

Make Better Decisions : *Knowing the value of your practice can help you plan*

By Alan Hill, CPA, Rea & Associates Inc.

For Dr. Kent Caserta, life has revolved around a family dental practice for the past 32 years. But in recent years, he has started thinking that he might consider adding an associate or partner to the practice. The doctor had already established a retirement plan, but since the practice is a large part of his wealth, he needed a marketplace value of his practice to help in his retirement planning. That way, if he wants to discuss his practice with a potential partner, he will be able to confidently discuss its value.

Determining the Value

While Dr. Caserta needed a business valuation of his dental practice to help in the planning process, the cost of a true business valuation was a consideration. Actually, he didn't need that scientific of a calculation either. That's why he opted for a cost-effective way for a business owner to get a value of his business instead.

Snapshot Valuation

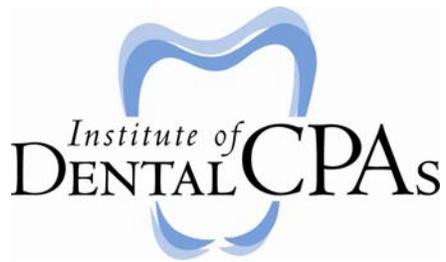
The process started with a one-hour meeting with the doctor's staff, where financial information including charges and collections was collected.

"I was actually on vacation when the meeting took place," laughs Dr. Caserta. "I think half the battle is having good records available – it was not a lot of work for my staff to pull the information together. If you didn't keep good records over the past five years, it could be an issue."

Dr. Caserta tracks statistics each year such as number of new patients, the zip codes of his patients and the number and type of procedures. But comparing that information to the industry had its challenges. "The most we had done was compare our productivity and collections versus some benchmarks that were published in some of the dental publications. But each practice is different. A specialist has fewer costs because he or she needs less equipment except for his/her specialty, and as a general practitioner we have higher overhead. So it was always difficult to hone a benchmark."

The information collected from Dr. Caserta's staff was compiled into a series of reports. A draft copy of the report was presented and streamlined to include the information Dr. Caserta most needed. In the end, the doctor was not surprised by the value of his practice.

"It's good to know the value of your business," he said. "This valuation process is something practices should consider doing at least every five years. It can help all practices, from those with less experience to mature ones, as well."



In addition, the valuation has made it easier for Dr. Caserta's family if something should happen to him. "Not only can I approach a potential partner with this knowledge, but my family can better make decisions in my absence as well, he said"

Computerization is Key

For most dental and medical practices, a business valuation should be a relatively easy process. The problem comes if an office is not computerized and the financial information that is needed is not easily accessible. However, with the many computer programs available for the industry, your office manager should not have a problem gathering the data.

Dr. Caserta admits that he and other dentists today know more about their bottom line than they did 10-15 years ago, in part because of the way dentists are bombarded with information.

"I probably get 10 dental magazines each month that give me business information and benchmarks," he said. Dental schools also do a better job of teaching the business aspects of running a practice. And I look for practice management courses to take that can provide information specific to dental practices."

Moving Forward

Dr. Caserta is not making any changes as a result of the business valuation of his practice. He is looking at production, various procedures, collections and overhead to see how he can increase net profit. "When I began my practice, my goal was to establish a good clientele to rely on and for their referrals, be good to people and treat them with respect," says Dr. Caserta.

For the past 31 years, Dr. Caserta has been in the same location in Willoughby, Ohio. He, and his staff of five, sees around 10,000 patients a year, some of them twice a year. "There's a lot more I need to know today about the technical aspects of my business, but this same client service philosophy is still at the core of what I do every day."

For now, he'll continue to keep his eyes open for a potential partner who shares his philosophy so he can one day transition to a lighter workload. However, he can move forward knowing the value of his practice and can discuss it confidently if he meets the right person.

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