

## HYGIENE AS A VALUE DRIVER

Many practices claim to be focused on hygiene, but few execute very well on this mission. This article will focus on the ongoing reasons to consider a renewed focus on hygiene and on the value creation this focus will have when you sell.

Hygiene normally accounts for roughly 30 per cent of the gross revenue of a dental practice. We have seen this number range from 15 – 55 percent. If we consider the impact this range will have on a practice that grosses \$1,000,000 in total revenue with 1,700 patients, the case for focus on hygiene becomes compelling.

At 15 per cent of gross the hygiene side of the practice produces \$150,000 in revenue and the dental side produces \$850,000. This is only \$88 per patient per year in hygiene revenue. While you might think someone would see this as untapped potential, the more likely sentiment is that the patient base is non-compliant and the future revenue stream is therefore uncertain. There would also be serious concerns about the \$500 per patient annually that the doctor is billing. This is far higher than average and would leave people thinking they could not reproduce those results as there is likely treatment being performed that they either can't or won't do. Further, the net profit of this practice would be negatively impacted because it costs less to produce hygiene revenue, therefore, hygiene revenue is more profitable for the overall practice. This is primarily due to the cost of the provider. A hygienist typically bills three times what they are paid or roughly \$120/hour. This equals 33 per cent of their gross as compared to the 40 or 45 per cent you pay yourself or an associate to produce revenue. This also highlights the reason that you should not do your own hygiene. You are too expensive to perform this kind of work! Besides, hygienists are much better than dentists at hygiene. This low hygiene producing practice would be penalized from a value perspective by roughly 20 percent due to the above factors. That is \$250,000 to \$360,000 in today's market. Certainly, this is something to avoid!

At the other end of the spectrum is the practice that derives 55 per cent of its revenue from hygiene. In this case the practice would generate \$323 per patient annually from hygiene. This would be close to or at the maximum hygiene revenue per patient, and would indicate an older, very compliant patient base. I would expect a high percentage of patients to be on a three or four month recall schedule. Contrary to how high patient production is viewed on the dentistry side of the practice, this high hygiene production would be viewed as very positive by prospective buyers. They would assume the patients are of high dental I.Q., that they are loyal to the practice and that they do not mind paying out of their pocket for good dental care. They would also make the assumption that there is untapped potential in the charts because the dental revenue is so low compared to hygiene. This practice would also enjoy a strong bottom line profit due to the high percentage of lower cost (as previously discussed) hygiene revenue being performed. The other intangible factor that would be appealing in this type of practice is the profit being generated through other provider's time rather than by the owner. Purchasers are happy to pay a premium for that. All of the above factors would contribute to this practice realizing a premium of 25 to 35 per cent over the standard 30 per cent hygiene practice. This equals \$325,000 to \$455,000 premium on the sale price. This is certainly an undertaking worth pursuing.

There are also other reasons that make hygiene extremely valuable.

- The schedule for hygiene is generally booked much further out than the dentist's which makes the practice appealing.
- The revenue can continue when the dentist is not there.
- Most hygienists are good at diagnosing (or confirming your diagnosis) and some patients appreciate the confirmation coming from someone with nothing to gain.
- If the dentist has serious health problems, the goodwill of the practice can be preserved by the hygienist's continuing to see the patients until the practice is sold or the dentist recovers.

If you and your team can focus on bringing your hygiene percentage up over 30 per cent you will reap rewards during the time you own the practice and also have a more marketable practice to sell when the time comes. If you are not sure how to go about improving your hygiene production, I would encourage you to consult with a Dental Practice Consulting firm who can guide you to increased profits and value generation.

*David Lind is a Principal and Broker of Record in Professional Practice Sales Ltd. ([www.ppsales.com](http://www.ppsales.com)), which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: [david.lind@ppsales.com](mailto:david.lind@ppsales.com)*