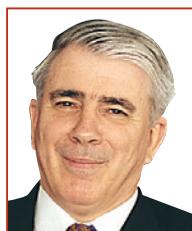


A tale of two dental practices (with an analogy to the two Germanies)

By Graham Middleton, BA, MBA



“An enduring lesson is that change is difficult and that is because no matter how hard they try, staff and owners will tend to revert to old habits. People tend not to change...”

There is a perfect example of the respective merits of a capitalist economy versus a socialist economy in the post World War II experience of the two German states. By agreement between the victorious allies, post-war Germany was split into zones. The zone occupied by the Russian army became the socialist state of East Germany. The zones occupied by the USA, Britain and France were combined into West Germany, which redeveloped itself as a capitalist economy.

Over time, the obvious difference in living standards encouraged people to escape from the East to the West. To stop that, the Soviet and East German authorities put up the Berlin Wall together with electrified barbed wire fences which they also oversaw with border patrols. This only delayed the process. Eventually, when socialism collapsed across eastern Europe, the Berlin Wall and the barriers were breached and the impoverished East Germans were unified with the West. It took a few years, but the unified Germany is now considered to be the economic powerhouse of western Europe.

Now consider two dental practices, which we'll label Practice East, which is run on communal lines and Practice West, which is organised along business-like lines.

Practice East has several associates but in reality they are practising in partnership, not associateship, and the structure of their relationship produces inferior outcomes.

In their model, the practice owners keep a modest percentage of the fees they generate in their own surgeries of 35% or just a little over one third.

The remaining 65% are paid to the centralised service trust, which then pays all other staffing and overhead costs. Associates are responsible for their own professional indemnity and laboratory costs.

The service entity employs three other dentists and an hygienist.

In Practice West, the associates bank their own fees. They have a non-profit partnership (NPP) which services the practices, including the employment of two dentists and an hygienist. The associates are responsible for their own professional indemnity insurance, laboratory and high-cost implant components.

The non-profit partnership banks the fees of the employed dentists and hygienist, but has a shortfall to meet the overall costs of the practice. This shortfall is made up one third each by the associated dentists.

Impact on behaviour

The differences in behaviour within each practice are quite startling. In Practice West, each of the associates have an incentive to maximise the fees in their own surgery, within an overall ceiling of professional hours agreed between them. By developing loyal patients but working quickly and skilfully, they have maximised the amount left over after they pay their one third share of the monthly shortfall in the NPP. In doing so, they cause their chairside assistants to be more efficient also. Since each associate has the incentive to optimise their own production, the practice receptionists follow a strict protocol of filling spare appointments in associates' books in an even-handed manner before directing patients to employed dentists. Personal referrals go to the dentists of their choice. Employed dentists understand that in order to keep the books full, they must win the confidence of their patients and generate personal referrals.

The associates run the practice to tight standards. There is a part-time bookkeeper and a senior receptionist, but no practice manager. Hence support staff costs are contained below benchmark standards. The associates carefully monitor the fee production per dentist and each associate is quietly competing to be the gun shearer of the practice. The result is that overall, the practice DEBDIT percentage is consistently above benchmark and the fees per associate's surgery are above the average fees produced by dental associates. The employed dentists see fewer patients overall than do the associates and are paid on the standard formula. However, they have an income which places them ahead of most employee dentists. The hygienist mainly receives referrals from the associates, who pass work to her when they believe that their time can be better spent in higher value treatment areas.

Accounting system kills incentive

In Practice East, each of the associates realise that regardless as to how many fees they produce and the efficiency with which they drive their own surgery, they only retain 35% of their fees in the first instance. The other 65% is paid into the centralised service trust and mixed with the employed dentists' and hygienist's fees. They receive one third each of the profit from the trust. This system discourages high production of an associate, since two thirds of any out-performance is paid to the other associates via this mechanism. As a result, each associate adopts an attitude of "I'm treating my associateship as a lifestyle practice". Each of the associates in Practice East generates far less output than do the associates in Practice West. Rather than try and outperform each other, they game the system by producing no more than the other associates on the basis of not wanting to cross subsidise them. The employed dentists still have an incentive to work because they get paid a percentage of what they produce, but the casual attitude of the associates is reflected in the attitudes of support staff throughout the practice. Whereas there is a business-like and professional zing about Practice West; Practice East sometimes appears to be half asleep. The chairside assistants in Practice West are quick and accurate in their jobs and they are kept busy. The chairside assistants in Practice East work at a more leisurely pace. They aren't concerned when a gap appears in the book. Counter-intuitively, it is the staff of Practice West who are the happiest in their work and yet they are visibly working harder. The support staff of Practice East have been padded. The

full-time practice manager coordinates the other staff, but only relieves at the front desk for short periods and not at all chairside. Apart from the practice manager, other additional staffing has crept into Practice East, yet it produces significantly less fees than does Practice West. The Practice West receptionists go out of their way to fill up gaps in the dentists' attendance books. In Practice East, the effects are more casual. In Practice East, the chairside assistants are quite happy to have gaps, particularly late in the day so that they can clean up and be out the door briskly.

Meetings

Practice East has very regular staff meetings; too regular, and they tend to waste time on trivia and gossip, often descending into minor whinge sessions. There's a feeling that "we've got to have a staff meeting and we've got to fill it up somehow". Practice West rarely has staff meetings and when they do, they are scripted and quick, yet it is the staff at Practice West who are most certain about practice protocols. The lesson is that it's the quality of communication which counts, not the frequency.

Staffing levels

Practice East is overstaffed by contemporary standards, but there is much bitching about who should do which task and its staff feel that they work hard. Practice West, with fewer staff who appear to know their jobs much better, find that they have little time to complain yet they get more work satisfaction because they achieve so much. It is the Practice West staff who appear to be the most cooperative.

Presentation

Practice West pays significant attention to presentation. The entrance and waiting room are regularly redecorated with professional assistance. Patients entering the practice feel that they are entering a soothing professional environment. Practice East has let its appearance slide. The associates have lower personal self-esteem and care less about the appearance of the practice. Individually they think why spend money when most of the benefit will go to the other two. At Practice West, they each recognise the touches that make it easier to win the confidence of patients.

At Practice West, there is a selection of quality magazines in the waiting room; in Practice East, there are fillers from newspapers. Practice East looks a bit like a bulk billing medical practice, whereas Practice West's appearance tells patients that they are entering a professionally conducted practice environment in which patients are expected to pay professional fees for professional standard treatment. Again, it is counter-intuitive but Practice West receives fewer patient complaints about fees than does Practice East.

Fit-out

Practice East's fit-out is 30 years old. Practice West has a significant makeover at least once every ten years and touch-ups in between. In Practice West, fee discounting is a comparatively rare event. As associates bank their own fees and only pay a third of the NPP shortfall, they have an incentive to keep professional standards in fee setting. The employed dentists in Practice West also understand that they are not to discount fees without permission from an associate and as a result, rarely do so.

Discounting

In Practice East, discounted fees for a range of recipients of government pensions and the like are routine and the receptionists who make up their bills exercise significant personal discretion. Hence, there tend to be discounts on discounts. Yet most of the patients concerned are in fact quite well off, living in nice homes, having substantial financial assets but qualifying for a pension and healthcare card because they receive a tiny element of the aged pension. Despite the heavy discounting in Practice East, there are more whinges about fees than in Practice West. However, both practices are located in suburbs with similar socioeconomic populations and patient bases.

New patients

Practice West attracts a greater number of patients by personal referral. If its patients feel that it is a little expensive, it is also apparent that they accept paying more for what they understand to be quality service and their vision of quality begins at the entrance to the practice, the appearance of the waiting room and the professionalism of the receptionist.

Practice East was struggling to maintain its referrals and became a preferred provider. Practice East also encouraged treatment on the Medicare Chronic Disease Dental Scheme and suffered a sharp fall in patient fees when the government pulled the scheme. Practice West ignored the scheme and only treated existing patients who came to the practice with a referral signed by a doctor. These patients were relatively few and were generally willing to continue treatment when the scheme exhausted itself. The cessation of the scheme has had no visible effect in Practice West.

Value and on-sale

Each of Practice West's associates make twice the profit of each of Practice East's owners, yet overall practice gross fees are similar. When one of Practice West's associates goes to sell their associateship to an employed dentist acceptable to the other associates, practice valuation points to its superior gross dental profit and superior EBDIT (earnings before depreciation, interest and taxes), both overall and per associate. These figures are well above benchmark standard. The associateship sells for an impressive sum and importantly, the assistant dentist who became an owner is satisfied that she bought well and continues to achieve good financial results.

When one of Practice East's owners contemplates selling, the valuation process reveals the practice overall to be poorly performing and the profit within each associateship (in reality, partnership) reveals that the profit margin above that which it would cost to employ a dentist to do the same amount of work is quite thin. It values poorly and indeed the valuation process sends a shockwave through the practice, whose owners did not comprehend how far their practice had slipped beyond contemporary practice standards.

The struggle for change

As a result of the valuation revealing the practice's shortcomings, Practice East's owners decide to restructure. This does lead to better profit and better value over time, but it faces entrenched opposition from staff, who believe that they are being forced to perform at an extraordinary level, even though staff in a multitude of other practices have already reached that standard. There is extensive opposition to the application of proper fee scales and individuals easily slip back into fee discounting to a level which is not warranted. Front desk staff believe that their prerogative is being taken away. The practice manager, who was told that she

had to take turns at the front desk and at chairside, resigns to take up a position in a practice which will appreciate her talents. The associates don't replace her, but employ a part-time bookkeeper and quickly find that her other duties were a good deal thinner than they had believed. The change process isn't easy, partially because the individual owners keep slipping back into their own bad habits. To give them credit, they do try and there is a significant feeling of change within the practice. Each associate now banks their own fees and contributes one third of the shortfall to the service trust to make up the difference between costs and that produced by the employed dentist and hygienist. Variations in the size of their monthly payment forces them to take a closer look at the costs in the common entity and some low hanging fruit has been picked.

Different protocols at the front desk and the associates' realisation that the more they earn in their own surgery, the greater their individual profit, has forced them to confront their own output and this has risen steeply. When an employed dentist leaves the practice they are not replaced, as the practice now finds that it can function with one less dentist overall, with a further saving on a chairside assistant. These costs foregone are reflected in the improved profitability of the associates.

Long-term outcomes

In the long-term, Practice West will always outperform Practice East because its associates started out working along business-like lines. Practice East will narrow the difference, but it won't ever catch up to Practice West. There is simply too much embedded corporate memory within Practice East which tends to drag them back towards old habits in a practice which had become a featherbed for its staff. Practice West will continue to stay at the leading edge, periodically update equipment and maintain the appearance of the practice in tip-top condition. It's the way the associates in Practice West have become conditioned to thinking. An associateship in Practice West will always be worth more than one in Practice East, but the difference will not be as great as it once was. An enduring lesson is that change is difficult and that is because no matter how hard they try, staff and owners will tend to revert to old habits. People tend not to change.

About the author

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 26 years, the last 19 as a founding partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer, and later Director Human Resources Manager, Attorney General's Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. He is the author of the Synstrat Guide to Practice Management, 50 Rules for Success as a Dentist and Buying & Selling General & Specialist Dental Practices. He is a long-term contributor to the Australasian Dental Practice magazine. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed financial services company owned by its directors who work within the Synstrat Group - Tel: (03) 9843-7777, Fax: (03) 9843-7799, Internet: www.synstrat.com.au or dental@synstrat.com.au.