Should I Raise My Fees?

It always seems that when we get a question about some particular topic of practice management, we get hundreds. My email and phone calls are all asking about one thing: Should I raise my fees this year? The short answer is yes, but it isn’t as easy as yes or no. Let’s talk about how much, when, how to do it, and when not to.

According to Jim Du Molin: “Raising dental fees regularly is basically Dental Management 101, but actually implementing regular fee raises is difficult for many dentists – especially in a tight economy.

- 50% have raised fees in the past year
- For 31% it’s been over 1 year
- For 15% it’s been over 2 years
- For 3% it’s been over 3 years
- For 1% it’s been over 5 years (Ouch!)”

It never fails to amaze me how stressful most doctors find raising fees. No one’s lowering my costs annually. Every year, our supplies, compensation for staff, lab, marketing, and facility costs increase. Rising costs and therefore raising fees is a normal occurrence, and should go hand in hand. Our rising costs should be passed on to our patients. Twenty years ago, a 50% overhead was commonplace. Today, the average general practitioner is fighting to get it below 70%. Obviously our profession has not kept up with the cost of doing business. According to Joe Blaes, DDS, “We as practitioners have simply not acted as wise businessmen. Instead, we have become fearful of the impact a fee increase might have and ultimately paved a road for ourselves over the years to lower profitability.”

We must take the time to rebalance our fees yearly. In our offices we normally review and adjust the fees twice a year. I always found that two smaller incremental raises seemed to make a smaller ripple with the patients. To encourage you to make a decision to increase fees, you need to know your practice’s numbers. Overhead, profitability, and efficiency should be measured and monitored closely. You cannot make an intelligent decision about your fees without looking at every benchmark in your office. For the rest of this discussion I will assume that you know your overhead and that it falls into the benchmarks created by Summit. To remind you I have included a brief outline. To learn more
about obtaining and maintaining these essential goals be sure and refer to your Summit module on Overhead Control.

OVERHEAD

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Compensation:</td>
<td>24-25%</td>
</tr>
<tr>
<td>Facility:</td>
<td>7-9%</td>
</tr>
<tr>
<td>Lab:</td>
<td>8-10%</td>
</tr>
<tr>
<td>Marketing:</td>
<td>3%</td>
</tr>
<tr>
<td>Office Supplies:</td>
<td>2%</td>
</tr>
<tr>
<td>Dental Supplies:</td>
<td>6%</td>
</tr>
<tr>
<td>Total Goal:</td>
<td>50-55%</td>
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Thru the years our consultants have had the opportunity to sample fees in almost every state. In addition, we have had the opportunity to survey a sampling of patients as to their perception of their doctor’s fees. Without exception, the patient will say that dental fees are too high. So whether the fees are high, medium, or low, the patients feel that fees are too high. Knowing that dentistry will always be considered expensive, how do we know if our fees are in the ball park of what should be charged?

Think through this for a moment. How did you originally set your fees? Were they inherited from the previous owner and adjusted thru the years by the seat of your pants? Did you ask the dentist down the street when you started out? Maybe one of your new employees worked for another area dentist and told you what the fees were in her previous office. Whatever or however you did it, it was likely not based on science, overhead, or standards of the industry in your area. Let’s all agree that before we start raising or lowering fees we need to establish a base of fees and the percentile that they fall in before trying to make any adjustment. If you are a Summit client we will gladly do this for you. We pay
a yearly fee to access a database of every U.S. zip code with the fees broken down into percentile ranges. We suggest you establish fees that are at or about the 80th percentile. In today’s economy you need to expect that patients will shop fees and their ultimate cost. Consumerism dictates that we keep comparable fees comparable. In other words, a single crown, filling, or cleaning should be similar to others in your zip code. These software programs allow us to do just that. Create a base, then intelligently raise or lower fees for areas that you have a particularly strong affinity for or extra training in. How high can fees be set? The sky is definitely not the limit. Just a note to remember: doctors with inflated egos can price themselves right out of the market if they’re not careful. I like to call this being caught in a “public opinion setback”. Fortune magazine a few years ago did a survey of patients and their medical doctors. What they found is that 87% of patients will change medical doctors for a $5.00 difference in fee. If you think patients don’t think about what you charge, think again. Be considered “too” expensive in your market place and you may never recover. Finding the proper balance between self-esteem and the value of your services is not easy. Today patients vote with their feet. If you are constantly seeing the backs of their heads on the way out, make sure it is not your fees. (NOTE: More practices get the reputation of being “the highest priced dentist in town” from handing the patient a computer generated treatment plan with a HUGE total dollar amount. Patients tend to look at the total more than the individual procedure fee.)

We find that most dentists err on the side of undercharging and relatively few on the side of overcharging. Let me give you an example and the long term consequences of not adequately charging for your services.

Richard Collier, MS, JD makes a great point in this recent example: Consider the case of a young doctor with $500,000 in revenues, an overhead of 60%, and a profit of $200,000 before taxes. After looking at his fees and comparing them with our software we find that for his zip code he needs to raise his fees by 10%. In other words if this doctor had his fees raised by 10%, he would have taken in an extra $50,000, raising the practice profit by 25% from $200,000 to $250,000. If we assume an overly pessimistic (for the moment) tax rate of 50%, he would have an extra $25,000 of after-tax income to invest annually. Over
a 30-year period, investing $25,000 per year at, say 8 percent, results in an extra $2,852,203. The lesson is clear. Dentists can significantly improve their earning potential and, therefore, their retirement savings by setting their fees at a fair and appropriate level.

To close, let me just list a number of bullet points to consider in adjusting your fees, and becoming more profitable:

- A 10% increase in fees equals about a 9% reduction in overhead. Revenue arriving through a fee increase is pure profit and requires no additional effort.
- It is OK to discount fees or even give away a service to deserving patients, but do not unintentionally give charity to all of your patients by charging less than fair fees for your services. (Richard Collier, JADA 2006)
- Don’t use the wrong fees: Using the wrong procedure code, coding based on insurance payments, or using fees that are out of balance.
- Do not price yourself out of the market or under the market.
- Patients will pay any reasonable fee if: (1) they like you (you and your staff inspire them to accept treatment, show up, pay, and refer everyone they know); (2) are committed to the treatment plan; and (3) you make it affordable for their budget.
- Raising your fees is the first step in insuring profitability.
- Overhead and profitability are only controlled by the price of the service, your ability to control costs, and the amount of time it takes to do a procedure.
- Don’t jump your fee increases. If the cost of living or inflation is 3-4% a year, then you would raise your fees 1-2% in January and again in July to effect at least a 3-4% increase this year.

Raising fees should not be a confrontationally stressful point of the year. It is the natural evolution of running your practice as a business. If you still have questions, just give us a call and let us help you become more profitable. (MA)