

Characteristics of successful dental practices

By Graham Middleton, BA, MBA



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Successful dentists are close to unanimous in their view that the best years for Australian dentists were earlier in their dental careers. A disastrous advocacy to the government by ADA Inc led to a flood of dental immigrants supplemented by university vice chancellors seizing an opportunity to create more dental schools topped off by a widening of the scope of practice of dental therapists. The result is that the dental workforce went into heavy over-supply and continues to grow at a rate which exceeds growth in demand.

This panicked dentists into signing preferred provider agreements with health funds, yet as we know, health fund extras insurance schemes shamelessly exploit customers by their excessive gross profit margins and place serious restrictions on dentists who sign such agreements.

The good side

There remain many successful dentists who have a properly disciplined approach to practice and whose personal financial decision-making is of a high order.

The cost of not thinking strategically

No dentist will be successful financially if they concentrate on marketing alone, nor is it likely that a dentist who ignores key aspects of their practice will have sufficient capital to become wealthy through investment. Many dentists who have what are objectively reasonable practices have not run them optimally, do not understand their benchmarks and have not made good strategic financial decisions. Over the period of a career, many of these dentists have forfeited one to three million dollars in current dollar terms. That is a tragedy, but one which is relatively easy to avoid, providing that appropriate decisions are taken early and good clinical practice management standards are adhered to, as well as a systematic approach is taken in respect of financial decision making.

A profession or an industry?

Bankers and marketing consultants have a tendency to refer to the dental industry. Experienced dentists rightly refer to their calling as a profession. Dentistry is a profession characterised by having passed demanding professional courses, professional registration and maintenance of standards.

Miscellaneous services to dentists such as dental suppliers, dental equipment providers, those who fitout practices and those who fix equipment might be termed as belonging to the dental industry but they are not part of the dental profession.

Financial fallout

What is occurring in America has a significant flow on to Australia. Like him or loathe him, President Trump lit a burner under the US economy. Companies have stopped moving factories offshore; large US corporations with funds abroad are repatriating them to the US because of changes in the tax regime and unemployment is down. As a result, the US Federal Reserve has begun putting up interest rates and reversing some of the actions it took as a result of the GFC. It is effectively removing part of the US money supply. The impact is that US interest rates are increasing. As our banking system relies partially on funding from offshore, the funding cost of our banks is rising and this is forcing interest rates up in Australia and depressing house prices.

Additionally, Federal Treasury, the Reserve Bank and the Australian Prudential Regulation Authority (APRA) became concerned at the rate of growth in Australia's money supply and by encouraging banks to push up interest rates and restricting certain forms of lending, will bring the growth in our money supply down to an acceptable level.

It's not commonly realised that the banking system itself creates additional money. It does this when Client A borrows to buy a home off seller Client B who banks the proceeds of the sale. The bank then lends part of the money deposited to Client C to buy a home and the process repeats itself.

With the recent housing boom, including a multitude of high rise apartments sold off the plan at unrealistic prices, the money supply grew at an unhealthy rate and that rate is now being unwound.

The consequences are that home prices in the three major markets - Melbourne, Sydney and Brisbane - have been falling since approximately October 2017 and will fall further.

A further consequence is that it has become harder to borrow and some forms of lending such as non-recourse lending to superannuation funds to buy property have ceased in respect of the four major banks and AMP. We expect the availability of non-recourse loans to superannuation funds to dry up completely.

The worst impact

The worst impact is in the high rise sold off the plan unit market.

It has never been a good strategy to invest in the high rise rental market with a hope to building wealth to grow into a good home purchase or purchase a practice premises. From an investment perspective, residential rental units are poor investments compared to the vast majority of homes owned and occupied by dentists and the vast majority of practice premises owned by dentists. Capital growth is poor.

Developers across Melbourne, Sydney and Brisbane are desperately trying to sell remaining apartments at discounts to rescue projects, which have started too

late and have experienced huge falls in value. While they were required to sell about 70% of apartments off the plan on 5-10% deposits to obtain finance, many of those buyers have been caught in a situation where the valuations at completion are now up to 25% below their contracted price. They face the situation that it is better for them to write off their deposit and not settle if they can wriggle out of the contract. Banks are refusing to lend to finalise their purchase unless they can come up with substantial extra personal capital. High rise development projects are in a downward spiral.

While freestanding home values are currently falling, their price will not fall to the extent of high rise apartments because they are underpinned by land value and because home owners have a lot more scope when it comes to renovating or extending houses built on their own land. You can't build an extension on a high rise apartment; there are access problems if doing a significant makeover and the long term value is captive to the overall appearance of the building with typically about 50% of tenants rather than owner-occupiers.

The fact

Buying off the plan apartments has not been a sound investment strategy for the past 30 years. Despite a few bright spots, mostly, at best, the market stagnated and at worst, cost buyers a 20-30% loss. Some unscrupulous accountancy practices took big kickbacks from property spruiking organisations to introduce potential buyers. When markets deteriorate, hot salesmen and women disappear to some other market, sometimes in another country. It's a repeating cycle. Residential rents offset by all of the unavoidable landlord expenses are simply not competitive with stockmarket yields over time.

While the two best property investments for most dentists have been their family homes and their practice premises, we point out that in some rural settings, rents are so low as to make the opportunity cost of buying premises non-competitive.

Practice builders versus practice destroyers

There are two types of dentists - those who are practice builders and those who are practice destroyers and to a

degree, this carries over to ownership as some dentists who are not naturally practice builders acquire practices but struggle to make them productive.

Nurturing young dentists is laudable, but if, after a time, they are not generating follow-up appointments but rather patients see them once and are lost to the practice, they are a practice destroyer and must be removed.

The typical dental practice

While we deal with a range of dental practices, the typical dental practice has about \$1.3 million of fees with two or three chairs.

In the case of sole owners, the principal dentist is usually the highest fee generator in the practice, typically providing 55-60% of fees and a second dentist or two part-time dentists or perhaps a part-time dentist and an hygienist produce about 40-45% of the fees.

In other cases, two dental practice owners operate in a simple associateship with two surgeries and no dental employee and produce approximately equal fees.

Such practices, if run efficiently, can provide a sound income to a principal dentist. Provided that other key decisions concerning home ownership, possible premises ownership and superannuation are sensible, we observe that some dentists in this category can and do retire owning a nice home outright and a healthy superannuation fund of up to several million dollars split with their spouse.

Dentists inevitably struggle financially and have their personal confidence and long term financial outcomes narrowed if they haven't attended to the basics of making appropriate clinical development and who:

- Have let the appearance of their premises deteriorate;
 - Haven't been proactive in respect of advising patients about the unsuitability of extras cover;
 - Haven't had receptionists who are on the ball;
 - Lack sufficient confidence to be proactive in advice to patients; and
 - Have let their fees fall too far and cannot face up to a necessary large adjustment.
- Such dentists typically:
- Have struggled to meet their family lifestyle costs;
 - Sometimes approach retirement with little or no superannuation; and

- Have let their practice slide too far to have any significant value on sale.

Hence, there is a wide disparity in the long term financial outcome of dentists who started with approximately similar sized practices.

By comparison with the above, I advise many dentists who are good clinicians, make sound practice decisions, keep their practices looking fresh and professional while at the same time having loyal satisfied patients. These dentists have good chairside relationships and many of them have successfully grown their practices in an adverse market when nationwide average fees per dentist have been falling.

Those prepared to take good advice in respect of their practice are also prepared to take it in respect of their key financial decision-making.

The cost of having an ill-informed accountant

Many dentists say that their accountants and/or financial advisers are nice people despite their inadequate advice having cost them a huge amount over their practice-owning careers.

Perhaps these accountants didn't have the courage to admit to the dentist that they didn't understand their business or financial situation sufficiently to offer sound advice or perhaps they pressed on regardless of the fact that they literally cost their clients \$1 million or \$2 million over their practice ownership careers by variously failing to advise obvious problems in their practice, failing to provide legitimate and sensible tax planning advice and failing to warn about poor investment strategies. Indeed, some are complicit in their clients' buying off the plan apartments by getting a kick-back and some, many years ago now, accepted huge commissions to talk their clients into buying Eucalypt plantation investments which had characteristics of poor investments from the outset.

You only get one chance to maximise your dental career from the time at which you purchase your practice through to practice sale and retirement. If you make a mess of it through poor accounting and financial advice, that situation cannot be rectified late in your dental career.

Dentists need to ask themselves whether their accountant or financial adviser who they think are decent, nice people are actually competent to guide them in their

practice and financial decision making! I have seen many examples which prove that lots of them aren't competent in this overall duty to their clients and as a result, many dentists end up being millions of dollars worse off than their peers at retirement. The outcome of poor advice in year one of practice ownership compounds over the next 30 or 40 years.

Ray McGinty's Barber Shop

I used to go to an aging barber, Ray McGinty, who is now long-retired. His barber shop was pretty basic but he was personable and always asked about my football team. One day, a well-presented unisex hairdressing salon opened next door to Ray's barber shop and I asked him what impact the unisex hairdressers were having on his business. Ray's answer was a crisp "none". Intrigued, I asked Ray to elaborate. He explained that he had regular clients and he knew all of their sporting interests. He could talk about horse racing, AFL, cricket, golf, tennis, etc and in my case, the Melbourne Storm rugby league team.

The next time I had my haircut, I watched a couple of guys ahead of me. When one hopped into the chair, Ray immediately asked: "How do you think Carlton will go this season?"

The guy then had an amiable conversation with Ray about Carlton. He got up, paid Ray and left. The next customer sat in the chair. Ray immediately asked a question about Collingwood and an animated conversation followed concerning Collingwood's most recent recruits and coach. I had my haircut and as I stepped outside, I looked through the window into the much better appointed unisex hairdressing salon next door and observed two hairdressers leaning against empty chairs! The secret to Ray's client retention was that his real product was his ability to engage in topics which interested his clients.

Dentists, Medical GPs, Hairdressers, Podiatrists, your local Butcher, your pet's Vet and others are in the personal relationship business. By contrast, McDonalds has depersonalised its outlets and its business is based on brand and universality of product.

My wife and I prefer to shop at a local Foodland franchise because the small business couple who run it identify heavily with the local community and have developed a delicatessen and prepared

food lines to suit the local demographic. Coles and Woolworths supermarkets a mile down the road will have a vastly wider range of products on their shelves but are totally de-personalised.

The key issue for dentists

Dentists' chairside manners are as critical to their success as their clinical skills; even more critical because a dentist with good clinical skills can still be a practice destroyer - driving patients away through their lack of empathy. The appearance of a dental practice, entrance, waiting room and warmth of the receptionist are critical on the way to the dentist and wherever possible, the dentist should step outside their operatory and greet their patients personally rather than waiting for them to come in and sit in the chair.

Over many years, I have observed that a dentist's modest investment in having a professional interior decorator update the presentation and furniture of their waiting room is more effective in boosting practice income and referrals than any particular new item of dental equipment.

The importance of practice benchmarking

Numerous dentists have walked through our doors having no idea as to how their dental practice compares with practices conducted by their peers. There is not much point in an accountant telling somebody that they have got a better financial result than the local bread shop, greengrocer, panel beater or podiatrist. They are different businesses and comparisons are invalid. If dentists are not regularly informed on the true measures of their practice performance and if their overall financial decision making is not subjected to proper analysis, there is every chance that over a career of dental practice ownership, they will end up millions of dollars worse off than their professional peers.

Elementary marketing

When I have conducted hands up surveys with groups of dentists, I've found the following:

1. When asked whether the dentists in the audience get most of their new patients from the personal referrals by their existing patients of their friends, rela-

tives, neighbours and workmates, there is an overwhelmingly positive response. This, indeed, is the way most patients, particularly quality patients, first arrive at their dentists practice;

2. When I ask whether they believe that they get many new patients by distributing brochures to people's letterboxes, there is an overwhelmingly negative reaction. What might work for supermarket specials doesn't work for professional services such as dentistry;
3. When I similarly ask whether dentists receive new patients through advertising in the local newspaper, I get a similar negative response. Except in very specific cases and then only for a short time, advertising in the local newspaper is a waste of money;
4. When I ask dentists to put up their hands if they get many new patients from their website, few if any hands go up but sometimes somebody in the audience remarks that "*once upon a time we used to but now that practically every dentist has a website, that no longer works for us*". However, somebody else chimes in with a comment to the effect that "*after they've been personally referred by an existing patient, they'll go to our website to find out where we are and how to make an appointment*".

Among clients, their experience of paying money to be put to the top of a Google search function has mixed results.

The most successful dentists

Excepting a tiny group of superstars, the most successful dentists conduct relatively small practices of two or three chairs but have a principal dentist who ticks all the boxes in respect of personal, clinical and chairside skills and has a small tight-knit staff. Typically they have:

- High order clinical and interpersonal skills;
- A tight focus on filling appointments in the principal's surgery with the "right" patients and the principal dentist generates well in to seven figures of fees;
- A practice which is definitely not a preferred provider;
- A practice which is well-presented and kept in first class condition;
- Assistant dentists who are also practice builders;
- An hygienist employed in one of the surgeries for a day or two per week;

- Dramatically lifted the output of the practice since original purchase;
- Ownership of their premises and none of the best practices are co-located with medical practices or located in shopping centres;
- Upgraded their own home to a long term home of significant value and paid down the mortgage rapidly;
- Maintained interest tax deductible debt on a long term basis;
- A healthy superannuation fund;
- An understanding of their practice performance benchmarks;
- Intuitive knowledge of the key indicators of staff performance;
- Run their practices without the impediment of having weekly staff meetings but everyone in the practice knows what the expectations are;
- Run their practices without a practice manager albeit that a courtesy title might be given to the receptionist;
- A part time bookkeeper who visits the practice on a regular basis;
- Produced 85-90% of the actual profit of the practice in the principal's own surgery because they don't have to pay somebody else 40% (of gross fees net of laboratory costs) to do that work; and
- Busy practices and because they achieve a lot their staff are happier.

In summary

- If dentists buying practices wish to be successful long term, they need to:
- Get basic structure right in order that they do not end up paying an unnecessary amount of capital gains tax when they sell the practice in 30 years' time;
 - Get proper advice concerning practice value and key issues before they buy;
 - Have a clear understanding of the condition of the practice that they are buying and the present state of patient bookings is far more important than the financials of three years ago, but we would check several years' financials to make sure that there has not been any significant cost shifting to amplify recent performance;
 - Avoid sending letters to patients announcing that the outgoing dentist has sold them their practice. Rather, they have the outgoing dentist work for them for a period of time on a declining availability basis as part of a handover and the outgoing dentist gently fades out while the purchaser, who in the patients'

- eyes is simply a dentist who has joined the practice gradually picks up the outgoing dentist's patients. They don't give patients an excuse to go somewhere else by telling patients that their regular dentist of many years is retiring;
- Polish up chairside and clinical skills. Don't be afraid to review patient interactions with the chairside assistant once a patient has left. Do note patients' special interests for their next visit;
- Regardless as to whether premises are owned, treat spending on improving the presentation of the entrance, waiting room and operatories as a necessary business expense. Dentists whose practices are poorly presented may still receive regular visits from existing patients but those existing patients will be reluctant to refer their friends;
- Never forget that they are in the people business;
- Concentrate on getting fees up and expenses down, paying down non tax deductible personal home mortgage while keeping business debt long term;
- Consult accountants who understand the business of dentistry who can provide them with proper benchmarking information and interpret it for them;

- Assist in keeping them on track over a long period;
- Get financial advice which explains their financial progress relative to dentists at similar career stages; and
- Have a clean website which makes it easy to make appointments, especially using a mobile phone.

Don'ts

- Don't buy extraneous investments such as residential rental properties but do stick to proven paths for wealth creation utilised by successful dentists;
- Don't stick with accountants and advisers who are unable to give you proper advice appropriate to you as a practice owner/operator who hopes one day to be able to have a saleable practice and be able to retire in comfort; and
- Don't expect to get good financial advice from a financial planner working for a bank or an insurance company nor expect to get it from a real estate salesman intent on flogging rental units.

If unsure

Give Synstrat a call!

About the author

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 31 years, the last 24 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 Management, of the 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 Synstrat Dental Stories, 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. Both Synstrat companies are owned by the same directors who work within the Synstrat Group. Call Tel: (03) 9843-7777 Fax: (03) 9843-7799 visit www.synstrat.com.au or email dental@synstrat.com.au.

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