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# The Financial and Performance Monitors Orthodontists Should Use to Understand the Status and Performance of Their Practice

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**Flying an airplane without instruments is sometimes called “flying by the seat of your pants.” Although it is possible to fly this way, it is not the most effective and safe way to fly, especially over long distances. Managing a practice “by the seat of your pants” is also possible, but it is not the most effective and efficient practice management philosophy as a long-term approach. Present-day orthodontists must pay the same attention to the performance of the practice as is paid to clinical treatment protocols. This vital monitoring information must be carefully linked to other practice management systems, such as the practice budget, practice goals, staff training, employee performance reviews, salaries, and incentive bonuses. (Semin Orthod 2011;17:332-338.) © 2011 Elsevier Inc. All rights reserved.**

## **Importance of Using Practice Financial and Performance Monitors, Such as the Pulse of the Practice**

Managing a practice without the use of vital practice financial and performance monitors can be likened to flying an airplane without instruments. Perhaps one might be able to make the practice run, but without monitoring these vital data, it is doubtful that one would be able to manage the practice with the same degree of excellence that is desired for the clinical treatment outcomes. This monitoring information must be made available in a timely manner, and the data must be used to check areas of the practice’s current and ongoing needs. For example, if a practice is having difficulty with a low new patient conversion rate, excessive emergency appointments, or too many failed appointments, these areas need to be tracked on a routine basis as management decisions are made to

correct these issues. The typical profit and loss statement from the practice accountant generally is not available for 2 or more months after the accounting period has ended and is, therefore, not timely enough for management purposes. The profit and loss statement is created for tax purposes and does not usually contain the type of information that is needed to make well-timed and routine management decisions for effective integration into other office systems.

Practices that use practice management software have easily accessible data that can be of tremendous value to understanding and managing all aspects of the practice, and these data can be gathered rapidly for timely use. This information can serve as a regular monitor of the performance of the practice and can be described as taking the “pulse” of the practice. Although much of the information gathered for the pulse of the practice will be the same for most practices, some data should be individualized to fit each orthodontist’s specific practice.

Often, practice monitoring information is not gathered and used on a routine basis. The timely and regular use of vital practice data are not to be mistaken as “micromanagement.” The mere fact that the doctor/leader requires that specific data are collected and reviewed consistently and

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often (perhaps at a monthly staff meeting) sends a powerful message to the entire practice team that all team members must understand and support practice goals. It is recommended that the “pulse of the practice” be a permanent agenda item in the monthly staff meeting. This guarantees review of practice performance for the previous month and the year-to-date.

It is not necessary to keep a constant watch on practice monitors to avoid “flying blind.” What is important is for the doctor to analyze the information on a routine basis, discuss it with the team, and make management decisions on the basis of trends identified. For example, a practice that tends to not charge for many of its services (eg, the replacement of lost or broken retainers, minor retreatment, loose brackets) might closely monitor all fees that are waived. These “production adjustments” may add up to be significant amounts. Aside from the money, the routine waiver of these fees could result in patients not accepting personal responsibility for following instructions because there is no consequence for their behavior. The purpose of this monitoring is not solely to increase practice profitability but more importantly to place the doctor/leader in a position to make positive choices that benefit both the practice and patients.

The information available from the software program used in an office might be spread out in several reports (Fig. 1), and may be too lengthy and/or cumbersome to gather and evaluate for regular use. Therefore, it is recommended that essential practice statistics be kept on a single page (Fig. 2 and Fig. 3). It is simple to interpret for evaluation each month for use in effectively and efficiently managing the practice. Most of the information should be shared and explained to the staff so that they can better understand the practice and perform to their highest potentials. The staff should not be expected to “fly by the seat of their pants” any more than should the doctor.

### **Link the Pulse of the Practice to Practice Budget and Goals, Staff Training, Salaries, Bonus Systems, and Personnel Performance**

The integration of practice performance data into every aspect of the practice is a tremendous

#### **ACCOUNTS RECEIVABLE AGING** Amount Now Due Aging

#### **APPOINTMENT DAY SHEET - FINANCIAL** All Patients -- Order By: Time Only -- Office: ALL, Doctor: ALL

#### **ADJUSTMENTS, TX FEES AND CHANGES** Reports: 691 to 696 -- Office: ALL, Doctor: ALL

#### **DAILY TRANSACTION SUMMARY** Reports: 691 to 697 -- Office: ALL, Doctor: ALL

#### **INSURANCE DETAIL BY COMPANY** All Contracts

#### **TRANSACTION REPORT**

#### **PATIENT NAME & STATUS LIST** Start Report Date Range

#### **PATIENT NAME & STATUS LIST** Entry Date Report

#### **KEPT PROCEDURES STATUS** All Patients -- Office: ALL, Doctor: ALL

#### **STATUS COUNT COMPARISON** All Patients

**Figure 1.** A listing of some of the reports generated by typical practice management software.

aid to achieving optimum practice and staff performance. Integration into personnel performance reviews, the determination of employee salaries and bonuses, establishing practice goals, using the practice budget, etc, makes the total pulse of the practice system a powerful practice management tool. This integration of practice monitoring information completes the loop that connects practice performance results with personnel management. For example, the practice budget estimates the financial needs of the total practice for the year. One can then determine the number of annual treatment starts required

Gross Production
Gross Production Goal
Gross Prod. Goal v. Actual
Production Adj.
Net Production
Gross Collections
Collection Adj.
Net Collections (to budget)
Net Coll.Goal (from budget)
Net Col. Goal vs Actual
Net Col/Gross Prod %
Net Col/Adj Gross Prod %
T1. Patient Days
T1. Collections / Day
Profit per Hour
Pre-Paid Treatment (to budget)
% Prepaid Gross Prod
Accounts Payable
AP/Coll. Ratio (OH)
AR - Current
AR - 30 Days
AR - 60 Days
AR - 90 Days +
AR T1.
T1. AR / Net Collections
60 days+/Total AR
Insurance Current
Ins. AR - 30+ Days
Total Insurance AR
Insurance % of Gross Prod.
New Patient Opportunities
NP Exams Scheduled
Scheduling %
New Patient Exams
Exams/Calls (NP Show up %)
Treatment Starts
Average Case Size
Starts/NP Exams
Starts from Recall
% Starts from Recall
Pt. Put On Recall
Recalls Seen
Starts + Recall/Calls
Total Active Recall Patients
Potential Recall Starts/Mo.
T1. Reactivation Pts.
Ask for Referrals
Total II Treatment Starts
Total I Treatment Starts
Total Other Treatment Starts
Grand Total Starts
T1. Deband or Dismiss
Starts/DB
Total Patients/Day
Pts./Day Dr. 1
Pts./Day Dr. 2
Patients seen per RDA
% Fails
Emergencies
Emergencies/Day

**Figure 2.** A sample of the categories monitored in a typical pulse of the practice. (Color version of figure is available online.)

to satisfy the budgetary needs. From this information, specific goals can be created in the areas of finances, marketing, and personnel performance. When the practice team meets these goals and budgetary requirements are met, incentive bonuses can be awarded. Whether a bonus is awarded is determined by criteria monitored in the pulse of the practice. The actual amount of each individual employee's bonus is modified by that employee's most recent performance review score. A similar system can be used to award staff salary increases.

Certain areas of financial and budget information, such as salaries and individual bonuses, are best kept confidential, but other financial and practice performance data should be shared with employees so the goals of the practice become the goals of the entire team. Enhanced synergy, improved teamwork and communications, and better results for the entire practice can be realized through the intelligent use of practice statistics. When each member of the team knows the goals, opportunities become available for heightened individual and team accountability, leadership, and performance.

The practice budget establishes specific areas of practice spending, such as continuing education, clinical and administrative supplies, doctor expenses, marketing expenses, new equipment, reserve funds, and salaries and fringe benefits. The categories of the practice budget are not the same as the categories of a typical profit and loss statement received from the accountant. The practice budget is much more detailed and organized in a manner that facilitates management decisions. Once the budget is created, yearly, monthly, weekly, and even daily goals for practice financial and other performance can be established. The annual practice goals are developed by the doctor and the team at the beginning of each year.

An outstanding way of creating these goals is to schedule a staff meeting that is solely dedicated to this purpose. Various staff members can be assigned to support specific practice goals. An example of a valuable practice goal is the marketing of the practice with the goal of increasing new patient calls and treatment starts to specific levels. A staff member who supports a successful marketing campaign and helps boost practice production to meet these goals can be recognized and rewarded

Pulse: Sample	January	February	March	April	May	June	July	August	September	October	November	December	YTD Current	Avg/Mo.	Vs. Previous Year
Production Goal	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000	66,000	10.00%
Gross Production	65,487	104,005	91,152	84,712	115,769	52,467	78,828	141,710	65,274	43,357	41,232	68,039	952,032	79,336	12.29%
Prod. - Prod.Goal	(513)	38,005	25,152	18,712	49,769	(13,533)	12,828	75,710	(726)	(22,643)	(24,768)	2,039	160,032	13,336	25.21%
Production Adj	1,250	4,400	0	750	2,200	850	1,300	300	75	404	4,722	391	16,642	1,387	-36.96%
Net Production	64,237	99,605	91,152	83,962	113,569	51,617	77,528	141,410	65,199	42,953	36,510	67,648	935,390	77,949	10.33%
Gross Collections	64,340	77,100	71,683	76,607	83,667	75,698	66,470	87,804	69,884	59,779	68,217	72,186	873,435	72,786	10.83%
Collection Adj.	250	0	450	50	157	325	1,525	875	1,300	652	900	0	6,484	540	8.07%
Net Collections(to budget)	64,090	77,100	71,233	76,557	83,510	75,373	64,945	86,929	68,584	59,127	67,317	72,186	866,951	72,246	10.00%
Net Coll.Goal (from budge	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	720,000	60,000	-3.45%
Goal-Actual	4,090	17,100	11,233	16,557	23,510	15,373	4,945	26,929	8,584	(873)	7,317	12,186	146,951	12,246	246%
Net Col. / Prod. %	99.77%	77.41%	78.15%	91.18%	73.53%	146.02%	83.77%	61.47%	105.19%	137.66%	184.38%	106.71%	92.68%	92.68%	-0.30%
Tl. Patient Days	14.0	15.0	15.0	15.5	15.0	12.0	14.0	17.0	12.0	16.0	14.5	14.0	174.0	14.50	13.73%
Tl. Collection / Day	4,578	5,140	4,749	4,939	5,567	6,281	4,639	5,113	3,695	4,643	5,156	4,982	4,982	4,982	-3.27%
OTC Collections	30,320	50,178	39,563	47,262	50,759	40,456	28,777	42,255	48,937	24,528	26,798	35,646	465,479	38,790	12.08%
Prepaid Production	5,619	12,775	8,300	4,000	18,944	16,007	4,150	11,813	9,195	9,190	2,100	7,500	109,593	9,133	188.71%
% Prepaid/Net Production	8.75%	12.83%	9.11%	4.76%	16.68%	31.01%	5.35%	8.35%	14.10%	21.40%	5.75%	11.09%	11.72%	11.72%	161.68%
Accounts Payable	37,978	46,884	48,554	41,897	45,564	48,558	42,400	45,679	54,758	51,337	49,728	49,661	562,998	46,917	9.96%
AP/Coll. Ratio (OH)	59.26%	60.81%	68.16%	54.73%	54.56%	64.42%	65.29%	52.55%	79.84%	86.82%	73.87%	68.80%	64.94%	64.94%	-0.04%
Overhead Goal	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60.00%	60.00%	0.00%
AR - Current	34,914	35,219	34,117	37,155	35,196	37,080	35,261	34,564	34,037	31,174	25,703	27,612	402,032	33,503	3.35%
AR - 30 Days	5,586	5,889	4,964	4,292	5,202	4,980	5,628	4,622	4,568	5,604	4,507	4,614	60,456	5,038	-11.58%
AR - 60 Days	1,420	4,839	7,552	7,459	5,910	6,809	6,107	1,620	5,382	6,062	5,665	3,840	62,665	5,222	-6.49%
AR - 90 Days	4,907	3,726	3,753	5,818	712	3,391	769	3,863	3,482	561	2,253	2,457	35,692	2,974	-22.48%
AR - 120 Days	23,002	20,764	17,848	19,586	23,386	21,916	22,773	24,474	20,620	18,963	13,292	17,316	243,940	20,328	17.63%
AR Tl.	69,829	70,437	34,117	74,310	70,406	74,176	70,538	69,143	68,089	62,364	21,210	55,839	740,458	61,705	3.68%
Insurance Current	70,834	79,955	81,220	87,629	80,928	82,393	79,855	84,143	84,591	80,520	69,503	63,236	944,807	78,734	27.43%
Ins. AR - 30+ Days	14,053	15,352	16,051	16,329	15,488	17,675	21,186	17,800	20,404	18,263	12,557	9,798	194,956	16,246	-16.29%
Total Insurance AR	84,887	95,307	97,271	103,958	96,416	100,068	101,041	101,943	104,995	98,783	82,060	73,034	1,139,763	94,980	16.98%
Ins.% of Gross Prod	129.62%	91.64%	106.71%	122.72%	83.28%	190.73%	128.18%	71.94%	160.85%	227.84%	199.02%	107.34%	1619.87%	1	4.95%
Tl. AR / Net Collectable	109%	91%	48%	97%	84%	98%	109%	80%	99%	105%	32%	77%	85.41%	85.41%	-5.74%
Total NP Calls	35	25	31	37	24	25	30	46	26	26	27	16	348.00	29.00	-0.29%
New Patient Exams	24	27	29	28	24	20	24	41	22	27	26	17	309.00	25.75	-0.64%
Exams/Calls	68.57%	108.00%	93.55%	75.68%	100.00%	80.00%	80.00%	89.13%	84.62%	103.85%	96.30%	106.25%	88.79%	88.79%	-0.36%
Consultation	8	17	12	14	17	8	11	23	11	7	1	9	138.00	11.50	-10.39%
Total Treatment Starts	14	22	18	15	22	9	16	28	14	10	9	14	191.00	15.92	-9.48%
Starts from Recall	3	4	2	1	1	1	1	7	3	1	0	3	27.00	2.25	22.73%
% Starts from Recal	21.43%	18.18%	11.11%	6.67%	4.55%	11.11%	6.25%	25.00%	21.43%	10.00%	0.00%	21.43%	13%	51.27%	
Starts/Calls	40.00%	88.00%	58.06%	40.54%	91.67%	36.00%	53.33%	60.87%	53.85%	38.46%	33.33%	87.50%	54.89%	54.89%	-9.22%
Pt. Put On Recall	2	6	3	6	3	4	5	6	3	7	4	1	50.00	4.17	-10.71%
Recalls Seen	3	4	6	3	4	7	2	9	3	3	1	5	50.00	4.17	28.21%
Starts + Recall/Calls	45.71%	112.00%	67.74%	56.76%	104.17%	52.00%	70.00%	73.91%	65.38%	65.38%	48.15%	93.75%	69.25%	69.25%	8.74%
Tl. Full Bands	8	20	13	12	14	9	14	23	8	5	5	9	140.00	11.67	-2.78%
Tl. Other Tx.	6	2	5	3	8	0	2	5	5	5	4	2	47.00	3.92	34.29%
Tl. Deband/Dismiss	7	13	13	10	12	7	9	14	10	15	9	10	129.00	10.75	4.03%
Starts/DB	200.00%	169.23%	138.46%	150.00%	183.33%	128.57%	177.78%	200.00%	130.00%	66.67%	100.00%	210.00%	144.96%	144.96%	0.42%
Appointments Made	309	371	402	481	443	352	365	554	330	414	490	385	4,896.00	408.00	6.30%
Appointments Kept	272	324	359	434	393	321	328	497	288	366	429	342	4,353.00	362.75	6.53%
Failure Rate	11.97%	12.67%	10.70%	9.77%	11.29%	8.81%	10.14%	10.29%	12.73%	11.59%	12.45%	11.17%	11.09%	11.09%	-1.76%
Patients/Day	19.43	21.60	23.93	28.00	26.20	26.75	23.43	29.24	24.00	22.88	29.59	24.43	25.02	25.02	-6.32%
Pt./Day/Assistant	6	7	8	9	9	9	8	10	8	8	10	8	8.14	8.34	-6.09%

Figure 3. A sample practice monitor called “pulse of the practice.” (Color version of figure is available online.)

through employee performance reviews, acknowledgment, salary and benefit enhancements, and bonuses. Thus, the integration of practice performance data, practice goals, and employee training and performance reviews results in enhanced practice performance on many levels.

Annual practice goals can be developed to enhance the practice on all levels, ranging from facilities, clinical improvements, employee related items, marketing, to patient service. Goals can also be developed from previous years' financial and performance data. Examples of these goals typically include increasing production and collections, decreasing overhead, increasing the new patient conversion rate, reducing the appointment no-show and cancellation rate, and other goals established by the doctor and team. Additional goals are limited only by one's imagination and can be both performance-enhancing as well as team-building in nature. A good example of a goal might be taking the entire team to a future orthodontic meeting in Hawaii. It has been said that for goals to be met, they should be achievable and believable. The addition of "measurable" to goals can enhance team motivation, accountability, leadership, and performance under positive leadership from the doctor.

Practice financial and performance goals that are quantifiable are integrated into the pulse of the practice monitor and measured on a routine basis. These data should be monitored and discussed with the staff every week at a short morning meeting, and monthly at the monthly staff meeting. These data are used to enhance communications and teamwork, staff training, motivate the team, and for personnel performance evaluations.

### **Using the Pulse of the Practice to Enhance Staff Training, Teamwork, and Communications**

As in all practice systems, thorough staff training in the use of the pulse of the practice and all of its ramifications is essential for success. It may be most effective to devote a staff meeting to this purpose. It is recommended that a key staff person be assigned the responsibility for gathering the information for the pulse of the practice, with help from other staff members. The data can be en-

tered onto a spreadsheet (ie, Excel; Microsoft, Redmond, WA) for ease of use and accessibility by the doctor and key staff member. Some of the information may require manual tracking if it is not tracked by the practice software. A key part of training is a discussion of how each team member affects every area of the performance of the practice in so many ways.

Teamwork, communication, and motivation enhancements are frequent byproducts of the diligent use of the pulse of the practice. Acknowledgment for a job well done is an amazing motivator. Sincere verbal acknowledgment is often a superior motivator than financial acknowledgment. Asking for referrals, care calls, the percentage of treatment starts that come from the recall system, and the number of new patients that come from existing patients are all items every practice needs to develop and enhance. It is fascinating to see performance in these areas improve simply by measuring and discussing them on a routine basis. As improved performance is demonstrated in these areas, acknowledging the staff for this improvement is a powerful motivator. Everyone wins in this situation.

It is important to link the pulse of the practice to the salary and incentive bonus system. The practice goals contained in the pulse of the practice are set at a level that funds the entire practice budget, including the doctor's salary and benefits. It is vital that a fair and realistic budget is established. The practice, doctor, and staff team all win together and can share in their achievements. Individual salaries and bonus amounts are linked to individual performance scores. The higher an employee scores on his or her performance review and salary evaluation, the higher the percentage of available salary and bonus is awarded to that individual. Performance scores below a minimum level should not qualify for any salary increase or bonus.

### **Important Items to Monitor in the Pulse of the Practice**

The pulse of the practice is best individualized to each practice's own needs. However, there are certain basic items that should be monitored in every practice. The data are gathered from practice management software reports, and typically

requires accessing several separate computer reports.

For ease of use, the entire pulse of the practice should be a single page report. The more pages a practice monitor has, the more difficult it becomes to evaluate, understand, and use to manage the practice. The following basic items are examples of what can be monitored on a monthly and year-to-date basis, and compared with previous years' performance. They can also be discussed in morning staff meetings ("huddles") on a month-to-date basis:

- production;
- production goal;
- collections;
- collections goal;
- patient days per month;
- collections per patient day;
- average case size (average case size is determined by dividing total fees charged from new patient starts in a given period by the number of new patient starts for that same period. It represents the average fee paid per new patient treatment);
- accounts receivable;
- contracts receivable;
- new patient calls;
- new patients scheduled;
- new patient scheduling percentage;
- new patient examinations;
- new patient show up percentage;
- new patient starts;
- new patient start goal;
- new patients put on recall;
- starts from recall;
- starts from recall goal;
- overall new patient conversion rate;
- overall new patient conversion rate goal;
- patients scheduled per day;
- emergencies per day;
- debands per month;
- treatment starts versus debands per month;
- percentage of patients behind in treatment; and
- percentage of appointment "no shows" and cancellations per month.

Some of the information may have to be tracked manually if it is not tracked by the management software program. Examples of items that may not be automatically tracked include such categories as:

- new patient scheduling percentage (new patient calls vs scheduled new patient visits);
- new patient attendance rate (new patients who kept their scheduled appointment);
- treatment starts from recall; and
- new patients from various specific marketing programs.

### Examples of Additional Items That Are Individualized for Each Practice's Needs

Additional pulse of the practice categories are individualized for each practice and are based on a practice's unique needs at the time. Practice goals can also be established for these categories. These items are modified from time to time as the needs of the practice changes. Some examples of items individualized for a particular practice might be:

- production adjustments from waived or pro bono treatment;
- total new patients referred from existing patients;
- new patients from "Frequent referral program";
- new patients from "Asking for referral program";
- treatment starts from the reactivation system; and
- emergency log, including extra appointments created by team (ie, incorrectly stopped arch wires, retake impressions, "same-day" bracket failure).

Goals are developed from the practice budget and the annual practice goal-setting meeting. It is important to understand that practice goals are not established solely because these are items that the practice management software automatically tracks. This way, the doctor and staff determine what the goals of the practice should be, not the management software. Goals to be tracked are inserted into the pulse of the practice so that goal achievement performance can be monitored and discussed on a routine basis.

### Summary and Conclusions

Every pulse of the practice category selected for measurement in a practice yields a clue as to the performance of the practice and its team, and

the leadership of the doctor. The pulse of the practice is customized for each individual practice and is a key to reducing the chaos that often describes practices that are managed with less than ideal methods or, worse yet, is out of control.

A pulse of the practice that is created intelligently and used on a routine basis becomes a very effective practice management tool for the purposes of:

- gaining control over the practice;
- quickly and routinely monitor the practice's performance and current health;
- using it as a tool for making practice management decisions;
- creating and maintaining an effective practice goal-setting and achievement system;
- enhancing leadership and communication from doctor to staff and also within the staff;
- effectively educating, training, and motivating the office staff to higher productivity, leadership, and motivation;
- quickly identifying practice successes as well as problem areas in a practice;
- maintaining staff's awareness and energy on what is important to the doctor and the practice;
- linking performance criteria to personnel performance reviews and salaries;
- creating a "win/win" incentive bonus system; and
- communicating practice performance matters with doctor (partners), the office manager, a potential practice purchaser, etc.

Practices that have management software programs have access to various management reports. Unfortunately, these reports come from different areas of the software program; each may be several pages in length, are usually created by a software developer and may not monitor exactly what the practice needs. All the various reports are often difficult to understand and cumbersome to use. The use of a single-page pulse of the practice report used routinely is recommended for efficient and effective practice management.