

# **Australian Dental Practice - Article – March/April 2004**

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## **Confronting Bodicea at Practice Titanic**

Following his dental graduation, Herbert had worked in a regional practice in Bushtown for several years, eventually working up to gross fees of \$10,000 per week and getting a sound income on the standard formula for payment of salary and superannuation to employed dentists. However, marriage to Simone, a merchant banker, caused him to reject a buy in opportunity and move back to the city.

After brief examination of practices advertised by brokers and considering various job options, he met an associate of Practice Titanic who invited him to a meeting following work. Possibly because he had been out of the city since graduation, or because of his recent marriage, he forgot the first rule of looking for a practice to buy, which was to take his time. He visited Practice Titanic thinking they were going to offer him employment, but found that he had been invited to purchase one of five associateships in the practice from Lou, the older one of five. In addition to the associates, the practice employed three dentists, three hygienists working the equivalent of 2.1 full time positions, a practice manager, a near full time bookkeeper, several receptionists and lots of nurses, some of whom were job sharing. However, the practice had the space age look in respect of its fit out, furnishings, equipment and view from a high inner city building. The practice certainly looked a great deal more impressive than what he had looked at from broker's offerings, which had a representation of some of the worst practices he could imagine. There were few practices anywhere which presented as well as Practice Titanic, on first inspection.

### **Hasty Purchase**

It was put to Herbert, that since it was an impressive practice and location, that a pro-rata payment of 75 percent of gross fees for an associateship of one fifth of the practice was its true value. This was broken into a goodwill component, and payment for units in a trust which owned the equipment and employed the non dental staff. Herbert had been so busy in Bushtown that he hadn't thought about such matters and found himself nodding. Before he had thought sufficiently, he had committed to a payment of over \$500,000. But still, Practice Titanic looked impressive. In his haste, Herbert had overlooked the fact that the best practices for sale had simple structures, and were not advertised for sale via brokers. In reality, there were good profitable one or two associate practices, which he could have purchased for far less had he been patient.

### **Practice Shortcomings**

It seemed that Lou, the departing associate, couldn't wait to leave Titanic once the contracts were signed. Herbert quickly found that the practice did not appear to have a long queue of patients desperate to see any dentist, which had been the case in Bushtown. To his dismay, he also found that

quite a few of Lou's patients didn't want to see another dentist, or those patients who were used to seeing the employee dentists, didn't want to be shifted to him either. As an associate, he had a right to a share of new patients, but these were a good deal fewer than he had imagined would be the case. He also found that quietly, each of the other four associates guarded their own territory. In purchasing into the practice, he had accepted perfunctory advice and been guided to the bank which financed the overall practice. He began to realise that proper due diligence had not been done. At the end of the first month, he was dismayed that his net receipts after he had contributed his share of overhead cost to the service entity were far less than the income he had been receiving off commission in Bushtown.

### **Overhead Costs**

Alarmed at the cost of the overheads, he spoke to the practice manager, Bodicea. Bodicea's demeanour suggested that she, not the associates, was running the practice. However, Herbert stood his ground and asked for the detailed monthly accounts. He didn't know what proper practice overhead profits should be, but as he searched through the accounts, he began to realise that:

1. The rent was huge. Worse still, it was indexed at 6 percent each year. Although there was a market value adjustment at the end of the current lease period in 5 years time, the lease document had a "not less than" clause, and then provided a further rental increase of 6 percent per annum after the market review. Inflation was only running at about 2.5 percent.
2. The practice was overstaffed. In Bushtown, the owner and two other dentists had produced half the gross fees of the eight dentists, and 2.1 hygienists at Titanic, and had done so with 30 percent of the lay staff cost and about 12 percent of the rental cost! Nursing staff seemed to have time to gossip and to make private telephone calls.

### **Political Control**

Despite having no manager, Bushtown's practice had run smoothly, with minimal staff, clear direction, and with very rare staff meetings. Titanic had lots of staff and staff meetings, and Herbert quickly learnt that Bodicea, the manager, played an adroit political game which delivered all power to her. Provided that the other associates territory, meaning their individual patient list and personal surgery were not invaded, they had conceded all other territory to her. While nominally the associates owned the practice, she decided who got favoured treatment in the form of overtime and better rostered hours for nurses and receptionists, punishing those who didn't hasten to her whims.

### **Fear**

Herbert spoke to each of the associates in turn, finding that each were concerned to varying degrees about the lack of true profitability in the practice, but apparently none wanted to take on Bodicea, who was referred to as "The Iceberg" or "The Warrior Queen". Herbert feared that he had made a very poor business choice. Alarmed, he probed further into the financials, and

realised that gross dental profit across the practice was below the percentage of fees that had been paid to him as salary and superannuation at Bushtown. The other associates attitudes ranged from not wanting to upset Bodicea, to *"I've only got six years to retirement and then I'm out of here"*. There was one exception, Jane, the youngest of the other four, who admitted that she had long been concerned, but felt that she had been unable to tackle issues on her own.

### **Rebellion**

A little later, one of the employed dentists advised that he was resigning, and Angela, one of the nurses, announced that she was intending to travel overseas for a couple of years. Bodicea advised the associates that she was interviewing for another dentist and nurse. Herbert and Jane decided to challenge the decision, advising Bodicea that before making this staffing decision, they wished to discuss the overall staffing of the practice with the other associates. Bodicea made the mistake of suggesting that it was her prerogative as manager to arrange staffing. Sensing for the first time that she had an ally, Jane indicated that the matter would be deferred until the associates had a discussion about the *"future needs of the practice"*.

It was not possible to get all the associates together for about ten days. In the interim, Bodicea, sensing a challenge to her leadership position, was publicly polite to Jane and Herbert, but privately railed to the bookkeeper and receptionists while lobbying the other three associates, Tony, Jo and Fred, towards her position. Bodicea sensed that if she didn't maintain control over staffing, then her position in the practice would be weakened.

Tony, Jo and Fred had been so influenced over the years that they habitually bowed to Bodicea's will. Following the associates conference, Herbert and Jane went through the figures with more care. They determined that:

1. With one less dentist and chairside nurse and reallocation of patients, each of the associates would be busier and better off.
2. With tighter bookings, they could confidently increase the fees across the practice.
3. With proper attention to rosters, there was scope for casual nursing staff's hours to be reduced.

Tony, Joe and Fred shivered in the meeting, and one of them suggested that they might have a bit of difficulty getting the changes past "The Iceberg". Herbert and Jane's eyes crossed. Without actually saying anything, they exchanged the message that:

*"We either take control of the practice agenda at this point, or we put up a white flag forever"*.

Herbert indicated to Tony, Jo and Fred, that Jane and he would pass on the associate's instructions to Bodicea. The meeting adjourned. Tony was going

on leave for a week, while Jo was attending a dental conference the following Monday and Tuesday.

Herbert and Jane sensed that the best time to tackle the issue was in the absence of two of the other associates to avoid Bodicea's anticipated attempt to manipulate an instant return to the status quo. They also sensed that in restricting some rostered hours they were taking away Bodicea's currency used in dealing out favours to nursing staff.

### **Confronting Bodicea**

Herbert and Jane decided to get together over the weekend and prepare the ground. On the Monday morning, they informed Bodicea of the decisions of the associates, and simultaneously gave a written letter of instruction to the receptionists, practice nurses and bookkeepers, advising them of a brief staff meeting later that day. In the past, staff meetings had been lengthy, but this one lasted only 5 minutes. Jane explained briefly that a study of patient patterns indicated that the practice was overstaffed, and that they were taking advantage of the resignations to make the adjustments at this point. Herbert indicated that due to the high overhead costs, some staff hours have to be restricted, and that new fee schedules would apply. Fred, the other associate at the meeting, said nothing and the meeting adjourned.

Later, Jane and Herbert agreed that things had gone well so far. They noticed that staff seemed more open, and were passing on information that normally would have stopped with Bodicea.

Jane and Herbert gave a direction to Bodicea to check out dental supply costs with various suppliers, and report back to the associates as to whether the practice could reduce its dental supply bill. Bodicea hated the instruction, but seemed suddenly less resistant to direction. When she had attempted to enlist the aid of Jo and Tony, neither seemed to be particularly interested.

Without anybody setting up a conflict, it was evident that there were now two major power groups in the practice, being:

1. The "Young Turks" Jane and Herbert on the one hand, and
2. Bodicea, who still had allies among the staff, particularly the hygienists. For the first time in perhaps years, she had been checked, but was still resistant to change.

### **The Hygienists**

The 2.1 was made of Maria at 0.9 and Nicky and Anna at 0.6 each. They were known as "The Musketeers" and had a visibly close relationship with Bodicea. Herbert had no previous experience with hygienists, but believed that good hygienists discovered and referred a lot of dental work to the dentists around them. However, the hygienists at this practice, led by Maria, had a one way patient path. They were also paid more generously than in most practices, and seemed to utilise more nursing support than was normal. Jane took the responsibility of asking among practices of people she knew. Again, armed with information, they chose their time well and had an

associates meeting just prior to the planned absence of two of the associates. Jane tabled a practice protocol for hygienists, and Herbert supported her. It was becoming evident in the practice that the other three associates were happy for them to take the lead on management issues.

With the associate's agreement, they planned a meeting with the hygienists, where they went through the protocol, taking care to explain their expectations fully. Surprisingly, they found that elements of the message had preceded them. Maria and Nicky had decided to align themselves with Jane and Herbert. Anna presented a no comment exterior, but quietly left the practice a few weeks later.

The changes thus far didn't seem dramatic, but Herbert and Jane found that the monthly net profit had increased significantly. All associates were happier now that they had a good patient book. However, after he had paid interest on his purchase loan, Herbert was still a long way behind the net income at Bushtown, but at least he was beginning to see a path ahead.

### **Managerial Redundancy**

Bodicea began to feel insecure. The practice didn't need both a manager and a near full time bookkeeper, and encouraged by their successes thus far, Jane and Herbert were opening up other issues by directing Bodicea to investigate laboratory costs and further staffing efficiencies.

### **Pursuing Further Cost Savings**

Already the practice telephone bill was falling as nurses now had little time for personal usage. By this time, Jane and Herbert had set out on a proper practice benchmarking exercise. To get it done properly, they needed the cooperation of all associates so that they could aggregate all of their financials and the service entity. They then consulted an accounting practice which conducted a continuously updating database derived from the accounts for dentists. The exercise told them that the rent was outrageous, but they couldn't do anything about that at this stage. However, purchases and laboratory costs were trending towards average practice status, but still with some savings to be made. Non fee producing staff costs were still quite a bit higher than average, but at least gross dental profitability, i.e. before hygienists and dental salary packages, was improving.

The benchmarking exercise highlighted that the support staff costs were still far too high, and it was immediately obvious that the practice bookkeeper who had been kept under the strict control of Bodicea, was actually underemployed, and that the reception staff were capable of taking on more responsibility. Either Bodicea or the bookkeeper had to go, with additional responsibilities being allocated accordingly.

Once again, they did their homework and met with the other associates. By this time the associates were less resistant to change and even cracked jokes about "The Warrior Queen".

### **Bodicea Faces Reality**

Jane and Herbert gritted their teeth for a confrontation, but to their surprise, they found that Bodicea had read the signs and had successfully applied for a job in a boutique practice, which would “*appreciate her talents*”. To the surprise of the other associates, the bookkeeper and reception staff willingly took on more duties. Indeed, it became apparent that much of the administrative function of the practice had been duplicative.

For the first time in years, the dentists were regaining control of Practice Titanic. There were fewer and busier staff, less gossip, less staff meetings and the practice now had a sense of purpose about it.

Herbert realised that he had made an unwise decision and paid far too much for a practice which looked great on the outside, but which was too complex to be truly profitable. By now he knew that there were issues which he could tackle to get profitability up, but would be unable to achieve the efficiency of the practice in Bushtown. He and Jane contemplated partitioning the practice into two groups to further simplify its operations, but that’s another story.

### **The Lessons**

1. In practices with too many associates, it is difficult to make good business decisions because of the number of relationships involved:
  - a. Two associates have one relationship; a to b.
  - b. Three associates have three relationships; a to b, b to c and c to a.
  - c. Four associates have six relationships; a to b, b to c, c to d, a to c and b to d, and so on, with five associates having fifteen relationships,
2. Large dental practices create high overheads. The true economies of scale are not achieved in this way.
3. Practice managers are only effective if they add to practice profitability by allowing dentists to have more clinical hours through not having to do administration and by keeping practice staffing and other administrative costs down. Indeed, many of the most efficient and profitable practices run without managers.
4. A power person in a practice management position often becomes a profit destroyer. Authority is sometimes surrendered at dentists cost.
5. Hygienists are sometimes unprofitable and often marginal. They may be effective where they identify and refer back lots of work to the dentists in the practice and work with limited overheads.

6. Strategic management decisions must be made by practice proprietors and made in such a way that they will be implemented.
7. It is vital that potential buyers of associateships get experienced professional advice before purchase.

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