

MAXIMISE GOODWILL

Written by Johnny Minford



Johnny Minford says identifying the 'performance' goodwill of a practice will reap rewards

A businesswoman I know says that goodwill equates very simply to the ability to make money from the underlying dental practice assets, and she is absolutely right. The more money which can be made from those assets, the higher the goodwill should be.

In that definition lies all the clues to its maximisation. Some would feel that one answer is to work harder. And faster. And longer. However, from the businesswoman's perspective, this does not generate extra goodwill, it merely demonstrates that you can work very long hours at a fast rate. The person who will buy your practice may not work in the same way, so they may not see those profits as achievable.

Our businesswoman's solution to maximising goodwill is rather to look at the structure of the factors generating the profits, and then organising them to the practice's benefit. These factors include:

- The nature of the patients
- The attitude of the patients to 'buy' dentistry
- The ability of the clinicians to deliver dentistry to the patients

When advising, we at Minford use an internal description of the value - the 'performance' goodwill - of a practice: the capability of its clinicians to do work, and its ability to hold on to the source of that work. Orientating the practice to achieve these goals will reap rewards when sale time arrives.

PATIENT FACTORS

Clearly the balance between NHS and private patients in a practice is one. It has long been the case that private practices attract a lower value on the market than those with an NHS contract, at least in England. The reasons for this relate to the constancy and reliability of the income stream; income does not have to be 'chased' every month. There is never

JOHNNY MINFORD

Johnny Minford and his team have been working as specialists in the dental industry. He has been a member of the National Association of Specialist Dental Accountants and Lawyers (NASDAL) for 25 years.
EMAIL: johnny@minford.eu
WEBSITE: www.minford.eu



a shortage of NHS patients. Applying the same concept to private dentistry, buyers are starting to recognise that patients under a plan are much more reliable than a list dependent on item of service (IoS), and should therefore attract a higher goodwill ranking.

The type of patient is also important, and this relates to both the treatment plans needed and to the ability and attitude of the patients to accept the treatment. High need demographics are not necessarily less attractive than a clinic which has a history of good preventative care - at least where the selling value of goodwill is concerned. It is all about the ability to generate profits.

If the practice is highly specialised in, say, implants, then unless this has a solid and continuing source, either by the nature of the patient list or by the referral process, this may not easily be sustained by a new owner. So while the individual treatments may be profitable, their value from a buyer's perspective may be more questionable. On the other hand, steady repeatable GDS is attractive because it is easily transferable.

This ease of transferability is a major factor in performance goodwill. It enables the owner to have the option of using associates or therapists, which increases the possibilities for other earning potential elsewhere in the practice. Leaving aside specialist practices, the more quirky or unusual the patients, the staff, the nature of the general services, the lower the value of the goodwill, simply because it is harder to walk in and take over.

It therefore follows that to maximise goodwill on a sale, the owners might consider making the practice as 'vanilla' as possible, and as unreliant on their personality or specialisms as practicable (this is a concept which applies to any business).

STAFF FACTORS

Of course the dentist owner does not just relate to patients, they also relate to the staff. A new owner coming to the practice will want to be very clear of what they are buying, and that any patient-influencing staff will transfer with a smile to the new owner. This aspect is something often overlooked when assessing a valuation, but it is important for retaining the goodwill which is costing the new owner money.

This falls into the second half of our definition; the ability to hold onto the source of the work. Stability of the income source is critical. An NHS contract under GDS is reliable, as long as one performs the UDAs.

It is also a useful exercise to look at what degrades goodwill. One obvious and often seen factor is a practice being allowed to wither away in the years before a retirement sale. In private surgeries this is seen in low numbers of new patients and an increase in average age of the list. For an NHS practice, avoidable reductions in contract and therefore goodwill are heartbreaking to watch. It is more sensible to pay extra associate time at 50% (or more) to hit the NHS target which if retained, on a sale will realise at least double what you have paid the associate.

The key to recognise is that there are no 'average' dentists, no 'average' patients, no 'average' location, so there should be no 'average' solution. It is up to every dentist to take a strong look at their practice, their patient demography, their treatment plans, and how their staff team work - all these things affect the attractiveness of a practice coming to market, and all can be worked on over the five year run down prior to sale. ●

COMMENTS TO PRIVATE DENTISTRY
 @ThePDMag