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Soaring Like an Eagle – Performing Like a Turkey

Freddy was ultra ambitious early in his dental training, and his classmates labelled him “Fabulous Freddy”. He liked to keep up appearances, but graduated with the largest debt of his class. He didn’t lack confidence, and he expected to become the most successful dentist in his group, even if his dedication to the course was sometimes regarded as borderline.

Harry was dissimilar to Freddy. Harry always thought through the options; even when it came down to which pub to go to for the end of term drinks with fellow students! Harry would carefully weigh up the advantage of each alternative. His classmates labelled him “Handbrake Harry”.

Fabulous Freddy and Handbrake Harry were so different that their nicknames stuck and they became known respectively as “Fabulous” and “Handbrake”.

The consensus was that Fabulous was the most likely member of the class to succeed. Most of the class thought that Handbrake was a nice enough person but that he was likely to lag behind.

Starting at the Top

Fabulous reasoned that there was nothing like starting at the top of what he perceived the dental ladder to be, and he actively sought out leading cosmetic dentists. Somebody reasoned that Fabulous would push hard when it came to selling, which was true, but there were going to be problems because his clinical skills did not keep pace with his desire to generate fees. Still, Fabulous quickly moved to being paid on a commission basis, and within a couple of years his share of the takings amounted to \$150,000. He continued to spend at a fast rate and his student debts still remained. He drove the “right car” with high monthly payments, joined an expensive golf club and rented an apartment at the attractive end of town. His credit cards had significant carry over balances. He rationalised that he was going to increase his income further, so he could live with debt.

Handbrake’s Choices

Handbrake realised that he lacked charisma and that made him work harder at studies. He knew that he had to choose which practice to work in after graduation with great care, in order that his natural lack of selling skills would not prove disadvantageous.

Handbrake approached graduation to the workforce as another exercise in choices. He had paid far more attention to the clinical subjects than had Fabulous, but he lacked the charisma. Handbrake opted to work in a busy practice in a country town about four hours’ drive from the city. He chose a

practice, which was heavily booked, and he found that he didn't have to hard sell treatment plans. The practice had rigid fee protocols which were enforced strictly by the proprietor's wife, Annie, who worked in the practice alternating as bookkeeper, relief receptionist and chairside nurse. Annie was respected, but was universally referred to by practice staff as "The Iron Lady". Even the proprietor, Don, good naturedly referred to Annie as "The Iron Lady". The system worked well and there was a policy of cash on the day. Those who protested were politely told "sorry – no money, no drill". The system suited Handbrake who was prepared to work 10 full sessions per week. As Don and Handbrake were both fully booked, the situation of passing unwanted jobs from proprietor to employee dentist did not really arise. Handbrake got to do a wide range of dentistry, and he gained experience rapidly. He quickly learned that the patients from the town were used to taking the dentist's advice with regards to treatment. The Iron Lady, who seemed to know lots about the townspeople, would indicate who could afford the more expensive treatment options, and those who could only afford the basics. The system worked well. By the end of Handbrake's second year with Don, he was comfortably generating above \$500,000 of fees per annum in his own surgery. After laboratory costs were deducted, Handbrake's percentage was about \$200,000 including superannuation. Tax took a significant chunk, but Handbrake was a cautious spender. He also found that living in a rural community, he was around people who valued conservatism. Handbrake's car was a modest purchase. Away from the practice he enjoyed the simple pleasures of belonging to the local tennis and golf clubs. Membership costs were modest, and the clubs encouraged his participation. During the football season, Handbrake went to a few of the local team's home games. That too was noticed by the locals.

Dentist in a Hurry

Meanwhile Fabulous was still a man in a hurry. After a couple of years' experience, he approached the highest profile cosmetic dentist in the state, "Dasher Derek". Dasher had the unfortunate habit of burning his employed dentists. Over the years, many of the city's better dentists had worked for Dasher for a short time, but had been repelled by over the top presentation and selling, and untidy administration. Dasher simply believed that it was hard to soar like an eagle when the dentists he employed behaved like turkeys. In reality, many of the turkeys were first rate dentists who quickly discovered that they were happier leaving Dasher's practice. There were now a number of successful practices being run by Dasher's ex-turkeys. Still, Dasher was unlikely to change his ways.

Dasher's Meeting with Fabulous

It was a bit like the great heavyweight champion, Jack Dempsey's description of the meeting between his shifty manager Jack "Doc" Kearns and legendary fight promoter Tex Rickard. Dempsey described it as a meeting between two terrific con artists. Dasher wanted Fabulous to see his dream of an ever moving assembly line of patients all paying unbelievable fees to fix their smiles in between visits to cosmetic surgeons for new noses and boob

implants. Dasher wanted Fabulous badly. Fabulous wanted Dasher to know that he was just the dentist waiting to strap on his eagle wings, if only he could find a practice that wasn't going to limit his potential. They were both so busy talking that neither listened to the other.

Needless to say, Dasher offered Fabulous the job, and Fabulous accepted. It seemed that they were made for each other like a meat pie and sauce.

Fabulous congratulated himself as being way ahead of his class. He regarded many of them, Handbrake included, as fitting Dasher's description of turkeys.

Handbrake Settles into Country Life

Meanwhile, Handbrake was quietly enjoying country life, and had acquired a girlfriend, Trish, who was a nurse at the local hospital. As with most country towns, the locals were keen to keep as many health professionals living in the town long term as possible. They approved of Handbrake's choice and were pleased that he spent much of his time locally. Handbrake's contentment was matched by the routine acceptance by patients booked to his surgery. He had heard that his fellow graduate class employed in city practices were frustrated because many patients stated a preference to be booked to their boss's surgery. They were dissatisfied with having to treat all the emergencies while the boss monopolised the best patients. Each time Handbrake evaluated the move back to the city, the balance came down more strongly in favour of remaining where he was. There had been a couple of fee adjustments in the practice, and he was better at suggesting the work that needed to be done to the right people. He began to think of settling down permanently in town and started to evaluate his long term housing options. Don was quietly pleased. He didn't wish to push it, but he was hoping that Handbrake would stay and buy half of the practice. Good dentists were hard to come by in the country. Don and The Iron Maiden were quietly influencing Handbrake toward utilisation of his personal potential. Handbrake listened, evaluated what they had to say and implemented their advice.

Dasher's Practice from the Inside

Fabulous was now experiencing Dasher's practice from the inside, and realised that it wasn't as flawless as indicated in Dasher's literature, nor as portrayed by the expensive marble foyer. There were too many disputes about patient fees, with some patients dissatisfied that their treatment didn't match their expectations created at the first meeting. Although Dasher presented himself to patients as being at the forefront of the dental profession, he was occupying a small niche. Dasher's qualifications weren't as impressive as people thought, with some of the Post Graduate Diplomas and Degrees being awarded by American "factories". Dasher's practice had unbelievable overheads. He had several hygienists working inefficient hours and lots of good looking nurses in keeping with the practice image. However, there was a high turnover of dentists, and some expensive work had to be re-done. Dasher was not a good manager. However, Fabulous tended to see

what he wanted to see and he remained optimistic. Behind the scenes, Dasher's lifestyle, coupled with an expensive divorce, had left him in a precarious financial position, and he began to wonder whether he could sell part of his practice to Fabulous to relieve his own financial burden. Meanwhile, Fabulous was wondering how he could buy "a part of the action".

Both were seeing what they wanted to see. Dasher had become so enamoured with his own propaganda that he believed the practice to be worth \$2 million, whereas a hard headed financial analysis would have put the figure at about \$500,000 including clear title to the equipment and fit out, much of which was on lease. Dasher's accountant put together a financial summary from which he had removed all Dasher's "private expenditures". The accountant also spoke authoritatively about the unlimited "blue sky" potential of the practice. Fabulous should have sought hard headed financial advice, but he was so besotted with the practice and his own plans that he shook hands on a purchase of a 50 percent Associateship for a concessionary \$900,000. Fortunately his parents owned property which they were prepared to let the bank use as security. Fabulous already thought so well of his purchase that he traded in his car for a hot European model to celebrate. It was financed on hire purchase of course. In keeping with his self image, he had acquired a "high maintenance" girlfriend. Fabulous imagined a future of consistent success. Unfortunately, his combined practice debts, credit cards and hire purchase arrangements totalled \$1.25 million, which was a tad high for a graduate of approximately three years.

Handbrake Buys an Associateship

Meanwhile Handbrake had approached Don concerning an associateship. He was now generating above \$14,000 of fees per week. Don was realistic in recognising that it was hard to attract other dentists to the town or to sell country practices. The practice was well above average in its profitability and efficiency, and well equipped. They shook hands after a little bit of negotiation, and after Handbrake had had his own assessment of the practice checked by an expert in dental valuation matters. They agreed on a payment of \$200,000 which represented a 50 percent share of the practice equipment, and as many patients as Handbrake could treat in his own surgery. Sensibly, he borrowed the money on an interest only basis. He and Trish put their own savings towards the purchase of a home.

Two Financial Outcomes

Fabulous owned a 50 percent associateship in a prominent practice, but after paying interest and leasing costs and sharing the rent in an exclusive location, as well as support staff wages, his profit was less than \$200,000. His cash flow was far worse because the bank considered him a risky lend and insisted upon a significant level of debt amortisation. The debt repayment had to come from his after tax income. Fabulous found that he had to work harder just to pay basic lifestyle costs, and his underlying figures were affecting his presentations to potential buyers of expensive treatment plans. As a result, his success rate of patient conversion was falling. Try as he might, he

couldn't make the employed dentists and hygienists, which he shared with Dasher, make a significant profit margin. There were too many part-time chairside nurses, and there was too much staff turnover.

Meanwhile Handbrake was making well over \$300,000 profit and this was still increasing. As his borrowings were modest, his financiers were happy to keep his business loan on an interest only basis indefinitely. He and Trish were already reducing their home mortgage at a healthy rate, and they were sacrificing the maximum amount permitted into superannuation. Fabulous thought that super was something that farmers dusted their crops with.

Five Years Out

Five years after graduation, Fabulous was under tremendous pressure. He was receiving phone calls about unpaid bills. He had begun to try and tighten up in the practice, but his associate, Dasher, who had overcome the worst of his financial problems, was proving difficult to rein in. As fast as Fabulous reined in part of the practice, he found that Dasher had committed them to some other expenditure. It was hard to say no to Dasher because he was the sort of person who would have been quite confident selling blocks of land below the high tide mark on a Queensland island. His arguments in favour of keeping excessive staff and of replacing already optimum furnishings were just so convincing. The \$900,000 that Dasher had received from Fabulous had satisfied his most pressing needs. Dasher was also discovering that he hadn't lost much profitability, because he had only been making a tiny margin from employing Fabulous. Most of Dasher's profit came out of his own surgery, and he was a superb salesman. Somehow Fabulous and his partner had scratched together a deposit on a house, but it was in a far more modest surrounds than Fabulous had intended.

Advice

In desperation, Fabulous cast around for advice. He went from one to another, seeking correct answers, but most wanted to sell him timber plantations or get rich quick schemes. One of the consultants wanted him to sign a contract which varied from one year at \$30,000+ to three years at \$90,000. All seemed vague about what it was they were going to do for him. In any case Fabulous couldn't afford to pay them, and even Dasher had cast doubts about them, saying:

'They'll take your money but nearly everything they can tell you they could tell you in a day or two. However that won't stop them spinning it out for as long a period as you're contracted for.'

Finally Fabulous found somebody who could benchmark his practice, and tell him the truth about its true value and his financial state. What he found out shocked him to the core:

1. The practice was grossly inefficient.
2. At most his associateship was worth \$300,000.

3. Taking into account the huge debt he still had on the practice purchase, his and his partner's net worth was negative by a large sum.
4. He was told that unless he took drastic surgery to his practice, the problem was going to grow worse and he would probably end up bankrupt.

Handbrake was in a far stronger position than he had anticipated five years earlier. He and Trish had paid off their home and with appropriate tax planning were splitting a nice income. They had already graduated from managed superannuation funds to their own fund. He had the interest only long term debt on the practice, but recognised that in reality, the practice was the best investment that he was ever likely to make. Don, his ex boss and now associate, had been quietly helpful. The Iron Maiden had graciously suggested that she might step aside from her role in the practice, but Handbrake had the sense to realise that she was in every sense a worker, and she glued the place together because she was willing to relieve on reception and step in whenever a chairside assistant was sick. At graduation, Handbrake had never dreamed of being able to produce over \$700,000 of fees per year in his own surgery. He now found himself doing it comfortably, and indeed nearly matching the pace of Don up the corridor. The town and surrounding district had an insatiable demand for dentistry.

Handbrake had his practice performance benchmarked regularly, and he was alert to the advice he received. His business and financial advisers also measured his net capital wealth year by year and profiled him in terms of where his capital formation stood relative to other dentists of similar age who owned their own practice or practice associateship. Since Don and The Iron Maiden had compatible views on key issues, the advice that Handbrake took back to the practice was in-sync. They maintained a stable working relationship and year by year the practice maintained its profitability and grew a little.

At this stage of their respective dental careers, neither Handbrake nor Fabulous had knowledge of anybody else's financial situation except their own. It probably would have come as a pleasant surprise to Handbrake to realise that he was producing a better net income than Fabulous, and importantly, his net capital worth was already far in advance. It would have shocked Fabulous to his core to realise that he had fallen so far behind one of the "turkeys" in his class.

Future Projections

It is possible that Fabulous will overcome the weaknesses in his practice, discipline himself, stabilise his debt and generate sufficient income to pay off his house at a healthy rate and fund superannuation. However it is unlikely. While persons with characteristics like Fabulous tend to survive, they spend years living by their wits.

The Handbrakes of the dental world have a tendency to be very consistent and to double their net wealth approximately every five to six years.

The Lessons

1. Many years of examining the actual annual financials of a multitude of dentists and benchmarking them has taught me that the best performed practices are often located in smaller cities with no dental schools, regional centres and in country towns. There are also some excellent practices in the other suburbs of major cities.
2. While there are high performing capital city CBD practices, these are outnumbered by poor practices in similar locations.
3. Dental practice proprietors earn the lion's share of their profit inside their personal surgeries. The busier they become personally, the less time they have to supervise a large number of staff and indeed, they spend their days with their patients and their chairside assistants. Consequently, large practices are often unprofitable at the edges.
4. While there are some very profitable cosmetic practices, the dentists who achieve this standard of profitability have usually limited the size of their practice.
5. Wealth gained early in a dentist's career has a dramatic impact on their long term capital worth due to the impact of compounding returns.
6. What we all lack is time. Choosing the right practice to work in, purchasing equity on realistic terms and earning a healthy profit above personal opportunity cost early in dentists' careers is critical. It will enable you to educate your children comfortably, and have the means to elect to retire from dentistry or slow down at a realistic time of your choosing.
7. All of the practice management consultants in the world are a poor substitute for regular benchmarking and practice performance against actual dental accounting data, as well as regular benchmarking of net wealth against dentists of similar age. These are critical in measuring progress, and indicate when a dentist is in danger of underperforming.

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