How viable is your dental practice?

The following story of how a dentist narrowly avoided disaster supports NASDAL’s Avoid a Spanner in the Works campaign

A dentist nearly placed herself in financial jeopardy by buying a dental practice which couldn’t deliver the income she needed. Fortunately, she contacted a NASDAL member and here she tells the story of how she averted disaster thanks to a viability forecast!

I was working as an associate in a mainly private practice and was delighted to be given the first refusal, by my principal, to buy it. I passed the practice’s accounts onto my accountant and financial advisor who both agreed that it was an opportunity not to be missed. But throughout, I had a nagging feeling the practice was not going to deliver the predicted annual profit of £140,000. I explained carefully to the advisors I had at that time I could only work three days a week. The bank manager was sure this wasn’t a viable proposition for me to work for. Despite considering a number of alternative ways of reducing costs and increasing income, it just couldn’t be made to work.

The NASDAL accountant explained that although figures showed that the annual practice profit was £140,000, this was only the starting point. That figure would come down substantially because the dentist wishing to acquire the practice could only work for three day weeks.

The more work a practice-owner pays an associate to carry out, the more the practice profits drop. Also, unlike the practice vendor, the buyer would have to make bank loan capital repayments of £35,000 a year out of taxed profits.

‘A detailed financial forecast of income and expenditure was prepared, using the existing practice accounts and NASDAL benchmarking statistics as an additional guide. This revealed the current annual profit of £140,000 was going to be substantially depleted to the point where it simply wasn’t a viable proposition for the prospective buyer. Despite considering a number of alternative ways of reducing costs and increasing income, it just couldn’t be made to work.’

The conclusion: anyone buying a practice should work hand in hand with a specialist dental accountant with experience of preparing dental practice financial forecasts.