

Australian Dental Practice - Article – September/October 2003

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Recovery from the Brink of Financial Disaster

Groping in the Dark

Tony always wanted to be a dentist and he did particularly well at dental school. Afterwards he worked at several practices and took time out to pursue areas of special interest.

Practice Ownership

Tony didn't think deeply about owning his own practice but seemed to drift into it about eight years out of university. The practice was sound but Tony only gave passing thought to its financial dynamics. His accountant told him it was alright to buy, so Tony bought.

When Tony attended dental study groups and courses, he was thoroughly interested in the clinical aspect of what was presented, but switched off on profitability issues. When listening to other dentists he reasoned somewhat correctly that they tended to gild the lily a bit in conversation. The figures which they described and the number of crowns they were doing, were often a tad exaggerated.

Practice Drifting

Tony didn't realise that his practice was drifting. He let his staff control a bit too much. Purchases were slightly higher than they could have been because supply representatives took his practice for granted and a few unnecessary items also crept into the order list. Similarly his dental laboratory were not passing him the same rate as to some other dentists. His staff hours tended to creep outwards. It was too easy for them to work an extra half hour or hour of overtime to do work which in a properly organised workplace could have been done during normal hours. In fact, Tony's practice was becoming inefficient, and this was dragging down its profitability.

Accountants without Dental Practice Knowledge

Tony's accountant dealt with returns of a mixed bag of clients but had no knowledge of dental practices other than Tony's. They did his returns but didn't seem to realise that his practice should have been performing better. There was little that was proactive in their approach. Tony assumed that because their practice information proclaimed them to be business advisers that they understood his dental practice, whereas they were simply doing his annual returns. He failed to realise that quite a few accountants described themselves as business advisers, but spent their time adding up last year's figures rather than thinking creatively about what their clients could or should be doing. An opportunity came along to purchase his premises and he passed it by his accountants who gave it perfunctory attention. They didn't seem to be enthusiastic or definitive either way and Tony went on paying rent.

Financial Difficulty

Tony had borrowed to buy the practice and as well he had a reasonable mortgage on his home. He had accepted the banks offer of an overdraft facility when setting up the practice purchase. He paid his bills as they fell due, then one day realised with a shock that his overdraft was at its limit and his credit cards had also drifted towards their limits.

Realisation

Tony suddenly realised that he had obligations which he could not meet. This realisation also came as a shock to Susie his wife who had always assumed that there was sufficient income to pay the credit cards as they fell due. For the first time in his dental career, he confronted the fact that:

1. he had not been managing his practice; rather it had been left to manage itself.
2. he had not been managing his finances; they had also been largely left to run themselves.

Blinding Flash

When Tony saw his accountant about the state of the situation, it struck him like a blinding flash that the accountant did not understand the economics of dental practice and was floundering for answers. The accountant attempted to benchmark his practice against a database without realising that the data was based on mail-in surveys and hence heavily representative of non busy practitioners. The advice given lacked conviction.

The Grindstone

Tony was working harder but was still unable to measure the cost effectiveness of his staff. Life had suddenly become quite grim. He was keeping his creditors at bay, but only just.

No Joy

Tony now realised that his enjoyment of dentistry had dried up. He dreaded going to work and being reminded that his practice owed money. His staff seemed unaware of his needs. Unfortunately when he got home, there were also overdue bills and whilst Susie was understanding, she was forced to remind him that school fees were imminent and there were essential household needs.

Addressing the Issues

Tony and Susie realised that something had to be done. Initially, they went to a traditional financial planner. The financial planner was employed by a subsidiary of a bank. The financial plan which they were presented with had about 1.5 centimetres of pre programmed generic data, and was aimed at signing up Tony and Susie to its inefficient superannuation master trust, and selling them several types of life insurance. It ignored their real and urgent financial needs, which concerned their dental practice cash flow.

Searching For Good Advice

They then set out to find better advice, and made quite a few telephone calls while searching through Dental magazines and advertisements. They went about the exercise fairly carefully and found that some of the names that they had been given when they checked with friends, had gotten dentists into trouble with the Taxation Commissioner in respect of horticultural and film investment schemes which the Tax Commissioners had subsequently disallowed with penalties. As Tony was busy at the practice, Susie assisted in the process and became adept at cross examining consultants, business advisers and accountants on the telephone. If the person on the other end did not ask the right questions about the dental practice, or made noises about "all businesses being the same", she learned to move on quickly. Eventually they found somebody who was able to talk through the dental practice problem. Through questioning they gained confidence in the individual and organisation concerned.

Diagnosing the Problem

They took a chance and went to the next step having the practice benchmarked against an actual database of performance of a substantial number of dental practices derived from their accounts as opposed to mail-in surveys. From this information the new adviser talked through the possible cause and effect of the various significant deviations in their benchmark performance and they began to get an understanding of the productivity of nursing and reception staff. They also realised that they had been too hesitant about fee adjustments and had given staff too much control over credit and purchasing. Their practice staff were appraised of the revised expectations in respect of performance.

Their new adviser also gave Tony and Susie an appraisal of where they stood against the financial wellbeing of a representative average of dentists of similar age and time in their own practice based on net capital worth. What they were told was sobering, but it also made them determined to deal with the issues.

Solving the Problem

With proper budgeted targets, their new advisers assisted in an approach to their bank for restructuring finances during the period in which the practice was being rehabilitated. While Tony and Susie were still in a financial squeeze, the fact that they had confronted the problem and were gaining knowledge as to where they were at, made them a lot more confident in dealing with the situation. Tony found that his enjoyment of his work had been renewed. He felt more in control of his practice and its financial position. This improved demeanour and confidence reflected throughout the practice and outwards to his patients. They couldn't put their finger on why, but more patients were referring their friends to Tony.

Medium Term Improvements

Following the achievements of the practice in the initial recovery phase, benchmarking of performance and goal setting became regular events. A suitable repayment schedule was adopted on their home loan, and within a short period Tony was able to approach the practice landlord with clear guidance in his mind as to the limit on the price he should pay for his premises. After a period of negotiation the purchase contract was signed.

Five Years Hence

Tony and Susie now feel financially secure. Both their home and practice premises have appreciated in value, while their overall debt has been reduced. There have been renovations and alterations to the practice premises, which have improved its appearance and efficiency. They now have a growing superannuation fund and regularly updated measures of practice performance. They foresee further improvements in their financial position. The improvement in the overall situation encouraged Tony to keep abreast of professional developments in his areas of special interests in dentistry, and improved his enjoyment of professional involvement. He is far more conscious of the correct costs of providing service to patients, but above all, he is in managerial control of his practice and is able to pay the bills as they fall due.

The Lessons

1. The Dental Island

Many dentists run their practice as though it is an island distant from all other practices. Some dentists in this situation run their practices relatively well but many do not. Running a dental practice without knowledge of your relative performance is like watching a movie blindfolded. You pick up some information with your ears but miss out on what you can't see.

2. Where Do You Sit in the Financial Lifecycle?

Many dental practitioners have no understanding as to where they sit on their financial lifecycle. Again, some do it well but many others realise too late that they have been misjudging their situation for some years and this forces them to work on beyond the age at which they can no longer receive significant enjoyment from practice.

3. Dealing With Specialist Advisers

The notion that all accountants are capable of understanding every type of business is demonstrably false. The reality is that in all significant industries, there are some accounting practices and specialist consultants who have an excellent knowledge. Others at the fringe only guess at the key indicators.

4. Hollow Financial Plans

Financial advice (as in financial planning) must go hand in hand with an understanding of what goes on inside your dental practice. Larger banks and insurance company's are misleading people by providing financial plans full of generic data which is dictated by a computer. Dentists have been fed a sales spin for some products without an understanding of the economics surrounding their dental practice, which is their income producing asset. A financial plan which ignores the operation of the major source of a dentist's income is not titled legitimately. Unfortunately, many financial planners are employed by or licensed through about 10 major institutions or their subsidiaries. In reality, many are simply product distributors.

5. There is no substitute for having practice management, practice benchmarking, accounting and financial advice which is relevant to the dental profession.

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