The 10th Dimension

The power of 10...

... a series of articles by Dr Ed Bonner BDS M Dent, Sloan Fellow London Business School, practice development consultant & coach

What’s your Practice Worth?

Many methods of valuing a practice have come and gone over the years. Currently there is no single method of practice valuation that is absolutely correct or that should be exclusively used without the benefit of a cross-check. In recent years the gross income or turnover was considered the most important factor and the value assessed as a fraction thereof, say 53 per cent or 50 per cent. Fine, but it has no real meaning. Business practice today places far greater emphasis on profitability, both present but more important predicted future, and in these instances a multiple of prof it, say 5 times or 4 times, is used to determine the asking price.

Set against this, the purchaser needs to select the minimum rate of return on his investment that he wishes to achieve and to compute whether this can be achieved relative to the asking price. Example: your profit last year was £75,000 and you want 4 x £75,000 = £300,000 to make it worthwhile to sell your practice. However you want a return of 50 years at some annuities on my investment of (in this case) £500,000, which is £90,000. As I cannot see a return of £75,000 I will not achieve my desired rate of return. However if I only want a return of 20 per cent (£60,000 per annum), then I can do with a little more excess.

During the course of my consultancy work, I often hear dentists say that they are professionals, not business men, and had they wanted to be in business they would have chosen something more appropriate to study. Yet, how effectively we work in our chosen professions is a function of how efficiently we employ the resources available to us. The bottom line (an accounting term) is that it is difficult to achieve our true professional potential if we do not understand the value of—and use to the full—the people, materials, equipment and money we employ. Unfortunately, of all these resources, the one we understand least is money, and in particular the capital we employ.

We choose to be in ownership because we believe that we will derive certain benefits compared to those who work for someone else. Yet few who own practices are aware at any given time what their practices are worth, nor take the time to evaluate the rate of return they are getting for their effort.

I am getting at is illustrated by the following example: let’s say you could earn £72,000 a year as an Associate. However if you feel you would be happier if you owned your own practice; so you borrow £300,000 at 6 per cent. You buy your own practice and find that your earnings drop to £60,000 a year after paying interest for the money you borrowed. What’s your rate of return? Well, in salary terms, you are—16 per cent! Stress!

Solution: buy cheaper materials or don’t buy that new handpiece or don’t give your nurse her expected salary raise or find a cheaper laboratory. However, if you were aware that the goodwill of your practice had risen by £50,000 during that year which when added to your £60,000 (a rate of return of +20 per cent) might make you feel a whole lot better and not make any of those very foolish and short-sighted choices.

When does one need to evaluate the worth of one’s (or another’s) practice?

– prior to buying or selling the whole or part of a practice
– when setting up a partnership or expense-sharing associate-ship
– as part of preparing the balance sheet segment of your annual financial statements
– for estate planning purposes
– when, pursuant to divorce proceedings, assets must be divided
– when planning for retirement

So, what’s your practice worth?

– Part of its worth is the value of fixtures, fittings and equipment, the tangible assets. The bad news is that this diminishes each year by anything from 15 per cent (say for your dental chair) to 50 per cent (computers). Part of your expenses for each year should be the amortization of these assets so that when you sell you can replace outmoded or defunct equipment when required.

– Another part of its worth could be an increase in the value of the property if you own it, or increased value of the lease.

– Most of the value of the practice is in its goodwill, an intangible but very real value. Goodwill is the intangible value of a practice which a potential purchaser would be willing to pay to enjoy the use of your list of patients. In a few cases it might also include enjoyment of exciting design or décor.

In my next article I will discuss how goodwill is evaluated.

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The Case For... and Against

CHARGING FOR FAILED APPOINTMENTS

Generally speaking, most patients are fundamentally decent people and appreciate the excellent service they receive from you. Unfortunately, every practice has some dental patients who have an attitude problem. They sincerely believe that their time is more important than their dentist’s, and this therefore gives them the right either to cancel appointments at short notice, or even not to attend at all. Perhaps this is still a residue from the days when patient dental charges within the NHS were only a fraction of the total cost; unfortunately, even a large fraction did not come to all that much, and we probably value things by what they have to pay for them.

In a very busy practice operating on short appointments, a patient not attending may bring a sigh of relief as it gives the dentist an opportunity of either dealing with emergencies, catching up on running late or tending to urgent calls or correspondence. It acts as a stress-breaker. In other circumstances however it may be the exact opposite, a stress-creator. Few things are more annoying to a dentist (especially within the private sector) than a patient with an appointment of an hour or longer who phones to say they have been detained in a business meeting or at court or anywhere which is obviously frightfully important and we should be grateful to have such important patients.

What should we do? Bite the bullet, or charge them? (like a fee, not like a rhinoceros, although that is what we might consider very appropriate...) If we charge a fee, we risk upsetting and possibly losing the patient; if we don’t, we stand to lose many things: we may lose our temper, we certainly lose money, and we ultimately risk losing our self-respect.

– Let’s consider the following scenario A: “Hello, its Mrs Mum speaking. I’m really sorry I can’t keep my appointment today, but my three-year-old is ill and I can’t leave him alone.” Charge, or no charge?
– Compare this with the following scenario B: “Hello, its Mr Busyman’s secretary speaking: Mr Busyman’s been called in to a meeting at the last minute and can’t keep his appointment today.” Charge, or no charge?
– Or scenario C: patient Mr Shifty simply does not arrive, but later says he was kept late at the doctor/in court.

Three vastly different reasons but the outcome is the same: a lost appointment.

Whatever road you choose, one thing is very important: consistency of approach. If your policy is no charge, that’s easy, do nothing every time. If your policy is charge every time, prepare your receptionist on how to deal with the patient in such a way that they are most likely to understand your position, but even if they don’t charge anyway. You could of course spend time with every new patient and explain your practice policy of charge every time before they get the opportunity of failing or cancelling late.

This however is hardly likely to make the patient want to come back. The third way is to be flexible, to charge for scenario A or C but not for scenario B. Of course only but not for B and A. Unfortunately this places the entire onus on you to decide which are legitimate reasons and which are not, and might also include enjoyment of excusing design or décor.

Are you for or against dentists charges for failed appointments or late cancellations? Email jury@dentaltribuneuk.com and let us have your views.