

The New Numbers Game

Understanding Today's Bottom Line

Ken Runkle has discovered a revolutionary new concept that will forever change the way you think about the numbers in your practice. If you're satisfied with your current profits, this is not for you. If you want to maximize your profits, you must understand **The New Numbers Game**.



The New Numbers Game

Understanding Today's Bottom Line

by Ken Runkle – America's Profitability Expert™

In the 1980s, a \$500,000 a year practice was considered a big practice. Today, new graduates set \$2 million goals straight out of school and we are seeing one-doctor practices reach the \$3 million mark. The number game has changed.

During the 1980s, a well-managed practice working with our firm produced about \$500,000 a year which consisted of about 40% fixed costs, 25% variable costs and a net amount to the doctor of 35%. In real dollars that means \$200,000 was fixed cost (building, staff, etc...), \$125,000 was variable cost (supplies, lab, etc...) and the doctor took home about \$175,000. At that time, most dentists were happy with \$175,000 a year.

<p style="text-align: center;">1980-1990 \$500,000 Practice Revenue</p> <p>40% Fixed Cost = \$200,000 25% Variable Cost = \$125,000 35% Net to Doctor = \$175,000</p>

FIXED BECOMES VARIABLE?

In the 1990s when we began to see efficient and effective practices reach the \$1 million dollar peak, we noticed something strange beginning to occur. The number game was shifting. In a \$500,000 practice, the fixed cost remained right around 40% regardless of the practice. When a practice reached the magic \$1 million crest, the fixed cost percentage dropped to 35% of total revenues. The greater the revenue, the lower the percentage of fixed cost. At the same time, the variable cost was unaffected and remained the same percentage regardless of the total revenues collected.

As strange as it may sound, the “fixed” cost became “variable” and the “variable” cost became “fixed.” In the midst of the number shifting, we also discovered that not only did the overall dollar amount for the dentist/owner increase, but the percentage of profit increased also.

For our firm, we recognized this as a monumental discovery that would profoundly impact our goal-driven clients. The bottom line was clear – the more growth a practice could experience, the greater the percentage of profit. If a practice grew from \$500,000 a year in which the doctor took home \$175,000, that same doctor would **more than double** his income with a \$1 million practice. There was a real sense of exponential growth opportunity for the bottom line.

REAL NUMBERS

We discovered a well-managed \$1 million dollar practice would typically have a fixed cost of 35% or \$350,000, a variable cost of 25% or \$250,000 and a net do the doctor of 40% or \$400,000. Although the real dollars invested in fixed and variable costs exceeded the dollar figures from the \$500,000 practice, the fixed cost percentage fell by about 5%.

1990-2000	
\$1,00,000 Practice Revenue	
<u>35%</u> Fixed Cost	= \$350,000
25% Variable Cost	= \$250,000
<u>40%</u> Net to Doctor	= \$400,000

In a \$1.5 million practice, the fixed cost drops to 30% or \$450,000 with the net to the doctor rising to 45% or \$675,000. In a \$2 million practice, the fixed cost drops to 25% or \$500,000 with the net to doctor rising to 50% or \$1 million. All the while, the variable cost always remains right around 25% while the fixed cost drops. In the few \$3 million dollar practices we serve, we have seen the fixed cost drop to 20% or \$600,000 while the net to doctor has risen to 55% or \$1.65 million.

2000 - Today
\$1,500,000 Practice Revenue

30% Fixed Cost = \$450,000
25% Variable Cost = \$375,000
45% Net to Doctor = \$675,000

\$2,00,000 Practice Revenue

25% Fixed Cost = \$500,000
25% Variable Cost = \$500,000
50% Net to Doctor = \$1,000,000

\$3,000,000 Practice Revenue

20% Fixed Cost = \$600,000
25% Variable Cost = \$750,000
55% Net to Doctor = \$1,650,000

THE KEY TO SHIFTING THE NUMBERS

We have discovered that practice growth is the crucial element to shifting the dynamic in your bottom line. All practices realize that the more you grow, the more profit increases. However, what these numbers tell us is that the more you grow, the lower the percentage of fixed costs and the greater percentage of revenue the doctor takes home. In the end, growth produces ever growing exponential returns for the bottom line

NEXT STEPS

If you want to increase your profits, let me offer the same advice I have been giving our clients for over two decades: Create and implement an intentional, strategic and systematic plan for growth. Your bank account is waiting.

Go for it!

– **Ken Runkle, America's Profitability Expert™**, is the founder and president of Paragon Management, Inc. and has been helping dental practices reach peak profitability for twenty-four years.
