

Increasing Cash Flow by Expanding Your Vision – and Practice



By Bob Creamer, CPA

The ultimate goal of the thoughtful dental practice is to deliver optimal care for its patients. At the same time, creating generous cash flow for both the short and long term is central to building professional and personal success. The good news is that the two go hand-in-hand. Delivering the quality experience that you, your staff and patients seek is at least partially contingent upon investing in the very business tools that generate higher fees.

But how do you create this win-win scenario for your practice in a poor economic environment without getting bogged down in debt? The key is to leverage the resources already available in your business, the first being your vision for long-term growth.

Create a Treatment Plan for Your Practice

Just as you define the oral health needs of your patients in a treatment plan, successful doctors look at the health needs of their practice to define the steps required to ensure continued, ongoing success. How will they stay competitive in an ever-evolving market? How can they preserve and even increase the long-term value of their practice? What level of patient flow and productivity can they realistically manage?

We continue to see that doctors performing at the highest level have outlined a vision for their practice in a written “practice treatment plan” that addresses questions such as these. They focus on their plan, making adjustments and investing in their practice regardless of the economy. They do not allow the economy to control what goes on in their practice – the doctor controls the practice, and the practice continues to grow according to plan.

Expansion Fundamental to Continued Growth

Fundamental to that plan is incorporating the equipment, technology, remodel or new facility that will enable you to continue providing optimal care to your patients. If planned with the appropriate objectives in mind – improving the patient experience through more advanced technology and services, increasing office efficiencies, and enhancing service capabilities -- practice expansion will generate increased cash flow for your practice through a synergistic blend of patient flow, balanced fees and greater productivity.

Practice expansion is fundamental to continued growth. We know, for example, that a single operatory may generate from \$150K to \$250K in production annually. A dentist with two operatories and no room to grow has greatly limited his or her ability to make a good living through their practice. Yet many doctors hesitate to expand or upgrade their practice for fear of generating more work or debt than they can handle.

While managing increased workflow is certainly an issue that will need to be addressed through staff additions or greater efficiencies, debt need not be a serious obstacle even in a struggling economy. A well-planned practice reinvestment or expansion program can virtually pay for itself.

Numerous Ways Expansion Can Pay for Itself

In fact, reinvesting in your practice offers numerous benefits that will be realized in the bottom line:

Valuable Tax Incentives for 2011

In 34 years we have never seen a better year than 2011 for doctors to acquire equipment and technology and write it off without limitation. The 2011 deduction for Section 179 of the IRS tax code is at an all-time high of \$500K. In addition, there is bonus

depreciation of 100%. These generous write-offs start going away next year in significant amounts based on current law.

- ✓ Section 179 deduction drops to \$125K in 2012 and to just \$25K in 2013.
- ✓ Bonus depreciation drops to 50% in 2012 and disappears altogether in 2013.

When combined with today's excellent financing terms and interest rates, the 2011 tax year offers an incredible opportunity to invest in your practice with virtually all equipment purchases paid for with tax incentives, and loan payments at potentially historic lows.

Properly Balanced Fees

Upgrading your equipment and systems creates an opportunity to properly balance your fees to reflect the level of technology and capabilities you are now offering. Balanced fees can make a significant contribution towards offsetting your business investment. For example, last year we helped a number of doctors rebalance their fees, resulting in an average of \$88,000 in additional production for each practice. Since this production did not require any additional expenditure of supplies or labor, it went to the bottom line to increase profits.

Increased Patient Flow and Production

Investing in improved efficiencies, whether in office systems or chairside technology, can allow the practice to see more patients and increase the level and quality of production, generating additional income for the practice and further offsetting the costs of expansion.

More Patient Referrals

When you are able to provide optimal care in an efficient manner and give patients the quality experience they seek, patients are eager to refer their family, friends and neighbors. With systems in place to handle more appointments, you will reap the financial benefits of an increased patient flow.

Practice expansion is fundamental to continued growth.

About the author:

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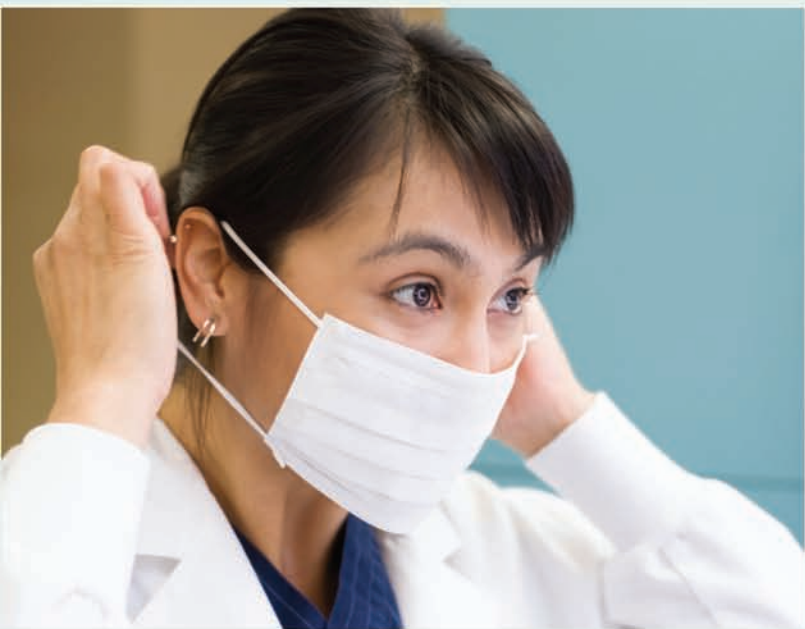
Increased Practice Value at Transition

A practice with upgraded systems, equipment and technology is more valuable to new doctors who are already burdened with school debt and cannot afford to outfit a purchased practice with new equipment. At the same time, an updated practice can produce extra cash flow to help fund your retirement while giving you a competitive advantage with state-of-the-art equipment and outstanding patient care.

Gather an Expansion Team

Just as a valuable practice team enhances the level of care you provide to patients, an effective expansion team can help you save time and money in creating and implementing the “treatment plan” for your practice. At a minimum your team should include an equipment supplier, dental practice lender, and dental CPA. You may also want to consider including a dental practice management consultant and dental attorney.

The level of success you achieve in your practice is driven by the vision you hold, the plan you follow, and the level of care you ultimately provide. While there are many resources available to help overcome debt and achieve generous cash flow, the profits won't necessarily be there without delivering an overwhelmingly positive experience for your patients. So work to understand how reinvestments in your practice help deliver optimal care to your patients in a better way than you're offering now. As you continue to improve the level of care you provide, you will ultimately enjoy the benefits of increased profitability and cash flow for your practice.



Financing Your Practice Expansion

Sample Cost Projection

How do you know if you can afford an expansion project? Here's a sample cost projection for a four-operator, 2,000 square foot practice. (Your project may be larger or smaller, and actual costs will vary accordingly.)

Leasehold improvements	\$150,000
Soft costs	\$25,000
10% contingency	\$40,000
Working capital	\$25,000
Equipment / furnishings	\$200,000
TOTAL BUSINESS LOAN:	\$440,000
Monthly Payment:	\$5,338 (8% fixed over 10 years) + additional monthly rent

Calculating Debt Service

When considering your ability to repay a loan, most lenders will begin with an assessment of the adjusted net income for your business, which includes your business's annual net income plus owner's compensation and depreciation. The adjusted net income is then divided by the total annual amount of your personal debt and expenses, plus the total annual amount of the debt you are requesting to borrow. This provides the debt service ratio, which lenders use to qualify you for their loan. The acceptable debt service ratio will vary across lenders, but a good rule of thumb is that 1.25 or greater is a good starting point.