

Australian Dental Practice - Article – November December 2001

HOW HEALTH FUND MEMBERSHIP CAN RUIN THE GOODWILL OF YOUR PRACTICE.

Regardless as to whether or not you are able to sell your “goodwill” at some future retirement date, it has a value to you. Consider:

- More patients, if charged correctly should mean more profit per year.
- More profit should mean that when you sell your practice in the future, it will be worth more.
- If you have more patients you may find that when you sell your practice you can also sell your premises for more than would otherwise be the case. Many buyers will look at a ratio of practice premises value to gross fees.

Even if, in the distant future, dental goodwill dries up as a saleable commodity, by having more profitable patients in the intervening years, you will be much better off. So where do health funds come in?

Health funds have been making sweet overtures to Australian Dentists intermittently for some years. Their pitch is along the lines of:

“we will help you to fill those gaps in patient bookings, so that your practice is full and you will make more”.

However, we can take some hard lessons from the Medical profession.

Lesson 1

Doctors have been squeezed by both Medicare and health funds. The squeeze is gentle, but inexorable, and slowly but surely, the medical profession has been “corporatised” by a combination of government and health funds by stealth. The average doctor is now dictated to in respect of how many patients per day, how many minutes per patient; with sanctions if they overstep certain numbers and computers label them as over-servicers. This is followed by a please explain from the bureaucrats.

Lesson 2

The inexorable aggregation of pathology, radiology and private hospitals into a few major listed public companies is steadily turning medical specialists into salaried health care providers and is eroding their income. This will severely disadvantage them over the long term.

Most of all, the medical profession recognise that they have, in effect, lost control of their practices.

So what about Dentists?

To date, health funds have not penetrated far into the dental world. Our experience is that the more efficient dental practice proprietors have not signed to be preferred providers with health funds.

Those dentists that have signed could be labelled as being among the “desperate and the dateless.” Superficially the appeal is great. They are having trouble generating enough personal referrals from amongst the existing client base or maybe their existing client base is too low. So sign on with a health fund and patients will come.

- **Pitfall No 1**
Most of the patients are directed, from some distance away. Health funds don't have enough dentists nor do they have enough people in dental health plans. Patients resent having to drive significant distances to get to a dentist who is nominated by their health fund.
- **Pitfall No 2**
Health funds choose dentists purely on the basis of price. Whoever heard of a health fund checking on the quality of the dentists' work or the state of their equipment or their infection control standards. It simply doesn't happen.
- **Pitfall No 3**
This is the greatest pitfall of all. It is called dependency. There is an economic law, called “Greshams Law”. Broadly speaking, it states that “bad money drives out good money.” It has many manifestations. Bad patients drive out good patients. Or in this case, the dentist becomes so reliant upon the health fund referee's that they don't build up a clientele close to their practice, who would become referrers. Since the health fund patients tend to come from some distance away, their friends and relatives are unlikely to come, particularly as many of them will not be members of the health fund. Step by step, the dentist goes from running their own practice, to being a de-facto contractor of the health fund. This is similar to that of the general practice doctor, who over the years submitted to pressure and became a bulk-billing clinic; effectively, becoming a Medicare contractor.

So how do you break out of the straight jacket, once you are in it? It sounds easy, but in reality it is difficult. Firstly, by putting time in to health fund patients, you have stunted the growth in patients from natural sources. These patients have ended up with your competitors. Your competitors are charging higher fees, and have been able to afford better equipment, nicer waiting room furniture, more time at training courses and they convey the impression that they are better dentists. In the eyes of their patients they are better dentists.. Health fund membership has effectively relegated your practice to the ranks of “the desperate and the dateless”.

If you try and break out of the straight jacket, the health fund will send an exquisitely worded letter to each of "their clients" explaining that you are no longer recognised by their health fund. You are then left with the worst of both worlds. A lot of your patients think poorly of you because you dropped out of the health fund, and in their eyes put up your fees, but there are insufficient other good patients.

Any sensible dentist buying a practice will run a mile when they see one which is a health fund approved provider. You can imagine what that does to your goodwill value.

If you remain a health fund provider, then like the general practice medico charging the common fee, you are sentencing yourself to a life of working for an income below your "personal opportunity cost." Personal opportunity cost is defined as income you could get from your best alternative activity, which is probably working on the standard formula in a larger practice, which does not belong to a health fund.

What you have done is three fold:

1. You have detrimentally affected your ability to on-sell your practice.
2. You have sentenced yourself to a lower income per year.
3. In all probability, you have detrimentally affected the value of your premises.

We have consulted with and provided accounting services to, or valued hundreds of dental practices, but we have yet, to see anybody who has benefited long term from being a health fund preferred provider.

We would liken signing on with a health fund to that of being skewered by one of those medieval swords. The ones with the spikes pointing backwards towards the hilt. The sword slides into the victim effortlessly, but when withdrawn, removes half their entrails.

If on a slightly quiet day you contemplate the approaches of a health fund, stop and ask yourself why you would want to gut your practice.

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