

By GRAHAM MIDDLETON, BA, MBA, AFAIM***What Made Andy Successful?***

Like many young dentists, “Andy” drifted into practice ownership. After graduation, he worked for several practices, but in none of them was he a full time dentist. None of the practices in which he worked was of the first rank. When one of the practice owners offered to sell the practice that Andy worked in for a couple days a week Andy consulted an accountant who indicated that he could buy. The practice was ordinary. The outgoing dentist had had diverse interests and multiple practices. He only worked in this practice one day per week, and Andy had filled in two more days. Nonetheless he assumed he could make it into a fulltime practice—but this proved harder than Andy or the accountant had thought. The accountant didn’t know much about dentists, but he specialised in “flogging” forestry schemes to his clients on the basis that he persuaded them that they needed the upfront tax deduction each year. The accountant regularly pocketed between 6 and 10 percent commission on these schemes.

Andy didn’t know much about the business side of things, but he reasoned that he wasn’t doing well enough and kept his eye out for another practice. After a couple of years he spotted a practice for sale about 15 kilometres from his existing practice which was a bit better than the first—but both practices suffered from ordinary premises and disinterested landlords. Over several years Andy was able to build up the two practices to the equivalent of two fulltime dentists, himself and one other. He worked about half the time in each. He also introduced a part time hygienist because some of his dental friends thought that was a good idea. He had upgraded a receptionist at the larger practice to the status of practice administrator, but very quickly found that she had metamorphosed into a “Practice Manager”. Before Andy realised it, she had persuaded him to adjust staffing hours so that in due course he ended up with a whole extra salary to pay. As a result, Andy’s staff costs had blown out without any real compensating benefit.

Andy was making money, but every year his accountant seemed to come up with another tax scheme. After half a dozen years he owned hectares of pine trees, eucalypt trees, tropical forests, units in viticultural trust and some olive trees, as well as a share in a film which was a total flop. The accountant who had a string of professional clients was a bit of a character and a good salesman. He kept telling Andy he was saving lots of tax. However Andy always seemed to be short of cash. He assumed that he needed to do better in dentistry, and he was alert to other dental practices for sale. Somehow, his accountant managed to avoid giving him any advice on the business of dentistry. The truth was that the accountant made nearly all of his money out of flogging tax schemes to his clients.

City Practice for Sale

At this point, a retiring dentist who Andy knew well offered his inner city practice for sale. Andy thought it might make sense to buy that practice and dispose of his two sub-standard practices. However by this time a sixth sense warned him that his accountant had no interest in his practices other than as an excuse to peddle him more forestry investments. At this point Andy walked through Synstrat's door. Perhaps to his surprise, we told him that:

1. He didn't need to buy another practice.
2. He did need to combine the two existing practices into one premises.
3. He should forget forestry and film schemes as a basis of tax-planning.
4. We were concerned that his practice overheads were much higher per dollar of fees than the benchmarking indicated that they should be. His profit was also lower per dollar of fees.

Andy Transforms His Practice

Andy was receptive to advice. It took him eighteen months to buy land, and plan and build his current premises into which he shifted his two small practices. His patients responded well to the one central location. His new premises were much more appealing than either previous setting, and he found that he immediately got an increase in personal referrals from his existing patients. He also found it was much more enjoyable working in pleasant surroundings, and he felt that he could charge more. Importantly, he wasn't worried about what was happening at the "other place". His switch of accounting was also beneficial. He found there was a much greater emphasis on his practice benchmark performance and what he was investing in the practice. He was building up a healthy superannuation fund and his home loan had diminished.

Andy still had areas of concern. Just before arriving at Synstrat, he had been persuaded to engage a practice consultant who had twisted his arm at a dental seminar. The consultant was both good and bad for Andy: She streamlined his thinking about the structure of his patient book, but in truth he was already alerted to profitable dentistry. It was questionable whether the consultant was making any real difference. The additional fees that came in as a result of her advice were matched by additional staffing costs. Receptionists and the practice manager were keeping lots of statistics and although fees increased, so did costs. The statistics had more to do with justifying the consultant's role than actual usefulness. Andy thought about it and discussed it with us. Synstrat's advice was that in all businesses the trick is to determine 2 or 3 key indicators which are very simple to measure. Andy quietly kept the good bits and terminated the practice consultant's involvement. He recognised that he had been hasty in signing up for a one year arrangement at \$30,000 plus.

Andy's Surgery

Like all successful dentists, once he restructured his practice Andy found that his own surgery produced about 90 percent of the profit in his practice; sometimes more. Although some of his friends claimed to have had different experiences, Andy found that employing a hygienist was marginal. More importantly, he had found that between his employed dentist, the hygienist, the practice manager, the reception staff and the revolving chair-side assistants, he didn't really have time to manage what was going on and produce the optimum dental output. He had thought that the practice manager would relieve him of responsibility, but she had a habit of being in the wrong place whenever Andy had a problem. Andy found that in reality, his management difficulties increased. All the real problems came back to him. We had warned him that practice benchmarks were telling us that this practice was out of tune, but Andy had to work his way through the problem.

One day Andy arrived for an appointment at our offices and said:

"Guess what? I think you'll be pleased with me! I've dispensed with the practice manager and the hygienist and tightened up the remaining staffing. Lucy (Andy's wife) is doing the bookkeeping."

The result was that Andy has regained control of his practice. Because there are less people to supervise, he doesn't have to worry about what everybody is doing. Importantly, he knows what decisions have been made. Fees in his own surgery have increased because he can focus more on his dentistry. Profitability in both dental surgeries has increased. Staff are now busy and the practice seems happier. Andy is actually making a higher profit without the hygienist and the practice manager. He understands his practice benchmark performance, and has refined the information he actually needs. This is a widespread experience.

Andy's present position

Andy has a home in a nice suburb. His dental practice is well above average in its profitability. He has a superannuation fund worth approximately \$1 million and growing. He has good, modern premises, and he has an expectation of practising profitably for another twenty or so years. The rate of Andy's capital formation is such that he is likely to double his net wealth in 5 years. There's nothing particularly flash about Andy, but in his way we regard him as a success story.

The lessons

1. Don't buy the first practice that's offered to you. Take the opportunity to look around carefully as you're going to be in practice for a long time, and it's one decision you have to get right.

2. Multiple practices never produce as good a result as one consolidated practice.
3. Hardly any accountants have access to a proper, continuously updated database of contemporary general dental practice performance. However, many accountants are reluctant to tell dentists the truth, which is that they know very little about the business of dental practice.
4. Having good premises, whether owned or rented is critical to running a good practice and presenting the right image. However, the economics of building dental premises vary greatly depending upon size of practice and location. Properly informed professional advice is vital to the decision.
5. I've never met a dentist who purchased into a plantation of eucalypts, pine trees, tropic timber, olive groves, vineyards or a tax-driven film scheme who didn't have a better financial option readily available to them. I've rarely met a dentist who bought one of the above schemes who didn't later regret having done so.
6. Schemes involving practice consultants signing a dentist up for one or two years have the problem that the consultant has to spin out the story over the period of their contract to justify their fee. The essential parts of the advice could be given much more quickly and cheaply.
7. Identifying 2 or 3 key indicators is much more cost effective than wasting staff resources keeping loads of statistics.
8. Over the lifetime of a dental practitioner, having the right financial and business advisor at the critical time from purchase of practice onwards usually adds several million dollars of benefit in the long term. This occurs both through the avoidance of wrong financial decisions, and the correct structuring of the practice business, together with benchmarking and ongoing advice.
9. At Synstrat, we have been analysing dental practice financials for many years. We have provided accounting for a large number of dentists nationwide, and benchmarked their practice performance. Valuation of dental practices is an ongoing activity. In all of this, the most profitable dentists we have seen are concentrated heavily in the category of two dentist practices (being one owner and one employed dentist, with no hygienist and no practice manager). Where there are some larger practices which are highly profitable, the associates in those practices don't make as much as in the former category. This often appears unusual to dentists in larger truly upmarket practices, but in dentistry, big is not beautiful.
10. Australian dentistry has lots of practices like Andy's. Unfortunately there are also lots of dentists who have failed to get the basic issues right. Many have sad outcomes.

For More Information

Dentists wishing to receive more information on topics covered in this article should visit Synstrat's website at www.synstrat.com.au.

By GRAHAM MIDDLETON, BA, MBA, AFAIM

Graham Middleton is a director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed Dealer owned by its directors who work within the Synstrat Group.

Tel: (03)9843 7777

Fax: (03)9843 7799

Internet: www.synstrat.com.au

Email: dental@synstrat.com.au