an upcoming Financial GAPs Seminar to learn the full ACT Financial GAPs Method
www.actdental.com/gaps

To find out more about the GAPS and to start to apply the idea of true profit to your dental practice, join us in the BPA at
www.actdental.com/bpa.

How Can We Help?

To get personalized help on your practice GAPs, contact us here:
https://www.actdental.com/contact/

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