



# The big picture for your new practice

## How to read a feasibility report

By Genna Levitch, BDS

**T**he previous columns in this series discussed how to establish a budget for purchase or rent. Let's assume you have now bought your strata unit or rented your tenancy. What you need now is to put together 'the big picture' for setting up a dental practice in the chosen space. What all your expenses might be, how much you could expect to earn the day it opens - then eventually when every chair is fully booked - and finally how much will you be able to take out of the practice each year to live on.

This is a fairly simple progression and if done with accuracy, provides a lot of information that helps you make a business decision and also provides your bank the financial backbone to your business plan.

A basic spreadsheet is what you need to fill in. Admittedly, you may not have all the financial information at your fingertips. Some you will already know, the rest you will need to glean from knowledgeable and friendly sources. For instance, what the design and building cost will be, the cost of dental and office equipment, where will you get the money, where will the money be spent, how big can your practice grow and what return will you be able to make out of it to warrant the risk and effort.

The first page of the sample we are working through will have the areas of expenditure, the second will set out what

Table 1. LDA Feasibility Calculator			
Summary of Establishment Costs			TOTALS
<b>1. Site Cost</b>			
<b>2. Interior</b>		<b>NLA sqm</b>	<b>Per sqm</b>
Design Fees/sm	160.00	\$260	\$41,600
Fit Out Costs/sm	160.00	\$2,700	\$432,000
Furniture			\$15,000
Decorative Items			\$3,000
			\$491,600
<b>3. Marketing</b>		<b>Unit cost</b>	
Logo/Graphics/Web		\$12,000	
Internal Signage	budget. est. only	\$7,500	
External Signage	budget. est. only	\$2,000	
			\$21,500
<b>4. Dental equip</b>		<b>Unit cost</b>	
New surgeries	2	\$65,000	\$130,000
Move/install chairs	4	\$2,500	\$10,000
			\$140,000
<b>5. Office</b>			
Computers/IT			\$20,000
White Goods			\$2,000
Office Materials			\$10,000
Telephone			\$5,000
			\$37,000
<b>TOTAL BUDGET</b>			<b>\$690,100</b>

the leasing will cost and the income you can expect to generate and the last page will show your yearly P&L.

Let us look at an example of a 2-chair practice expanding to a 4-chair practice. The principal will be renting the premises

**Table 2. Leasing and rental costs**

Mortgage and Lease Structure				
<b>1. Building Costs</b>				
<b>2. Dental Practice Costs</b>				
Fitout & Marketing		\$513,100		
Equipment		\$177,000		
<b>Total</b>		<b>\$690,100</b>		
Fitout & Equip Lease (Lease 5yr 10% residual)				\$169,657
Rent (160 sqm @ \$350/sqm)				\$57,600
Gross Fees				
<b>1. Gross Required</b>		<b>Gross Required</b>		
Fitout & Equip Lease	9%	\$169,657	\$1,885,080	
Rent	6%	\$57,600	\$960,000	
<b>2. Dentists/hygienists</b>		<b>Days</b>	<b>Daily Rate</b>	<b>Gross</b>
Princ. Dentist (PD)	1	220	\$3,800	\$836,000
Employ. Dentist (ED)	2	220	\$2,500	\$1,100,000
Hygienist/Therapist	1	220	\$1,500	\$330,000
Practitioners	4			
Chairs	4			
<b>Max Gross Production</b>				<b>\$2,266,000</b>



at a gross rent of \$350/sqm. He will need about 40 sqm per chair i.e. about 160 sqm of internal space (known as Net Lettable Area - NLA). The fitout cost for this size is estimated at \$2,700/sqm (It will vary according to the size, type and age of building it's in, level of finish quality and personal preferences of the principal). He will need to include loose furniture and decorative items, as this is not part of the building cost; he has 2 dental chairs and will lease 2 more; he will upgrade his IT with a new computer system and digitise the practice. Finally, he will use the opportunity to rename and rebrand the practice.

As you can see from Table 1, the total budget is just under \$700,000. There is some potential to modify some of these expenses and we will look at those possibilities in later columns. If we take this figure and assume it will be leased on a five-year term at 10% residual, this gives us an accurate cost per year for the fitout and equipment expense; as well we already have the rental cost per year. These are two crucial figures.

Table 2 sets out the leasing and rental costs and then works backward to find out how large the practice needs to be to afford this.

Over the years, looking at hundreds of practices, an ideal dental expense budget

has been tabulated and shows that a practice should not spend more than 9% of its gross income on fitout and equipment lease. So if we know that this lease cost is \$169,657 and then divide it by 9%, we get \$1,885,080. This is the gross per year required to afford the expenditure of \$169,657 on fitout and equipment. The rental should not be more than 6% of the gross; so working backwards again we get a minimum gross required of \$960,000. These two costs are fixed as opposed to variable. That means that no matter how high (or low) the gross becomes, the quantum of these two costs does not change. The other expenses of the practice are known as variable because they vary as a proportion of the gross.

Now we have reached the crucial point of the exercise. Do you believe you can reach a gross of \$1.8m and if you can, how long will it take for the practice to grow to that size? That is the crux of the decision and only you as the principal can make it. It is your money, your risk and your reward. Let's assume you have the potential patients, the staff required and practice management skills to support sustained growth.

The next step is to estimate the maximum income you could generate from the new practice. I have taken average figures that allow a principal gross of \$3,800/day,

associate dentists \$2,500/day and a hygienist \$1,300/day. Working 220 days per year, which is 44 weeks, five days a week. The point here is to have the chairs fully occupied, so the figures reflect a full time equivalent (FTE) rather than every practitioner working a full week.

This produces a potential of \$2.6m as the maximum the practice can produce, nicely above the \$1.8m minimum required by the fitout and equipment costs. These figures are somewhat conservative, as it does not allow for increases in patient fees, which is CPI+ each year. To the observant practitioner, the question still remains: how long will it take me to get to \$1.8m, as while my gross is less than that, I will have to be paying some of the lease costs out of my personal income?

The answer to that question comes from establishing a projected budget and profitability for the next five years of running the practice.

Next issue we will look at how to put together a realistic projected budget that you and your bank can rely on.

**About the author**

*Dr Genna Levitch is a principal of Levitch Design Associates. He has had 25 years experience in private practice can be reached on (02) 9694-5700.*