

Value in Your Practice Through Balance



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A few issues back in Issue 41 of *The Professional Advisory* I described some of the value drivers in a dental practice and concluded that “Patients and Profit make Value”. And that is certainly true. However, the value of any practice is enhanced if it is in balance. In this article I will explain how balance works to create value in your practice. The dictionary defines balance as “a state in which various parts form a satisfying and harmonious whole and nothing is out of proportion or unduly emphasized at the expense of the rest”. In your practice you should try to achieve balance in the following areas:

- **Gross billings : Patient**

This ratio is important because it reveals a lot about the practice. Is there work to do? Do patients accept your case presentations? Are you providing comprehensive dentistry? Are you able to meet the demand for your services? In this category we like to see the amount in the \$500/Patient range. It is hard to reproduce if you are significantly above that level so any variance should be below that level.

- **Assets : Gross Billings**

If you want to sell your practice for a million dollars it has to look like a million dollars. That does not mean you have to spend a million dollars on your equipment and leasehold improvements but you really need to keep this in balance. If you have too little invested in your facility your practice value will suffer as in the example Practice 1, below. Conversely, if you overspend on assets you will end up eroding the goodwill value because market value first goes to assets and then to goodwill. If you are in balance you maximize your overall return.

- **Goodwill : Total Value**

As I illustrated in the assets: billings ratio of \$500/Patient, goodwill is what is left of market value after deducting the value of your assets. Please note goodwill is measured against total value as opposed to assets that are measured against total billings.

- **Gross Billings : Hygiene Billings**

The hygiene ratio indicates how well managed your recall program is along with how your patients accept your (or your hygienist's) recommended recall frequency. Additionally, a strong hygiene program is generally viewed as a way to enhance productivity in the restorative side of the practice. It also contributes bottom line profit with minimal time invested by the dentist. Dental Practice Investors place a real emphasis on strong hygiene production for good reason.

- **Top 4 Expense percentages (Staff, Lab, Supplies, Rent)**

Industry averages are 25.2 per cent for staff, 6.5 per cent for rent and 6.8 per cent for supplies. It would generally be said that the lower the better applies for these three expense items. Lab is a flow through expense that is an indicator of how much crown and bridge work is being done in the practice – therefore a low number is not generally the goal. Also with lab, if you are much higher than the industry average of 7.9 per cent, it may be reasonable to conclude that much of the crown and bridge work in the practice is already done. Here again, balance is the key.

Examples of Balance

	Practice 1	Practice 2	Target
Gross Billings	\$1,012,000	\$1,048,000	
Billings : Active Patient	\$613	\$265	\$500
Assets : Billings	15%	21%	25%
Goodwill : Total Value	83%	82%	78%
Gross : Hygiene Billings	45%	32%	>30%
Top 4 Expense %	39%	32%	<46%
Practice Value	\$867,000	\$1,347,000	
Value as a percent of Gross	86%	129%	

These examples illustrate how the numbers work together to create value. In Practice One, if the dentist had invested in assets at the target amount of 25 per cent it would have enhanced the value by over \$100,000 with more enjoyment working in a modern updated facility. In Practice Two, the dentist enjoys good value relative to the gross; however the per patient production is low so there is no benefit from a strong hygiene or restorative program. Value would be enhanced further by balancing this ratio.

Most dentists do not have enough statistical data at their fingertips to determine these ratios. If you do not, a Valuation of your practice will reveal where you stand in all of these critical areas. If you don't have the information available, compare your practice to the two actual examples above and to the target to see how balanced your practice is.

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