Bentson Clark reSource

4th Quarter 2013

A Quarterly Publication For Su

Exploring Business & Occupancy Overhead Expenses

By: Chris Bentson & Doug Copple

This is the final article in a three-part series regarding current averages and benchmarks in orthodontic practice overhead. In the 2nd quarter edition of the *Bentson Clark reSource*, we performed a high level review of practice overhead from 75 valuations that were completed over the last several years by Bentson Clark & Copple. That article categorized adjusted practice overhead into four primary categories: staff expenses (averaging 24.2% of net collections), orthodontic supply expenses (averaging 11.6%), business management expense (averaging 10.3%) and occupancy expenses (averaging 9.7%). When all the categories were combined, the average adjusted overhead was 55.8% of net collections. We compared this data to a similar study of 25 practices published in the 2nd quarter 2008 issue of the *reSource* (Volume III, Issue II), wherein the same four comparable categories illustrated an average adjusted practice overhead of only 50.9%. In both studies, discretionary and other non-operating expenses were removed.

This article will focus solely on the third and fourth primary categories of practice overhead, that of business management expenses and occupancy expenses. Each category is broken into a single line item from the income statement that yields the average expense for each category. A sample section of an income statement is shown on page 1, with averages from the most recent sample data and the 2008 sample data for purposes of comparison. The data given is expressed as a percent of net collections for the line items in each category. There will be a brief discussion regarding common adjustments that may be deducted from the various line items to eliminate discretionary expenses and comments from the current data when compared to the 2008 figures.

Annual Resident Survey: Today's Orthodontic Residents Speak Out

By: Laura Overcash

At Bentson Clark & Copple, we often say that we that work with orthodontists at the beginning of their careers and at the end of their careers. This newsletter, the *Bentson Clark reSource*, is intended to speak to practice owners during the years in between. Even though 80% of our time is spent working with sellers, our team still spends a lot of time working with and getting to know the current orthodontic resident population. We visit their residency programs, attend events catered to the resident community and participate in resident-only webinars and presentation opportunities. We spend numerous hours speaking with them as they search for an orthodontic practice to purchase or an employment opportunity. In fact, we employ a full-time executive recruiter solely to serve the needs of our seller clients who are seeking a buyer, partner or associate as part of their transition plan.

We believe that understanding resident sentiment is important as this group of young doctors and the decisions they make will have a great impact on the profession over their careers. Demographic data indicates that the overall population of the specialty is aging, and doctors are working longer than previous generations. The current environment is certainly slanted towards sellers, but signs are beginning to indicate a shift towards an equal number of buyers and sellers in the orthodontic space.

In This I

The Bentson Clark reSource (ISSN 1559-1360) is published quarterly by Bentson Clark & Copple, LLC, 397 South Swing Road, Greensboro, North Carolina 27409. Periodicals postage paid at Greensboro, North Carolina 27409.

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Subscription Price: $95.00 per year, 4 issues
Cover Price: $28.00 each

Dental Referrals are Declining…Halt the Trend! - Part 2

By: Nancy Hyman

The Journal of Clinical Orthodontics reports that dental referrals dropped 10% between 1999 and 2011. In order to increase this vital segment of your referral base, create vibrant and innovative programs that keep your practice at the top of list when general dentists and their teams are recommending patients for your services.

Last quarter, the *Bentson Clark reSource* featured part one of "Dental Referrals are Declining…Halt the Trend!" It focused on creating a Target List of general dentists to communicate on a timely-basis to help increase practice referral rates. It concentrated on selecting an individual to serve as a Practice Representative (Practice Rep) and creating goals for the representative. The article also addressed creating a visitation schedule to local general dentists on your Target List and assigning it the Practice Rep to execute. Let's dive back into halting the decline of dental referrals by preparing marketing materials to distribute, planning gift giving and educating your target list with a variety of marketing outreach opportunities.

Have a full arsenal of support materials and plan on what to present at each visit. An example of a 12-month rotation is detailed in this article.

How Great is Your Sales Process?

By: Dr. Jennifer Eisenhuth

Nationally, many orthodontic clinics are operating at less than 100% of capacity. In fact, it is likely that only 3% of offices are at full capacity, according to John McGill of the McGill & Hill Group. Many reasons contribute to this less than ideal level of production. The economy, increased competition with both primary care dentists*, and new orthodontists entering the market, as well as increased efficiencies due to advancements with bracket systems, wires and tray systems have all created gaps in production schedules. As orthodontists, we can accept the above reasons as rationale for not meeting our practice potential, or we can pursue steps necessary to retain or increase our production.

Because of the nature of our specialty, orthodontic practices constantly seek new patients to replace the ones who finish treatment. For those starting new practices, the challenge is even greater. In the past, the doctors controlled both the flow of patients and information. Thanks to the internet, patients are not only self-empowered, but they also make a significant contribution to referrals to orthodontic practices. Twenty years ago, orthodontic practices could not be easily built by patients alone. Now, patients have become the biggest referral source for many practices. As a result, patients no longer solely rely on their primary care dentist for a recommendation to an orthodontist. Today, consumers are more in charge and comparing orthodontists, either online or in person, are becoming common for prospective orthodontic patients.

Lease Considerations in Practice Transitions

By: Doug Copple

When dealing with a practice sale or transition, the buying and selling orthodontists have much to consider and negotiate throughout the process, such as the purchase price, length of the doctors' working together before and after the sale, financing arrangements, staffing issues, etc. We, however, often see that one of the most important issues takes a back seat in the transition negotiations – the office lease. Whether the office is owned by the selling doctor or by an unrelated third party, we have seen numerous transactions be delayed due to lease issues not being resolved timely. This article walks through some of the more significant lease issues to be considered, whether the office is owned by the selling doctor or by an unrelated third party.

Office Owned by the Selling Doctor:

In the case wherein the selling doctor owns the real estate, the selling doctor often does not know what the fair market rental rate of the property is. The selling orthodontist often sets the lease rate he or she pays to himself or herself based on tax considerations or mortgage payments, which may be significantly higher or lower than fair market rental rates. We often have sellers tell us during the valuation process or transition negotiations that the rental rate should be $xx per square foot without really knowing the market, getting advice from a real estate expert, or understanding if this is a gross or net lease rate. ("Gross" means that the landlord pays most or all expenses, such as real estate taxes, insurances, and maintenance, while "net" means that the tenant pays such expenses. Gross lease rates are therefore higher than net lease rates.) The buyer, often inexperienced in these transactions, is generally advised to get the opinion of a local real estate expert to help evaluate the lease rate.