



S Y N S T R A T

Why Buying Your Own Practice is Better than Working for Corporates

Corporate spin has a tendency to blind new graduates, or those about to graduate as dentists, to the truths about practice.

The Vital First Step

We will start by asking young dentists to assume as an act of faith that the title of this article is right. Therefore if you believe that you've got the right attributes to one day run your own dental practice successfully it is vital that you choose to work in a privately owned practice which is run by the dentists who own it. There are two very good reasons why this offers you potentially substantial long-term advantages:

1. You are experiencing and learning how traditionally owned dental practices function from the inside, and you will find this experience invaluable once you achieve ownership of your own dental practice. There is nothing taught in dental schools which replaces the actual non clinical aspects of working in a well-conducted, privately owned practice.
2. It is a fact that nearly all successful dentists bought their practices off a dentist they worked for or had worked for, or from a close associate. Very few good practices appear in the common listings of practices for sale. Only a small proportion of dentists bought a good practice via a broker. The best practices never make it into such lists, but are usually purchased by dentists working in them. Country dental practices, for whom buyers may be less available, may be an exception. However even in the country the best practices are transferred over time from existing owners to dentists working in them.

If you're working for a corporate or a health fund, you are putting yourself at a significant disadvantage in trying to find a good practice to buy. Those dentists who are working in private practices will have the advantage over you.

The Smart Thing to Do

Smart young dental undergraduates seek out good practices and line up jobs in them prior to graduation. Getting to work in the right practice is more important in the long term, even if it means that initially you may not be employed for a full five-day week.

By working for a dental corporate or a health fund you are putting yourself outside of the area in which most practices transfer.

Back to the Initial Proposition

The evidence that those dentists who have sold their practices to corporates have topped up the rewards from years of billing patients by selling their practice, and often the associated premises, at a profit immediately of itself identifies particular rewards. These are never going to be available to those dentists who are left to spend their dental career working for corporates or health funds as

employees from the outset, but young dentists who buy and build up a good practice will have a future asset to sell.

Tax Driven Crackdown on Contractors

Recently the subject of a mooted government crackdown on contractors has created concerns. Many of the dentists working on a contractual basis for corporates effectively only have that as their source of dental income. The corporates, having bought their practice and rented the premises from the owners, now provide the premises, the equipment and the support staff and it is the corporate who pays for and owns the advertising for patients to patronise the practice. These are important accounting tests. Dentists who work as consultants for corporates are stretching the accepted rules. It is highly likely that they will be deemed to be employees. This will certainly cut out any scope for sharing their income with a spouse. It's likely that corporates also are deeply concerned about the possibility of having to reclassify these 'contractors' as employees, as it will greatly increase their payroll tax liability.

The rules governing income alienation, i.e. typically the sharing of income between a dentist and their spouse, are far less onerous where the dentist concerned owns their own practice with its own equipment, advertises their services and employs their spouse.

Many dentists owning their own premises qualify for the capital gains tax concessions applicable to small businesses. For these dentists this offers considerable tax relief in selling their practice at retirement. Obviously before making any decisions on this basis it will be necessary to get specific advice, as not all practices fit within the rules.

To add further icing to the cake, many of these dentists own premises which are also classified as 'active business assets'. For such dentists who sell their practice and their practice premises, and who qualify under the active business asset rules, they effectively pay no capital gains tax on practices they have built up and premises they have improved over many years. In these situations the longer term financial rewards available to dentists owning their own practices are likely to prove much greater than are the rewards which can be gained as an employee contracted to a dental corporate.

More Subtle Benefits

Ask dentists who own their own practices whether in hindsight they'd have preferred continuing as employees. Overwhelmingly they will tell you that they much preferred to be their own boss. They usually refer to the extent of freedom of choice that they exerted containing capital expenditure on renovations and new equipment, as well as the hiring of staff. They valued their ability to shape their practices around their own special interests in dentistry, as well as having employer control over their employees.

The Corporate Line

The corporate line is that all you have to worry about is treating patients, and the corporate will worry about the practice administration. To paraphrase Mandy Rice-Davies:

"They would say that, wouldn't they?"

Since every practice owner originally had the choice to continue as an employee dentist or to buy a practice or dental associateship, it is apparent that a multitude of good dentists have long selected practice ownership as their preferred model in which to spend their best performing years as dentists. Corporates are offering employment in a big organisation but it is likely that the supervising dentist in each local practice is likely to change over a lot more frequently than will owners of individual practices.

Starting a Practice from Scratch

A good place would be in a busy suburb with reasonable household income and near a couple of corporate practices. In the long term we predict that the individually owned and operated dental practice is likely to offer greater continuity, leading to greater patient recognition and greater personal referrals, and will outperform corporate branches where there is a probability of lots of turnover of dentists. The corporates risk patients saying:

“We never see the same person twice at that practice.”

In this situation a dentist who is continuously present and keeps their practice looking well-presented will outperform over the long-term, and will also have a practice to sell when they are nearing retirement age.

Ownership of Premises

A host of dentists known to Synstrat own their dental premises. They no longer have hassles with sometimes difficult landlords concerning structural maintenance issues, and can't be held to ransom at lease renewal time. Ownership means that they feel encouraged to renovate and improve their premises, and this often becomes a catalyst to practice growth. Patients are more likely to refer their friends to an atmosphere which looks and feels good. Increased fee income usually means increased profitability. The increase in practice profitability leads to increases in the goodwill value of the practice. When it comes to selling the practice, these dentists are able to offer to the buyer a combination of sale of practice and premises together or, alternatively, sale of practice with a guaranteed long-term commercial lease. This enhances practice value and saleability. Furthermore if practice and premises are sold as a package, then the two assets together are sometimes worth more than the sum of the parts.

A young dentist who spends their career as an employee for a corporate or a health fund does not build up a saleable practice, nor acquire premises, nor have the opportunity of improving the premises, and therefore doesn't have the potential to make a sometimes substantial capital gain at eventual sale.

Those dentists who have sold to corporates haven't done so because of a desire to work for the companies concerned. They've sold because the corporates offered them a sufficient financial inducement to make it acceptable to sell their practices and then work for the corporates (or more usually contract to the corporates) for a period which is typically five years, but in some cases less.

These dentists had already experienced many years of practice ownership and were looking to cash in for a good sum of money prior to their eventual retirement.

While those practice sales have given the dentist concerned a substantial one-off benefit, dentists who have been employees in those practices can no longer aspire to owning them in the longer term and should consider starting practices if unable to find one for sale.

We predict that over the next few years it will become apparent that many younger dentists who have purchased their own practices will have become much better off financially than their dental graduation peer group who chose to work for corporates.

The Last Great Cottage Industry

Many aspects of traditional dental practice can be likened to the last great cottage industry. Relatively modestly sized practices, mostly conducted efficiently and serving their local communities, are a continuation of the great tradition of dentistry. If we look closely, the corporates have hardly dented this wider dental arena. Those corporates who are purchasing high profile but difficult to sell practices and paying huge amounts for goodwill have the problem that eventually the current owners of the corporates have to 'pass the parcel' in order to extricate themselves and their bankers. After that occurs, the dental profession will be able to observe whether these edifices survive long-term in a healthy state. I think that some of these structures are highly risky, and that after initial IPO and listing on the stock market it will be difficult to persuade respected firms of auditors to allow them to maintain the amount of goodwill on their balance sheet. The write down of goodwill in a listed public company is of course taken up as a loss. Such events usually lead to a slashing of the share price. It will be interesting to see whether the original owners of these companies stick around long-term. One thing that is certain is that when a publicly listed company suffers disappointing results, head office then becomes active in pushing employees at the coal face to 'do more with less'. For dental employees, this is likely to mean a reduction in staff support, the strictest rationing of materials and onerous performance targets being set. It will also probably mean a reduction in renovation of premises and keeping equipment quality up to standard.

Once again, there are many good dentists who own their own practice and who regularly maintain their premises and update items of equipment. They understand the importance of working in the right environment with the right tools. Younger dentists who work for good privately owned practices and who progress to ownership are likely to be much better off financially in the long term than are those who spend their careers as employees of corporates.

Conclusion

Energetic young dentists who wish to optimise their career in dentistry will be best off through owning their own practice and premises long-term. In order to make the transition to practice ownership they are more likely to be able to do this if they spend their formative years as a dentist working for good dentists in privately owned and conducted practices where they can learn how to run such a practice. I predict that over a dental career of 40 years, such dentists will end up millions of dollars better off in aggregate than their peer group who choose to spend a career as an employee dentist in a corporate organisation.

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