Outcomes, frameworks and actually fixing teeth

Neel Kothari discusses the advantages of taking the leap from associate to principal

Since the 2006 dental contract was imposed upon the profession the Department of Health no longer allowed dentists to set up practices within the NHS without its expressed say-so. A plethora of new words such as ‘commissioning’ and ‘tendering’ came into force on the basis that new practices could be set up based on local need rather than where dentists want to live. Whilst the cost/benefit of this exercise has been heavily debated, the reality of modern day dentistry now means that the traditional evolution of dental associate to principal has been messily severed.

A few associates might be able to compete with tenders from current practice owners or corporate bodies, however the vast majority will probably not. Recently the Carlyle Group (Carlyle) announced that it has signed a binding agreement to acquire Integrated Dental Holdings (IDH) and simultaneously merge it with Associated Dental Practices (ADP) in partnership with private equity firm Palamon Capital Partners (Palamon). The Carlyle group clearly sees growth opportunities within the NHS and private sector. So when this merger goes ahead, what are the chances that an individual associate or group of associates can compete with a group that has close to 450 practices treating 5.5 million patients between them?

At present, the number of dentists looking to buy a dental practice far outweighs the numbers of practices put up for sale - and the list appears to be growing. With such high demand, those dentists who decide to make the investment now have to face a tough set of choices ranging from acquiring finance (albeit at extortionate bank rates), judging the valuation of the goodwill and entering into a workforce which is probably the most heavily-regulated industry in the UK.

GDP Mohammad Ishaq of the Dental Studio and Implant Centre, Cottenham, made the transition between associate to principal a few years ago and points out that, unlike buying a house, those looking to buy a dental practice should be very aware that the valuation of the goodwill will be done down based on the skill and experience of the buyer, and not just on external market forces. According to Mr Ishaq, securing the goodwill of the practice is an important part of the business of dentistry and, unless the buyer can provide a similar level of dentistry to the seller, the goodwill of the practice may go down.

The process of buying a dental practice can in some ways be similar to buying a house. The valuation of a house is based on more than just the costs of the bricks and mortar - essentially it is based on what the highest bidder is prepared to pay. When buying a dental practice, a large part of the cost comes down to the goodwill paid to the seller in order to carry on the business concerns of the practice, such as having a patient base to work from. In many cases this goodwill is based upon the gross fees received by the seller, so it is important that any prospective buyer must consider whether or not they can keep their patients based on the type of dentistry they provide.

It is also important to look at how the goodwill valuation is broken down. A low goodwill value based on a seller who mostly provides advanced dentistry such as implants or aesthetic dentistry may actually be very expensive if the buyer cannot ‘match’ the level of dentistry provided, likewise a high goodwill value based upon relatively simple day to day dentistry may seem cheap, especially if the buyer can offer the patient base more advanced forms of treatment.

Rajesh Varma from Hitchin Dental Care has been a practice owner for the past six years and points out that in this time much has changed with regards to the legislation of how a business is run. Rajesh recommends that young dentists should seek to undergo some form of business training and look at companies such as Business Link for further help and advice. Rajesh also encourages prospective dental practices to compare the operational costs of dentistry as a whole as an associate and as a principal, because not all dentists who have made the transition have found that they are making as much money as they thought they would be.

As a dentist who has recently made the transition between associate and principal I can say that there are many clear advantages and disadvantages of both pathways. For many the allure of having a higher degree of control over their clinical practice and a higher financial reward seems greater than the business risks associated with being a practice owner. However as practice valuations continue to rollercoaster in an upwards direction, the risk/benefit ratio becomes much closer, making the transition from associate to principal riskier than perhaps it may have been in the past. The fact that banks are still lending for new practices highlights that they consider the dental sector to be a safe bet, but now are the days when any prospective buyer must consider whether or not they can keep their patients based on the type of dentistry they provide.

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