

**By GRAHAM MIDDLETON, BA, MBA, AFAIM**

## **Keys to Success as a Dentist**

At Synstrat, we regularly review what it is that makes our dental clients successful. Since we live in a capitalist economy, success is judged by two measures:

1. Measure of practice profitability, and
2. Measure of net wealth of our dental clients compared to practitioners of similar age and years of practice ownership.

Not surprisingly there is a strong correlation between the two measures, but naturally there can be external reasons which account for a portion of wealth. Some of the things we notice about successful dentists are:

1. ***They are not Preferred Providers to Health Funds***

The truth is that a thorough examination of the financials of the Australian Health Insurance Industry reveals that collectively health insurers lose money from hospital cover and make money from ancillaries. Dental ancillaries are the biggest portion of ancillaries. Successful dentists do not want their practices interfered with by inefficient and cumbersome arrangements which hand control over fee settings to third parties. Looked at objectively, the health fund bureaucrats are desperate to sell ancillary cover and make dentists preferred providers because their own futures depend upon their ability to cross subsidise unprofitable hospital cover from the profits of ancillary cover. Remember, no third party scheming increases the availability of dental appointments. Such schemes simply recycle appointments between dentists at the cost of building in the deadweight loss of bureaucratic inefficiency in the process.

2. ***Size of Practice***

The most successful dentists limit the size of their practices, and in any case the lions share of practice profit comes from the proprietors own surgery. Where other dentists are employed, the profitability per dentist declines from the first employed dentist to the second and from the second to the third. At a certain point the extra burden of fixing problems related to employed dentists causes a reduction in profitability in the proprietors own surgery or causes an expensive additional layer of management to be put into the practice which has the same economic effect.

Over the years I have seen a lot of attempts made to justify employing a number of dentists. The financial calculations do not allow for the loss of efficiency relative to the human element as a practice becomes

larger and more complicated. Consequently, only a minute percentage of dental practice proprietors are able to run a practice and enhance profitability beyond the employment of a couple of dentists. Many successful dentists have concluded that they will be more successful if they concentrate on running their own practice or employing only one full time equivalent dentist. In many cases, accounting advisers who have not understood the practice dynamic involved have treated it as a simple financial calculation.

3. ***Hygienists***

Most of the best dental practices do not have hygienists. There are a few exceptions. Most of the dentists find that they had to work hard to secure work for the hygienist, whereas the belief some years ago was that the hygienist would uncover work for the dentist. After many years of comparing dental practice financials, the case in favour of the hygienist remains marginal at best.

4. ***Expensive Premises or Sacking the Architect***

Whereas clean tasteful premises with a sensible layout are a distinctive bonus, dentists who employ architects invariably find that it leads to massive overcapitalisation. As a result, such premises have a cost well out of proportion to the value of the dental practice which can be housed within. Not only is this a huge cost in capital terms, but the reality is that when a future sale of the practice is contemplated, the capital value of the premises and/or the rental value of the premises would provide a huge barrier to disposal of the practice and in some cases, lead to relocation as well as an expensive modification to convert the premises to alternate use. Well informed strategic financial advice is required before going down the path of employing architects (designers). The most successful dentists are not usually found in Taj Mahals, but some of the dentists who would like to present themselves as being the most successful are. This is an area where there is often a big gap between perception and reality.

5. ***A Firm Hand***

Successful dentists have good personal control over their practice. In some cases, the receptionist may be called a practice manager, but in reality it is the proprietor who makes the key hire, fire, re-equip, update fee schedules and renovation decisions. Those who delegate important aspects of management to an employed practice manager do not remain long at the forefront of practice profitability.

6. ***Sensible Equipment Decisions***

Successful dentists recognise that there is no need to rush into expensive new technology. New technology invariably gets cheaper, and other dentists can serve the useful function of overcoming all of the bugs and determining whether it is economic. If it hasn't worked, then you don't have expensive lemons in the back room. Beware of statistics from North America or elsewhere showing how the new "super widget" can enhance your practice profitability. Invariably the

assumptions underlying these types of statistics are suspect. Often they assume a mode of practice operation which is not achievable in the practice concerned.

7. ***Olive Groves, Grapes, Eucalypts and Widgee Plantations***

There is a reason why for thousands of years successful farmers have concentrated on producing traditional food products. The financial advisers that can't find a better option for a dentist than buying a few hectares of olives, eucalypts or widgee trees are simply not putting in an effort on their client's behalf. A characteristic of the most successful dentists is that they have avoided these or similar types of investments.

There is an economic law known as the Law of Comparative Advantage. Simply stated, it indicates that every country is best concentrating on producing the products and services which it produces most efficiently and purchasing the remainder from countries which produce the product or service concerned efficiently. To use olives as an example, there are countries around the Mediterranean which have been growing them for thousands of years, and where they are cheaply harvested. The chance of Australian producers having a comparative advantage in relation to those countries is the economic equivalent of water flowing uphill.

8. ***Practice Location***

Successful dentists have long since spread out to the outer suburbs, regional cities and country towns. An examination of the locations of the most successful dentists within Synstrat's client base clearly indicates that this is so. Remember that if you want to be successful, the key question to ask yourself is "why do people rob banks?"

9. ***Keeping it Simple***

Nearly all of the most successful dental practitioners are in solo proprietorship (albeit that many employ one or more dentists). Comparatively few are in an associateship. Most own their own premises, but there are examples of dentists who should not own them because they are in locations where adequate premises are available at quite cheap rental. Since the advent of the active business asset concessions for small business in relation to capital gains tax, it is unlikely that any dentist who is properly advised would still purchase premises inside a superannuation fund.

10. ***Discovering Good Advice***

Most accountants and some lawyers consider themselves to be competent business advisers as do MBA graduates, but the reality is that only a small percentage are. In this area as with most, the sustained experience of working with the professional industry concerned is critical to the quality of advice which can be given. The full range of business advice even for a relatively straight forward business such as dental practice transcends the often narrow focus of the professions. Regrettably, most of the corporate television

advertising campaigns conducted by the Chartered Accountants and CPA's are way over the top and indeed misleading. The reality is that truly successful dentists have reliable advisers who have an intimate knowledge of their professions business details.

#### **11. *Avoiding Corporatisation - Big Mac'd Dental Practices***

The day somebody finds a way of replacing the role of a dentist in dental practice is the day that a corporate organisation can set up a generic chain of dental practices in every town and suburb, and control it all from corporate headquarters. Until such time, the probability of any corporatised dental company being successful beyond a relative handful of practices is remote. Successful dentists don't join into these schemes, and those who join corporatised practices as long term employees or contractors probably don't aspire to being at the cutting edge of the dental profession. Nor are the most successful practices found in medical clinics. In recent years we have regularly seen attempts to corporatise aspects of dentistry, including some attempts by health funds. In our opinion, nobody has produced a convincing long term outcome.

#### **12. *Measurement***

Successful athletes know exactly what time they can run at their chosen distance. Regular measurement of their performance is a critical component of their development. Successful dentists know where they stand with respect to practice benchmark performance and in respect of their rate of capital formation, vis-à-vis their peer group.

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