

**Ep #30: Profitability vs. Production with Mark Battiato
and Deb Castillo**



Full Episode Transcript

With Your Host

Allison Watts, DDS

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Welcome to *Practicing with the Masters* for dentists with your host, Dr. Allison Watts. Allison believes that there are four pillars for a successful, fulfilling dental practice: clear leadership, sound business principles, well-developed communication skills, and clinical excellence. Allison enjoys helping dentists and teams excel in all of these areas. Each episode she brings you an inspiring conversation with another leading expert. If you desire to learn and grow and in the process take your practice to the next level, then this is the show for you. Now, here's your host, Dr. Allison Watts.

Allison: Welcome to *Practicing with the Masters* podcast. I'm your host, Allison Watts, and I'm dedicated to bringing you masters in the field of dentistry, leadership, and practice management to help you have a more fulfilling and successful practice and life.

Okay, the recording is started so I'll go ahead and officially introduce our speakers tonight. We're going to have two tonight, so we have double the—I want to use the Doublemint commercial, “double the pleasure, double the fun.” Is that what it is?

Anyway, we've got Mark Battiato and Deb Castillo, they're the co-founders of Growth into Greatness. Mark started his own national marketing firm upon graduating from Arizona State University in 1979. He then positioned himself with the 3M Company for five years in the national advertising division where he received several awards for his sales and marketing performance. Later recruited by the Center for Professional Development, he analyzed over 300 dental practices in the northwest and helped position dentists for a private care practice model.

As CEO, Mark's primary responsibility is to provide one-on-one coaching and practice development in areas of profitability, financial management, and staff development. He also

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conducts small retreats for students engaged in the developmental process and through his commitment to his work, Mark is passionate about helping others to achieve their own greatness and aspire to levels of growth and excellence they have never thought possible.

Then, Deb, she comes from a different background. She's actually got varied backgrounds in dentistry and outside of dentistry. She was a graduate of California Polytechnic University. Her career began in management with a leading retail department store. Later, she oversaw a private care dental practice in San Diego and upon the introduction of computers into dental practices, she joined a dental software company where she eventually became national director of training.

She later joined a leading dental practice management company as a key member of the faculty. As co-founder of GIG, Growth into Greatness, Deb has been working with the team since 2000 as a Generative Coach. Deb understands the components that allow a team to succeed and possesses exceptional communication and motivational skills enabling her to infuse her clients with a positive attitude and empower them to embrace change. I know, Deb, you also have some history in banking, right?

Deb: I do. I do, I worked with a national lender. So that has brought a different aspect to how I see practices as well because we worked primarily with...

Allison: Is that the same company that I knew you from?

Deb: That's how we met, Allison.

Allison: Oh, yes. So I've known Deb for like almost 20 years, in and out over the years, because she came and helped me start my

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practice in the very beginning. So it's kind of funny we're reconnecting now. And Mark is a new friend but I'm happy to have you both here. I know, Mark, you wanted to start us off, but thank you both for being here.

Deb: Well, thank you, Allison. It's quite a privilege for us to be able to join you and your group.

Mark: Wow, how old are you, Deb, then?

[Laughter]

Deb: Thank you, Mark, in fact, I have a big day coming up this week, so we're not going to talk about it.

Mark: That's right. You have a birthday coming up. Well thanks for having us, Allison. Actually when you were reading my bio it kind of triggered something I wasn't even thinking about but when you read the first thing, I started my own national marketing company. So if people want the truth, the truth is that that business failed. That was a really unbelievable learning experience.

I read something this morning that said, "It's always better to fail at doing something than to excel at doing nothing." After my business failed, I felt like doing nothing actually. One of the reasons why my business failed was I wasn't looking at the numbers because that's one of the things we're going to be talking about tonight. My role tonight really is just to kind of set a little foundation and share a couple thoughts, insights, and then I'm going to turn it over to Deb to kind of get into the models, the financial models, we talk about.

It's just one piece of our work but I think it's an important piece because I was reading, I mentioned this to Allison the other day on the call, I was reading a little bit about Joseph Campbell who wrote the hero's journey. I remember a line in his book, he said,

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“All of life is a meditation. Most of it unintentional. A lot of people spend most of life meditating on where their money is coming from and where it is going.”

I'm 53 and I'm still meditating. I have two kids in high school and college and you know, the practices we work with, that we're blessed to work with, there's not one of them that is beyond the money issue to some degree or not. I think you have to be willing to look at that and money is very emotional. I was talking to my wife this morning about this. An interesting thing with the money part of it is, we recently took a Dave Ramsey course here in Medford, Oregon, where I live now.

You know, now my wife's looking at the books because we thought about moving back to Arizona where I worked for my father-in-law there and a lot of this for the business school, looking at the money part, that was really my father-in-law's. A lot of the stuff we're going to be talking about is kind of what Deb and I really started with looking at, was until you get control of money, people have heard this, it will control your life.

My father-in-law always said, “Oxygen to your life is like money to your practice.” Without the money, you cannot continue to run it. You can, like I did with my business and it failed. But it's not a very fun place to be. This is kind of off the subject, but when I was reading something yesterday, I got an opportunity to go to breakfast with my daughter early this morning and there's this one line that I read yesterday that said, and I don't want to get all spiritual or anything, but it kind of hit me because I had never heard this before. It said, “Refusal is the path to heaven.” I never heard that before, so I was thinking about that.

So this morning, my daughter is 16, I was in the car, and I said, Sofia, means wisdom, so I said, “Hey Sofia, let me throw this line out. What do you think this line means? Because I've never

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heard it before. What do you think about it?" I said, "Refusal is the path to heaven." Of course, I was thinking about other things like refusing not to date because she's 16. Refusing not to go out with a boy.

But she said, "Well you know, not doing things that you are not good for you." I thought, yeah, I said, "Yeah, not lying, cheating, walk with integrity, not to gossip about people, and refusal is the path to heaven." Then I thought, wow, that's—so when I was thinking about that, I was thinking about some questions, because my wife said you should really ask questions. I was thinking of some questions with that as it ties into your practice, your life, money, some of the questions I thought of was or statements, to let money run my life, or my mediation, which I just said.

I refuse not to be blind sighted another year by not understanding where the money is going. I refuse not to let money dictate the treatment plan I recommend or not. How about this one? I refuse to pretend money doesn't matter. That's a good one. That's a good one for me because I used to tell people, "You know what? Money doesn't really matter." I was thinking, oh, I'm so above it. I remember a line Zig Ziglar said one time, I know he's passed away, some of you might remember him, a motivational speaker. I'll never forget this. He said, "If you lie about money, you lie about other things as well."

I was like, wow. I mean, that hit me because it's like, why pretend? And I think a lot of times money is very emotional. It's hard to talk about it because we tie our worth to it many times. I remember my mentor one time said to me, "Mark, money only makes you more what you are. Don't be afraid of it. If you set your goal to make a million dollars, then money just makes it so if you're greedy, you'll just be more greedy. If you're giving, it will just make you more giving. So try to make as much you

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can, earn as much as you can, try to help as many people as you can, try to give as much away as you can.”

I remember Bud Ham on one of your calls, I remember he said, “If you want have an open receiving channel, give away as much as you can.” Then I remember, I always remember some of the other speakers you’ve had, Mark LeBlanc, I remember one of the lines he said on your call, Allison, back in November, he said, “Our dream is to deliver our work. Not to run a business.” I wrote that one down because it was like, wow, that is so true. We don’t run to run the business many times. We don’t want to look at the numbers. I still don’t even want to look at the numbers.

I mean, that’s why Deb is on this call because she’s—and she’ll tell you—she’s not like a big numbers person but if you don’t look at the numbers, then you’re always asking the question, “Money, may I?” Or, “How’s this going to come together? Can I do this?” Or, “What if that?” Or, “Can I pay my people more? Am I going to be able to survive another year? Is the tax bill going to get me? You know, April 15th? Do I owe more taxes now because I didn’t put in some systems or structures to prepare for that?” We all deal with this. We’re all business owners.

So when I was thinking about some thoughts, one of the things I thought of the other—I like Mark Twain’s quote, he said, “Inherently each one of us have the substance within us to achieve whatever our goals and our dreams define.” He said, “What is missing from each of us is the training, education, knowledge, and insight to utilize what we already know.” I love that quote because I don’t think anything Deb and I are going to say is going to be anything revelational today or anything new. I think the teacher, a great teacher, just reinforces things you already know and things we maybe need to get back to. Some

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of the basics and some of the principles that are universal truths.

Like a lot of you probably on this call have read *Richest Man in Babylon* and *Eight Habits of Economic Freedom* and that book. One of the principles, three principles in that book, the first three are learn to create value, save ten percent, and try to eliminate your expenses. Which Deb is going to talk, how do you do that? How do you decrease your overhead? How do you get control of the money in the practice? How do you get your team understanding these things so they can help you with that? This narrow focus of money tonight.

Here's some questions I'm just going to throw out. If you have a pen, you want to write down one of these that hits you. Here's some questions to maybe think about. The first question is, do you have enough money? Most people say, just a little bit more and I'll be happy. You know, "Show me the money" in *Jerry Maguire*. The second question, are you spending enough time with your family and friends? If anything, I think one of these hits you just right at the out seek and maybe think about it. Do you come home from your practice full of life?

Question four, do you have time to participate in the things you believe are worthwhile? Next question, are you satisfied with the contribution you've made to the world? Next question, are you at peace with money? Does your practice reflect your values? The last three: Do you have enough savings to see you through six months of normal living expenses? I'll leave that one for Deb in a little bit to talk about. Is your life whole?

The last question, do all the pieces, your practice, your relationships, your expenditures, your recreational activities, your values fit together? I mean, that's some pretty deep questions. Those are questions that we probably all are still

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working on, struggling with or trying to improve as we all work together on these. I was reading—remember, Allison, tell me when eight minutes comes up.

Allison: Oh, it's been eight minutes.

[Laughter]

Mark: Okay, but I think one of the—and I know everybody has heard this before—but I was reading a little article by Ken Runkle who calls himself America's Profitability Expert and someone you might have heard about before, but it's kind of interesting. He calls himself that because that's what Deb and I are going to talk about. Or Deb is going to be talking a little bit more tonight on profitability model, not a production model.

How do you get out of the production model and what we call a profitability amount, that's what my father-in-law talked about for 35 years of his life and still does. How do you do more with less? How do you see less patients and do more? How do you get control of overhead? Part of that is getting control of money, the money systems in the practice.

One of the things you said, and one of the misconceptions and we all know this, because his article was called "How do you achieve the wealth you desire?" and the great misconception, the first one was, "If I'm a great dentist, then wealth and success will follow." I thought that was interesting because I always thought that too.

You know, I started my business that failed, I thought, "Well if I work hard, do the right things, then success and wealth will follow" and tried to do the right things the best I could. I tried to do the things that I thought were good. I worked hard. I worked three jobs. I worked late in the evenings. But that didn't bring the wealth and success. I was like, "Wow, just because you

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think that, just because you're a dentist or a great person, doesn't mean that great wealth and success will follow."

He talks about that's a great misconception. He said you must become a great business owner, leader and manager. Continually learning, implementing proven business systems, and wealth strategies. He said this is key, it says, they don't teach you this in dental school, we know this. The most successful doctors I know aggressively pursue continual learning in their quest to become great dental business owners. I love that last word, the quest, because many know that the word quest comes from the word question. And we continually ask questions.

Am I doing the best I can? Can I improve where I am in my life? Can I become better at controlling my money, expenditures? Can I help others around me to understand these principles? I love that quest quotient because Eugene Wilson once said "Only the curious will learn and only the resolute will overcome the obstacles to learning. The quest quotient has always excited me more than an intellectual quotient or the intelligence quotient." I love that quote because a lot of dentists I talk to, they're not really understanding a lot of these things that maybe Deb is going to bring in tonight on the percentage budgeting and overhead percentages and money.

It's like, hey, we're all in the same boat. We're all on the same path. 99 percent of the dentists I see, I'm blessed to do audits for and assessments, they didn't have a business plan in writing. It's like me, they didn't have the numbers all laid out perfectly. They didn't understand all the money flow, where it was going and coming. I think that when we understand, like my wife said this morning, this is not for the outliers, the people who are intellectually gifted in all these areas. Most dentists are not, we're not.

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We're maybe gifted in one area. Maybe we're gifted at being the technical side or maybe communicative. So to have other people come in, share ideas, learn, is really the key. I like this, and I like, I'll share two other things, but I like, if anybody reads Dilbert, I saw this this morning and Dilbert is walking with his little friend. I don't know what his little friend is but he's on the sidewalk and Dilbert says, "Studies show it takes 10,000 hours of practice to be great at anything." His little friend says to Dilbert, "I would think a willingness to practice that same thing for 10,000 hours is a mental disorder." Dilbert says, "Wow, that makes me feel a lot better about my mediocrity." His friend goes, "Well, you're welcome."

[Laughter]

I like that because I think a lot of times we're self-conscious or maybe we feel bad because we don't know these things or maybe we ask for help. It's like, well, I should already know these things. It's like, no. We're not designed to know all these things and people have certain gifts and certain things that they do well with. I think the part about the money that even like doctors that we work with, they don't really care how old we are. I always kid around with Deb, you know, what's your age?

They don't care how old Deb and I are. They don't care what school we went to. They don't really care how many employers or people we have on our team or what we do. They don't care how much we earn. They just care about a process. They care about whether the process can get in their head, challenge their thinking a little bit, amplify their strengths, possibly break through their blocks. Maybe unleash some potential, some power, some influence. That's what they care about. They're looking for a process.

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I'm not saying that our process is the only process. This is the only one that Deb and I know. This is the one that we've looked at for 20+ years and try to get better at and still trying to refine it and work on it. But that's what we're going to be looking at tonight maybe, is a process, a tool.

At the end of the call, I know Deb is going to be throwing out some systems, some percentages. If anybody on the call wants the tool, we do have a disk that at the end of the call if you email Allison and you want this disk, we'll send it to you. That you can take your numbers and kind of look at what Deb is talking about and look at these things because I'll just share this last thing from my father-in-law. He wrote this article in *Dental Economics* a few years ago. He said, you can't run your practice on an accounting statement.

I know people have heard this before but in that article, there's a couple key points. That running your practice on an accounting statement he said assures you're disconnected from reality. Because the accounting statement provides a history of what happened last month but it doesn't give you real-time, like Deb's going to talk about. Accounting statements don't give you the truth about your practice. So it's difficult to make good decisions with information you can't understand.

Then he says you've got to run your practice on percentage budgeting system, it's the heart of your cash flow system. You have to manage your practice on your real collections, the cash that you have at hand to pay current payables and taxes and fund your lifestyle and savings plan, with a cash flow system. That's what Deb's going to talk about, you know precisely what your costs are. You also know exactly where your revenues are coming from and you know your costs to create revenue streams. Alone, the P&L is not an accurate measurement of this. It's the accurate state of your practice health.

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He says you'll never create wealth on depreciation or write-offs. You need a simple and exact cash flow system. Without a percentage budgeting system, you don't know where your fees should be for the individual services you provide or how to price total case fees or charges. You can't master money unless you have a percentage budget and cash flow system.

Without a cash flow system, that includes a fee-setting system, a compensation system, a financial arrangement system, a payables system, a receivables system, you spend your life chasing your expenses. You become a production machine trying to keep up with your expenses.

Without a cash flow system, you never have control of money so no matter how much you produce, you're always a slave to the money. You never feel free of money. This is the single most important reason why dentists live in a survival mode in search of safety and security, maybe sometimes their entire careers.

He ends this by saying if you don't have a cash flow system, you can't be in control of money. If you aren't in control of money, you will live in fear, insecurity and doubt. If you live in fear, you will never reach your potential as a dentist and your life and practice will be centered on you and not the well-being of your patients.

Those who live in fear never move up to provide higher levels of dental care in spite of spending thousands, even hundreds of thousands of dollars, on advanced technical training. The vast majority of dentists never actually do what they know how to do because they're trapped in survival mode. The surest way to get trapped in a commodity, single-tooth practice is not to have control of money in your life.

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That's just one path. That's one perspective, but I think, and I know Deb and I, it's been true because most of the dentists we work with, they're very integrity-based people. They want to do the right thing. They want to take care of their patients. They want to provide the right type of treatment.

And money, all it does as Campbell said, the big problem in a person's life, Campbell says, is models to suggest possibilities. This model, all money is is concealed energy to release life's possibilities. That's what Campbell says. So money is just energy and if you release it in the right ways, the right vehicles, with the right systems, with the right monitors, they can release possibilities that are bigger than just looking at the money all the time.

Because let's face it, for me, looking at money all the time or looking at the numbers is not that exciting after a while. But if you can understand those and go a little deeper with them and you get over the fear of looking at them and maybe understanding how they all work, and that's hopefully what Deb is going to share a little bit on. Then you can go deeper into other areas that are just more vital in life. With that, you know, that's why as far as—I think with Deb—and have her take over.

Like Campbell says, all a teacher or a coach can do is suggest ideas. Campbell says a teacher or a coach is like a lighthouse. They say, "There's rocks over there, stay clear of those rocks." Then they'll say, "But there's a channel over here. There's a path. There's a light. There's an opening over here. Let's look at this direction." This profitability model is a model to suggest possibilities.

With that, I'll kind of release it, turn it over to Deb because she's definitely more on the intellectual wisdom side than me and just maybe talk about this a little bit and maybe go in a little bit

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deeper and share some ideas that we work with some of our doctors on. So, there you go, Deb.

Deb: Well that was a powerful eight minutes. That's all I can say.

[Laughter]

Yeah, well you're right, Mark, I am going to talk a little bit more about the nuts and bolts and all that sort of stuff. I'm going to talk about overhead. I'm going to talk about budgets and it's not, you know, as you said, it's not nearly as exciting as talking about marketing and internet marketing and some of that social media stuff and implants. But it's kind of plain. I always say it's kind of plain and tedious and it's not very sexy.

But it is a good tool. It is a tool that is a necessary tool and it's a necessary tool for the doctors that I've worked with and the owners that I've worked with and peace of mind is a real valuable thing. And team members like working for somebody that pays attention to the business, whether they're always happy with the fact that the decisions are going to be business-oriented, they do want to work for somebody where they feel there's a long-term picture there.

Quite honestly, I think the reason that we put it as high as we do on the agenda of working with our doctors is that we believe that you have to have a sustainable business model and managing your money well is the key predicator to sustainability. I think that's all the dentist is about and dentistry is about is, how do we build a sustainable, healthy patient? How do we do dentistry that's got health attached to it? So it has to be predictable and it has to be long term. It has to have longevity. That's what the business side does.

It also does something, when you look at what's happening with dentistry today, we feel like it's somewhat unpredictable. We

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don't know what dentistry is going to be like exactly five years from now, ten years from now, twenty years from now. We figure it's going to be kind of a combination of different types of models in the dental structure. But I believe that one of the things that's going to give the owner doctor a choice as to which model he prefers or she prefers to work with is going to be how sound their business model is.

If their business model is pretty sound, then I think they'll still have choices. They can decide they want to be a sole proprietor or what their commitment is going to be like with PPO or non PPO or if it's going to be a group practice. Or if it's going to be a multi-discipline practice. Or how many days you're going to work. All of that and the size of the team you choose.

All of that is going to be a choice if my business is solid. If my business is not solid, then it may be something that I do as a reaction to an outcome that I'm not comfortable with. So Mark asked me, and you know Mark is, as you can tell, he's our philosopher. He said to me, he said, "Deb, I want you to answer the questions, why? Why us? Why now?" I said, "Why bother?" And he said, "Oh yeah, that's a good one too."

[Laughter]

They're all good questions. I said—I think the "why bother" was something that Mark was talking about. The reason I embraced it to such a level when I was introduced to it, and I was introduced to it a couple of different ways. I was introduced to it, believe it or not, this business model was first introduced to me in 1983 when I was working with the original kinds of dental softwares that were going into dental practices. Uh oh, I think I just gave away my age again.

[Laughter]

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Anyway, what we were doing was developing master dat, which is probably the basic structure for all the systems that you're using out there with the exception of Curve, which is on a different master dat. We were trying to tell the dentists that we wanted to put in a business model, not only measuring the practice income but also measuring the practice outgo. And putting in a cash model for the doctors to use as payables. It was interesting because at that time, the doctors weren't interested in it. They didn't want to pay for it. That's why you don't have it. That's why you have to use an auxiliary software in order to get that information.

But I was, as Mark said, I was introduced to it again when we were working at the business school for dentists with Dr. Schuster and then introduced to it even at a higher level when I was working with the lender. My job was twofold, I had some nice calls that I got to go on, like going out to see Allison as she was just starting her practice and making sure that she had some key systems in place and some key models in place. Then I was called when our company, we'd get a call from a doctor saying that they couldn't pay their practice mortgage and that they were going to go bankrupt.

My job was to go out to the practice and meet with the team and the doctor and say, "Hey, could we get this going in the right direction?" The bank paid all my expenses to come out to the practice but there wasn't much altruism in that task from the bank. They wanted to make sure that the doctor could find a way to get back on track and pay the bill because of course they're all about making money on lending money and not having to give it up.

So I would walk in and try to see where are the strengths right now? How can we put this practice back together? And all the while of course really kind of learning how did it get into this

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position? And how it got in that position was because it had no profit.

You know when you ask the question what does profit mean, I love my response when anybody asks me questions like that, I usually respond, "Well, it depends." And it does depend. It means different things to different people. But ultimately in my mind it means really capitalizing on the potential of the business. If you're profitable, you've capitalized on the potential. If you have maximized profit, you've maximized the potential of all the energy and the time and the money that you've put into the practice.

It does another thing. It really gives the owner of the practice a feeling like everything's got a good tilt to it. The future looks bright. So I think it's a critical piece of the practice. As Mark was saying, the only way to find out if we're going in the right direction is to measure. To do the numbers.

I have found that owner doctors that take an active role in monitoring the numbers are often the ones that are the most profitable and often the ones that feel like they're going in the right direction and that they're the ones that at the end feel like they can retire with a lifestyle that they're comfortable with. They're proud of that and they should be proud of it.

So we're going to talk about overhead and we're going to talk about practice budgets. But I'm going to tell you I don't believe that practices are profitable just because they have budgets and just because they manage overhead. There are lots of other key systems that have to be put in place and they have to be monitored if we're going to create that sustainable business model. One that the doctors enjoy and that the team enjoys and you can answer those questions that Mark asked at the very

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beginning of the call there in a positive way. So that's what it is about.

If a doctor or an owner is struggling to pay the costs of the practice, it's almost impossible to pay attention to those other systems that need to be in place. That that feeling of not being successful, of not having profits in the practice, is a terrible distraction. That fear and anxiety and scarcity, it dominates so you don't look in the right direction until you pull yourself out of it.

It's funny, I had a really interesting conversation with a specialty practice that we're working with. It was just last week. It's a practice that the owner just implemented his transition plan and now the associate in the practice has become a partner. When that happened, and often this is the time that you might be calling a consultant in. We were fortunate they called us in to kind of help with that first year of that transition. So we've been working with the doctors for about twelve months. They've got a great team, terrific office manager.

We were looking at the results of their year and noticed that they had reduced their overhead by 20 percent. Just so you know, that's not average, that's not a standard rate of reduction as they would say. This was really pretty special. It was interesting to hear the reaction from the two partners. One, the original owner, and the other was the former associate and now new partner. Of course, both were really pleased with the results that they had gotten. I was thrilled myself.

But it was interesting with the senior doctor because he was saying, "Gosh, how much have I been leaving on the table for the last 20 years?" He did also add the caveat that he had a really good life and he was happy with his practice. But that would be an interesting thing after 20 years to look back and

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see, “Gosh, I wonder how much potential was just hanging around there because I hadn’t managed it well.”

So understanding profit is knowing how to work with the numbers and targets. When you do that, then you get the connection between your actions and outcomes. You know, dentistry has always been about, can we figure out what got to that particular outcome?

So it makes sense that we are open to managing those numbers and creating that awareness and really looking at what’s happened to the practice. It’s really interesting too because I think sometimes we get dramatic results just because we are doing that. We’re creating awareness. We’re looking at numbers. We’re managing them.

Some of you, I’m sure, have heard of the Hawthorne Electric Company, you’ve heard of the Hawthorne effect. It was an electric company in the Midwest where a consulting company went in and they decided to tell the workers that they were going to be observing their work and they only changed one thing. They raised the lighting in the electric company.

As a result of that, performance went up. And it was only really a result of the employees, the workers, feeling like somebody was going to be watching what they were doing and they were going to be monitoring it. Therefore, it’s called the Hawthorne effect, sometimes it’s called the observer effect. It’s just the idea that if we measure, if we pay attention to things, things change.

Peter Drucker said, “What gets measured gets managed and what gets managed gets improved.” I think really just that observer effect is often what I see happens in a practice. I see changes going in the right direction. It’s minor changes that they’ve made, it’s just more that we’re paying attention to it. As

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Mark was saying, we really only look at this particular part of the practice that the money side of the practice, we only look at it from the perspective of a cash flow.

A cash flow is simply money coming in from patient fees, only from patient fees, and money going out to cover the costs of delivering care. Obviously, with the intention of retaining a profitable remainder there. So we don't use the P&L as Mark said, and we don't use a balance sheet other than as a reference. The P&L and the balance sheet are valuable. I wouldn't get rid of them. But they're really designed for the purpose of reporting profit to the state or the federal government in a way that mitigates the tax consequences for being profitable.

They were never really designed to manage the profit. One, because of the real-time aspect that Mark was referring to but secondly because some of the things that need to be measured don't appear there. If we're looking at your P&L, if we're, as Mark said, obviously, you can't—I don't know how you said that—depreciation, can't do that. And oftentimes we'll see a P&L that has an amortization schedule. That means that we're looking at monies that are going to be committed to be spent over a twelve-year period.

So your P&L is going to report monies that you're committed to spending but you haven't actually removed from your operating account unless that amortization schedule also has an escrow schedule that's attached to it. Usually it doesn't. So it doesn't really paint a picture of what's happening in the practice.

The key one I think too is most of the practices I work with are in some position of retiring debt. So if you're retiring debt from the practice, your P&L is only going to show the amount you paid for interest. And the amount that goes toward the principle

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is going to be over on the balance sheet, they call it a rate of change. Once you've paid down the interest on a loan, you might still be paying the principle on the loan but that loan payment won't show up at all on your P&L because you can't deduct that payment anymore from your taxes once you move out of interest.

So now you'll pay taxes on the dollars earned but you won't get any relief tax-wise when you use those dollars to pay down debt because paying down that debt is really moving you up on the balance sheet as far as increasing your equity position or the equity position of the practice.

So anyway, all that kind of sounds convoluted, I know, if you're not a numbers person. The point is you need a tool to manage the practice. The tool you need is the cash flow money, cash flow tool. What's coming in? What's going out? And how does that move me toward the direction of my goals?

Mark and I do have overhead targets. This means the target that the percentage of the practice income. That's it. Just the income. Paid out every month to pay for the costs of a healthy practice. Percentage-based expenses are organized—we organize them into seven categories. What you'll find when you see these categories is they don't mimic the P&L because as we said, the P&L, the profit and loss, is really not designed to manage the practice. Some categories will reflect expenses that are fixed and some will be variable.

A fixed expense is one that does not vary. I think you know that. It's one that we've committed to be honored, whether or not we're working in the practice. So my rent or my mortgage payment on my building, my equipment debt payment, is a fixed expense or the debt payment if I've done a remodel, that's a fixed expense.

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At some degree, actually I put staff as a fixed expense because including the benefits that we offer because we've negotiated this compensation package with each team member. If you make changes in the package, at the very least, you're going to risk a morale issue. So if we are to lower the cost and we do so really by increasing the effectiveness of the team member and possibly looking at how we're using the hours that they've got and sometimes by looking at that, we find that we have some dual things that are going on. By that, we can kind of reduce the cost of staff. But you can't tell somebody you're going to lower their salary and you can't take their benefits away very easily. So it's a pretty fixed cost.

I think marketing is a fixed cost. Marketing is definitely fixed for the length of the contract that we have for the marketing event that we're going to be doing. Marketing is something I've really been observing a great deal more since 2009 and the little hiccup that we went through.

I think this is one you really have to have good internal systems to measure a couple of things, not just measuring how many new patients came in and not just measuring what this did to the production that came into the practice. You also want to measure, is this campaign taking my practice in the direction of my vision? That's a critical piece because if it isn't then the longevity of the outcome of that is going to be relative I think.

So fixed costs remain present in the practice whether or not you're working. Because this is true, whatever we're entering into as fixed cost, we really want to think it out before we commit to it. So if you've got a fixed cost that you're thinking of committing to, say you're going to be doing something. Add that, that's going to have a cost to it. It's going to have debt attached to it over a long term or it's going to have a ... attached to it over a long term, ideally, I want you to add that

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expense to your practice expenses. It would be great if you did that.

Then save it and see if the practice can actually support the increase. An example of this if you're considering a move. You know that relocation is going to add debt service because you're going to have tenant improvements or it's going to be an increased rent or maybe I'm buying a building, there's going to be a mortgage on it.

I would have you, especially if you got the opportunity to do something like that, for a twelve-month period, add that increased cost to your expenses that are going out every month and put it in a savings account. You can't touch it. You will know then at the current level of cash flow that I've got coming into my practice, I could cover that cost. Even if nothing changes, I don't have an increase in revenue based on move. I still can handle it.

Of course you get that wonderful thing, you've got this savings account built up now. When you take the move, you've got a little money to take the move with. And you've also got a lot of confidence. In fact, one of the things that we encourage our doctors to get involved in is something called solvency. That was a term that we got from a mentor of ours. But really it means that I've got a rainy day account within my practice.

I've got reserves in my practice and I can use those reserves or save those reserves. We encourage the practice to be saving a percent of the income that comes in every month and that goes into this reserve account. It's not to be used for anything other than something that's unexpected. You can call it a reserve account, a solvency account, you can call it a peace of mind account.

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But you set a percentage up, let's say it's going to be 1, 2, 3, ideally 7 percent of the money that comes in every month gets set aside for this savings. You know, some costs, we talked about fixed costs there. Other costs that we have are kind of variable costs. You've got lab, which is a variable cost. Supplies is a variable cost. Implants, if you're doing those, those are variable. A staff bonus would be a variable cost. A variable cost is that one will change based on how much dentistry we're doing.

Of course, a variable cost then oftentimes we want that cost to go up because if that cost goes up, then it means we're doing more of the things that we have a vision about. When we set our targets and budgets and the percent of income that we're going to be using for each cost category, I want you to remember that it will vary based on your vision. If you have a vision to be a reconstructive practice or if you have a vision to be a family practice, seeing lots of children, those two practices would have different budget targets for different categories.

So your vision and we're really not going to talk about vision tonight but your vision is certainly something that enters into creating your practice budget. When you're creating a practice budget, it has to be just like any other goal that you're putting in place. It has to meet that criteria, that acronym for smart. It has to be specific. It has to be measurable. It has to be assignable, realistic. Has to be time-bound.

I really like the acronym, instead of smart, I like the acronym smarter because it has to be also evaluated and reviewed. That's what happens with the budget. You have to evaluate it and review it. So after you set your first targets, you're going to go back and you're going to look at it over the first three months. Then you're going to average that first three months to the average of what happens over a year. During that period of

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time, you're kind of going to be tweaking it. So it is a process that takes time.

You're going to start the budget with knowing what twelve months of expenses are. So you're going to look at your P&L and you're going to try to untangle that. In fact, as Mark said, we're going to offer you a tool to use at the end of the call if we get your information he'll send you this disk that has an Excel program on it that will convert your P&L into percentage of overhead targets.

Out to the side of each of those targets for those seven categories of staff, and occupancy, or facility, and your capital reinvestment we call it, it has a slightly different name for us, but it's really capital investment which would be equipment and that sort of thing. Then looking at supplies and lab expenses and marketing expenses and administrative expenses.

You're going to have targets out to the side of those. This little diskette will allow you to take your numbers off your P&L and convert it into that. So those twelve months gives you a basis for what your budget is going to be like. Then, with that, we're going to emphasize also knowing what your revenue targets are.

Sometimes you'll hear the starting point is production targets. I never want my starting point to be production targets. My starting point has to be income targets, revenue targets. It was funny, when I worked for the bank I went up in front of the board of directors. Allison has heard this story but I was telling them, they wanted to know what numbers do we manage when we're looking a dental practice.

I started out with production and net collection and one of the men in the room said, "So what's production? Is that income?" I said, "No, no, no. That's not income because production, why

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that's, production is what we charge the patient or what we charge for the procedure that we do. Then we want to adjust it because of a contract that we have. Then, oh and we might adjust it again because of the payment arrangement that the patient has. So we're giving them a little incentive. Then we're going to post it. And we might expect to collect that. But then we might adjust it again because either bad debt or we underestimated what the third party was going to be."

He said, "So what is production then?" I said real production we call net production. Net production is the number that we're kind of looking for except that we might have to adjust that as well. So he said, "Well is it just kind of like projected sales?" I said, "Yeah, you know, it might be. Because revenue is where everything comes from and revenue is what matters." So you don't start with production. No, you do need to know what your production has been and what that has generated as far as revenue. And use that adjustment to kind of know what my revenues are going to be.

So I need to know that and I need to know what my debt is going to be. Am I going to retire debt in the next twelve months? Am I going to increase debt in the next twelve months? And is there going to be a capital investment? I'm going to invest in software or computers or am I going to increase my staff? And can I raise my fees?

It was interesting when Mark was talking about using this tool to know where do I need to set my fees and some of my practices, they don't have a lot of flexibility there to set their fees. But certainly the budget will give us a tool and knowing how much the expenses of the practice are will tell us whether we can afford to have the fees we have.

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Then you do something called zero sum. Zero sum means I go through every expense and I look at it and I say, "Is this justified? Is this an expense that I need to have?" That's called zero sum. Is it justified? Is it reasonable? Then you know, you have, I'm sure most of the doctors on the call have something that fell to the axe of zero sum and it was your phonebook ad. Because you just looked at and you said, "Hey, is that really justified and reasonable?"

And yet I've got a practice in Las Vegas that the phonebook ad is very justified, very reasonable. He likes it to be removable. His older patients are not going to the internet. They're not going to social media. So for him, that's a very justified expense. So zero sum. And remember, zero sum, is this justified? Is this reasonable? Is it taking me toward my vision? Is it allowing me to do the dentistry that I want to do, the way I want to do it?

Of course, you're looking at how many days you're willing to commit to. Then you get that together using that tool, getting to what my costs were, what I expect my costs to be. Then I'm going to start putting that basic budget in place. Get your team involved because they definitely can. There are certain categories such as supplies. With supplies, we set a dollar target and it's a percent of revenue.

In my practices, it's usually between four and five percent, which is really tight. We have four or five percent of revenue that we can use to buy supplies. So every month the person that's buying the supplies knows how much he or she has to spend. She has a little Excel spreadsheet and it works like a checkbook. Every time she spends money for a supply, the money available to spend for supplies is reduced. Works perfect.

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It once again gets that awareness going. Very often, with my practices this is one of the areas where we see the first reduction is in the supply budget. You can do this with the same technique. You could do it, I've got doctors that are doing a lot of implant supplies, we definitely use it there. I've got doctors, we use it for administrative supplies.

Just a simple little, this is how much we've got. We're allowing this percent and that means out of this month, this is how much we collected, this how much we have available, this how much we spent, this is how much is left. And boy, that Hawthorne effect really steps up here because that awareness reduces that percent. Imagine if you're reducing your overhead by one or two percent just in this one category. It's thousands of dollars by the end of the year.

So multi-doctor practices, I really especially like to see this happen if we have multi-doctors because we really want to have a high awareness for how we're spending supplies and what kind of supplies we're ordering and how much we can make sure that we're doing the same things. If your practice has a retail aspect to it. If you're selling power toothbrushes or if you're participating in Caries Free or something like that, then we want to have a way of not only measuring how much we're spending for that category but we want to know at the end of the year we want to know, how much did we spend for that and how much did we collect?

Are those by fees from the patient paying for those supplies? We want to know that every year so that we know, is it justified for us to have this retail aspect to our practice? Does it make sense? Not only from a philosophy viewpoint does it make sense from the viewpoint of is it sustainable? Is it something that we can do and continue to do?

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So Mark will be coming back on the line here. He's going to tell you how you can get that little diskette and on that you're going to see what we have set for targets for percentages, for costs, and they're really pretty simple. We're pretty tight with our costs. We try to keep the overhead percentages for staff somewhere, depending on the practice and of course it really does vary a little bit with what kind of practice you have.

But usually we're looking at staff costing somewhere between 20 and 24 percent, could be a little lower if it's a specialty practice. I don't like to see it much higher than 25 percent. At 25 percent, you're pretty much maxed out. A general practice, somewhere around 23 percent is about where that needs to be. Occupancy, that's all your facility costs, if they exceed six percent of the revenues of the practice that can be a burden for you.

We have to have capital reinvestment. We have to be investing in our plant, in order for it to have value over time. So we would encourage you to be looking at that and saying somewhere between three to five percent that you're allowing to buy new equipment and the expense of computers, which are an investment.

As I said, dental supplies, we keep that on a pretty tight mark, between four and five percent. Marketing, it's going to vary depending on where your practice is but generally if it's an established practice, we like to keep it around one percent. Laboratory, no greater than ten percent of the income that's being—ten can be a practice that does a lot of restorative or a lot of implants. Then administrative, somewhere around six percent.

If you do that, you're going to have overheads that are in the 50s, in the mid-50s, which permits you to be able to take a

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reasonable salary, say around 24 percent just for a straight draw. You would then have about 10 percent of that income that you can be funding your pension with and making sure that that is an expense that is part of your practice and you'd have a remaining 7 percent that you could use for that solvency account so that you're saving for the unknown.

So that's the numbers game. I'm going to let Mark come back on here and talk to you a little bit about the close on that. I do encourage you, if anybody has questions about when they get that tool, where does a particular expense go, I know you're going to have my email. Don't hesitate to email me.

If there is a cell phone on there, go ahead and give me a call. You're welcome to do that as well. I will tell you that I'm in practices and when I'm in a practice, I don't respond to my email. I don't respond to the phone but I'll get back to you the following morning or the end of the day. So just tell me where to reach you. Mark, I think you're on.

Mark: I was just thinking, Allison, this will probably be the last time you ever have two people on a call.

[Laughter]

Allison: That's right.

Mark: You couldn't even ask a question. You didn't take a breath.

Allison: It was fine. I mean, there was really no, it wasn't really—what I didn't do though was I didn't put, I hope you guys can stay on a few minutes in case we do have questions. I appreciate you guys making yourself available and sharing your tool. That's awesome. That was a lot of information really fast, Deb.

[Laughter]

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Mark: I just wanted to kind of close something out and then if anybody has some questions for Deb and I, but when I was talking about this this morning or looking at all this the last day or two I kind of get a little, not anxious, but I kind of, because I was reading something out of a book called *Legacy*. The one the guy said is look, “Your legacy isn’t a balance sheet. You’re not a balance sheet for crying out loud. Your life is more than numbers.” And I totally agree with that. That’s not the measure of your worth.

And I read a proverb this morning that says, and this is kind of countercultural, that says don’t wear yourself out trying to be rich. Be wise enough to know when to quit. I had a lady dentist talk to me, she goes, “I’m taking Thursday, Friday, Saturday, Sunday, Monday off, Mark. I like that schedule and I like having those five days off.” I emailed her back, I said, “Gosh, I need to get that schedule.”

[Laughter]

“In a blink of an eye wealth disappears, for it will sprout wings and fly away like an eagle.” I was like, wow, that happens in life. No matter how well prepared you are. No matter how well you get the budgets done. No matter how you have the numbers. Something could happen and boom, your money flies away.

But I think the other part of that is you have to look at this. You have to be a good steward, like Deb talked about Peter Drucker. It’s not enough to be busy as the ants. He said the question is what are we so busy with? Part of getting control of the money is that we can be busy with the right things in life: your family, your relationships, things that are valuable in life. Not just the balance sheet but getting control over it.

I’ll just end it with this because I like what this says, “It’s not how you start the race.” And people have heard it, “It’s how you finish. It’s not what you have, it’s what you do with what you

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have.” He said, “We should not be concerned about how much money we’re starting with or currently what we have or don’t have right now in our lives, wherever we’re at, whatever position.” He said, “We should always begin with a million dollars’ worth of determination, with courage. A million dollars of commitment. A million dollars of hope. A million dollars of faith.”

I like that. I mean, I like that’s what we should—yeah, get control. But also remember it’s not all about the million, two million, three million. It’s about if we can get the mindset, “Hey, wherever we’re at, it doesn’t matter. If we have faith, hope, determination, courage, commitment to keep running the race, having the faith, that’s the key.”

It’s a lot nicer to run the race with other people. It’s a lot nicer to be with other people on your team or other people that can run the race with you and understand or can go deeper with you. That’s part of the journey. So that’s all I wanted to say on that.

Allison: So you guys want them to just email me if they want a copy of the disk and I’ll just...?

Mark: Perfect. Yeah, anybody who wants the disk, if you email me, I’ll send out the disk. Just let me know if you’re a specialist or general dentist. There are different modules to that. I’ll send you out that disk with a model and with also a visual of all the numbers so you can look at it too visually. Then you can put the disk inside your computer and look at it there as well.

Allison: Okay. So you need name and mailing address pretty much, and then whether they’re a specialist or not.

Mark: Yep, exactly.

Allison: Okay.

Mark: I’ll be glad to do that.

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Allison: Okay, awesome. Are you going to enclose, your guys' contact information will be on the disk? So that like Deb said, she's available for questions. It will be in that packet so that they can get a hold of you?

Mark: Yeah, I'll just have, if they have a question when you're implementing the numbers, you have a question on it. Like Deb said, you just contact her and when she'll get back to her email or just call you and just look at that and how you can adjust it from there.

Allison: Okay. Awesome, well thank you, you guys.

Mark: Thanks, Allison.

Allison: Thank you, Mark. Thank you, Deb. And thank you everybody for being on the call live.

Deb: It's great. We enjoyed it. Thank you a lot, Allison, for your kind invitation.

Allison: Absolutely, we'll talk to you guys soon.

Deb: Okay.

Mark: Sounds great, Allison. See you soon.

Allison: Take care.

Mark: Okay.

Allison: Bye-bye.

Mark: Bye-bye.

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