The 10th Dimension

... a series of articles by Dr Ed Bonner BDS MDent, Sloan Fellow London Business School, practice development consultant & coach

What’s your Practice Worth?

Many methods of valuing a practice have come and gone over the years. Currently there is no single method of practice valuation that is absolutely correct or that should be exclusively used without the benefit of a cross-check. In recent years the gross income or turnover was considered the most important factor and the value assessed as a fraction thereof, say 55 per cent or 50 per cent. Fine, but it has no real meaning. Business practice today places far greater emphasis on profitability, both present but more important predicted future, and in these instances a multiple of profitability, say 5 times or 4 times, is used to determine the asking price.

Set against this, the purchaser needs to select the minimum rate of return on his investment that he wishes to achieve and to compute whether this can be achieved relative to the asking price. Example: your profit last year was £75,000 and you want 4 x £75,000 = £300,000 to make it worthwhile to sell your practice. However, you want a return of 50 years by annum on my investment in this case £500,000 which is £90,000. As I cannot secure my investment of £75,000 I will not achieve my desired rate of return. However if I only want a return of 20 per cent ( £90,000 per annum), then I can do it with space to spare. Simple maths.

During the course of my consultancy work, I often hear dentists say that they are professionals, not businessmen and they were not used to they would be in business they would have chosen something more appropriate to study. Yet, how effectively we work in our chosen profession is a function of how efficiently we employ the resources available to us. The bottom line is obviously frightfully important, and we treat it accordingly. The value is in the patient’s mind and it is in the patient’s pocket. We choose to be in ownership of the practice and we derive certain benefits therefrom. What we do, whether we are personally or commercially aware of the benefit of a cross-check. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker.

Generally speaking, most patients are fundamentally decent people and appreciate the excellent service they receive from you. Unfortunately, every practice has some dental patients who have an attitude problem. They sincerely believe that their time is more important than their dentist’s and this therefore gives them the right either to cancel appointments at short notice, or even not to attend at all. Perhaps this is still a residue from the days when patient dental charges within the NHS were only a fraction of the total cost; unfortunately, even a large fraction did not come to all that much, and people tend to value things by what they have to pay for them.

In a very busy practice operating on short appointments, a patient not attending may bring a sigh of relief as it gives the dentist an opportunity of either dealing with emergencies, catching up on running late or tending to urgent calls or correspondence. It acts as a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker. In other circumstances however it may be the exact opposite, a stress-breaker.

What should we do? bite the bullet, or charge them? (like a fee, not like a rhinoceros, although that is what we might consider very appropriate...) If we charge a fee, we risk upsetting and possibly losing the patient; if we don’t, we stand to lose many things: we may lose our temper, we certainly lose our money, and we ultimately risk losing our self-respect.

– Let’s consider the following scenario A: “Hello, it’s Mrs Mum speaking. I’m really sorry I can’t keep my appointment today, but my three-year-old just and I can’t let him alone.” Charge, or no charge?
– Compare this with the follow-up scenario B: “Hello, it’s Dr Buxyman’s secretary speaking, Mr Buxyman’s been called in to a meeting at the last minute and can’t keep his appointment today.” Charge, or no charge?
– Scenario C: patient Mr Shifty simply does not arrive, but later says he was kept late at the doctor/in court.

When does one need to evaluate the worth of one’s or another’s practice?
– prior to buying or selling the whole or part of a practice
– when setting up a partnership or expense-sharing associate

We choose to be in ownership because we believe that we will derive certain benefits compared to those who work for someone else. Yet few who own practices are aware at any given time what their practices are worth, nor take the time to evaluate the rate of return they are getting for their effort.

What I am getting at is illustrated by the following example: let’s say you could earn £72,000 a year as an Associate. However you feel you would be happier if you owned your own practice; so you borrow £300,000 at 6 per cent. You buy your own practice and find that your earnings drop to £60,000 per annum after paying interest for the money you borrowed. What’s your rate of return? Well, in salary terms, you are—16 per cent. Stress!

Solution: buy cheaper materials or don’t buy that new handpiece or don’t give your nurse her expected salary or find a cheaper laboratory. However if you were aware that the goodwill of your practice had risen by £50,000 during that year which when added to your £60,000 (a rate of return of +20 per cent) might make you feel a whole lot better and not make any of those very foolish and short-sighted choices.

Are you for or against dentists charging for failed appointments or late cancellations? Email jury@dentaltribuneuk.com and let us have your views.