



Commercial risk

Trust your bottom line when considering a new practice

By Genna Levitch, BDS

This series is all about understanding how to understand the risks in opening a new practice or expanding an existing one. Every small business owner wrestles with calculating the risks and how to minimise them. There are a sackful of variables that can affect your success, but luckily we are in a protected profession that gives us an edge that other businesses don't enjoy.

There is a flip side to this and it is hidden to most dentists: we don't bother to use the tools that other businesses have learnt to use and these can be crucial to success. The tools are budgets, location, presentation and marketing. This blind spot is due to historical reasons. We have been told not to advertise, market or in any way differentiate ourselves from each other. The truth is we are all different and we will naturally attract different patients. Our differences fall into large groupings and patients learn to pick up the clues that tell them which group you belong to.

The success of practices that engage good designers is simply the success that comes from giving the correct clues to your potential patients. This extends to all visual mediums such as your logo, brochures, signs, web pages and the like.

It takes a considered decision to engage consultants to improve the quality and scope of what you may have done yourself to date. Your compatibility with a consultant and your willingness to trust and let go are crucial to a good working relationship.

The sample budget that is published here is also an interactive document that requires openness on both sides for it to be an effective tool. It should be considered in the light of what other specialist consultants could offer you. The Feasibility Calculator is a multi-purpose exercise as it can fulfil a number of needs:

Table 1. LDA Feasibility Calculator

Summary of Establishment Costs				Totals
1. Site Cost				
2. Interior		NLA sqm¹	Per sqm	
Design Fees		160	\$260	\$41,600
Fit Out Costs		160	\$2,700	\$432,000
Furniture				\$15,000
Decorative Items				\$3,000
				\$491,600
3. Marketing			Unit cost	
Logo/Graphics/Web			\$12,000	
Internal Signage	budget. est. only		\$7,500	
External Signage	budget. est. only		\$2,000	
				\$21,500
4. Dental Equipment			Unit cost	
New Surgeries		2	\$65,000	\$130,000
Move/Install Chairs		4	\$2,500	\$10,000
				\$140,000
5. Office				
Computers/IT				\$20,000
White Goods				\$2,000
Office Materials				\$10,000
Telephone				\$5,000
				\$37,000
Total Budget				\$690,100

1. Establish to the bank you understand the important elements of a business plan;
 2. Confirm your confidence in your financials to the bank by showing your ability to accurately predict budgets, income and expenses, extrapolating current figures into forward projections.
 3. Isolate the various expenditure items so your financier can offer the best financial products to suit your requirements;
 4. Reduce the risk of 'unknown' expenses that would throw out the calculations;
 5. Give you a summary that enables you to see the commercial exposure in a quick snapshot;
 6. Help you decide if you can achieve the growth required to justify the expense;
 7. Give you a basis for a 5-year plan; and
 8. Produce a realistic bottom line that allows you to decide if this is sufficient to maintain your lifestyle.
- 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.
- Table 1 of the sample has the areas of expenditure, Table 2 shows the leasing costs and the income you can expect to generate and Table 3 shows current

Table 2. Leasing and Rental Costs

Mortgage and Lease Structure				
1. Building Costs				
2. Dental Practice Costs				
Fitout & Marketing		\$513,100		\$129,301
Equipment		\$177,000		\$40,356
Total		\$690,100		
Fitout & Equip Lease (Lease 5yr 10% residual)				\$169,657
Rent (160 sqm @ \$350/sqm)				\$57,600
Gross Fees				
1. Gross Required²		Gross Required²		
Fitout & Equip Lease	9%	\$169,657		\$1,885,080
Rent	6%	\$57,600		\$960,000
2. Dentists/Hygienists		Days	Daily Rate	Gross
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			
Max Gross Production				\$2,266,000



Table 3. Dental Budget

Ideal %	Based on:	Year 1	Year 2	Year 3+Hyg	4/5Years	Actual
100.00%	Gross Receipts (GR)³	\$1,200,000	\$1,495,000	\$1,950,000	\$2,266,000	100.00%
8.00%	Lab Fees	\$96,000	\$119,600	\$156,000	\$181,280	8.00%
	Nett Receipts (NR)	\$1,104,000	\$1,375,400	\$1,794,000	\$2,084,720	92.00%
	Expenses					
36.80%	Dentists \$ as % of NR ⁴	\$441,600	\$506,147	\$660,192	\$767,177	
16.50%	Staff	\$198,000	\$246,675	\$321,750	\$373,890	
6.00%	Material	\$72,000	\$89,700	\$117,000	\$135,960	
2.00%	Services & General	\$24,000	\$29,900	\$39,000	\$45,320	
9.00%	Fitout & Equipment ⁵	\$169,657	\$169,657	\$169,657	\$169,657	7.5%
6.00%	Rent ⁶	\$57,600	\$59,904	\$62,300	\$64,792	2.9%
1.00%	Marketing	\$12,000	\$14,950	\$19,500	\$22,660	
8.50%	Admin ⁷	\$102,000	\$127,075	\$165,750	\$192,610	
6.20%	Profit	\$27,143	\$131,392	\$238,851	\$312,654	13.8%
Principals' net						
Gross less lab x 36.8%		\$307,648	\$334,400	\$334,400	\$334,400	
Plus profit		\$27,143	\$131,392	\$238,851	\$312,654	
Principals' total		\$334,791	\$465,792	\$573,251	\$647,054	28.6%

Note: All amounts are in Australian Dollars and exclude GST

Notes

- NLA - Net Lettable area. Tenancy area, can be estimated $GFA^8 \times 0.85 = NLA$
- Gross Required - the lease and rent pa are divided by the ideal % to estimate the gross required to support this expenditure
- Gross Receipts - Principal Dentist to increase 40% pay Yr 1, 20% Yr2, 15% Yr 3 plus hygienist, and Employed Dentist
- Dentists' pays - after lab fees, includes Principal Dentist pay
- Fitout equipment lease - can be 9% as a one off expenditure, but should drop back to 3% to 4% of gross at the end of the lease.
- Rent - 4% yearly increase. Commercial rent payable to owner.
- Admin - Insurance, Finance fees, credit card fees, bookkeeping, accountancy, phone, CPD, office supplies, legals, computer, post, office supplies, etc.
- GFA - Gross Floor Area used in building construction calculations.

and projected yearly P&L's with your bottom line. Yes there always needs to be a bottom line; the "Principals' Net" (i.e. your take home pay before tax).

This is a simple and easy tool that gives you the information you need at the initial stage before any costs are incurred. Each

situation is different and business entrepreneurs use this tool to assess the potential of each project they consider. This Feasibility Calculator allows you to do the same.

Once you have made a decision to start the project, what you need to do next is the topic for the next edition.

About the author

Dr Genna Levitch is a principal of Levitch Design Associates, Australia's foremost specialist dental practice design and construction consultancy. He has had 25 years experience in private dental practice can be reached on (02) 9496-5700.