

## Basic Finance in Dental Clinics

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### Abstract

This paper will focus on certain factors which can take part in the basic finance in every dental clinic focusing on same objectives.

We will here try to:

- To display a forecast for the financial year ending 31 March 2013.
- Indicate what happens as a result of planned change: e.g. take in as associate.
- Indicate what happens as a result of unexpected change.

**Keywords:** Basic Finance; Dental Clinics

### Forecast of the financial year ending 2013

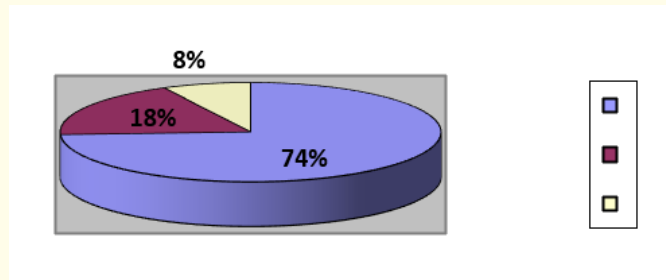
		2011	2012	2013
Income	NHS	85,456	84,900	59,000
	Denplan	7,560	12,500	14,220
	Private	3,500	7,650	5,950
Turn Over		96,516	105,050	79,170
Expenditure	Wages	17,083	18,594	18,456
	Materials	9,845	10,715	5,348
	Lab fees	8,107	8,824	4,130
	Repairs	1,930	2,101	2,032
	Rent/Rates	4,343	4,727	7,412
	Heating/Lighting	965	1,051	864
	Telephone	869	945	980
	Insurance	670	700	979
	Loans	1,500	1,250	980
	Bank Charges	870	970	1751
	Accountant	1,200	1,500	1,479
	Other	2,000	2,700	1,153
		49,382	54,077	45,564
Profit		47,134	50,973	33,606
Profit Margin		48.83542625	48.52260828	42.44789693
Total Assets				60,000
Profitability				56.01

**Table 1**

Take in an associate

Facts

Since a strategic plan is already there (took a new associate) at this point we need to do a Gap analysis to collect a much date as possible.

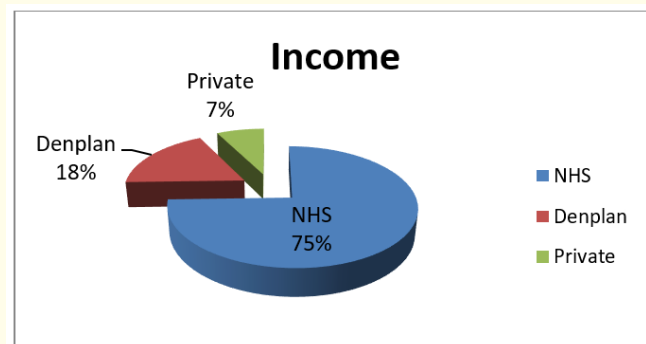


Graph 1

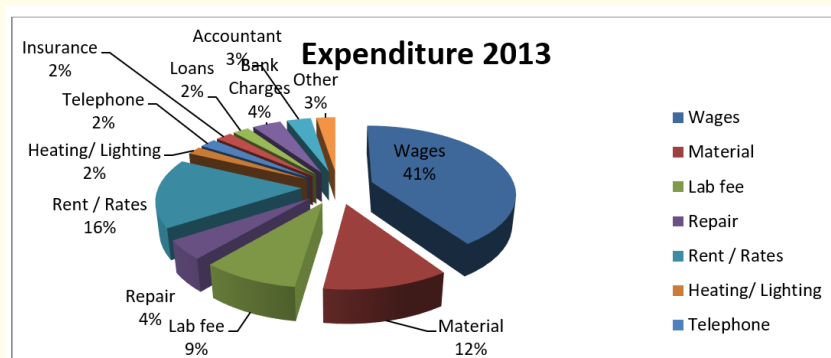
Gap analysis

Where are we now?

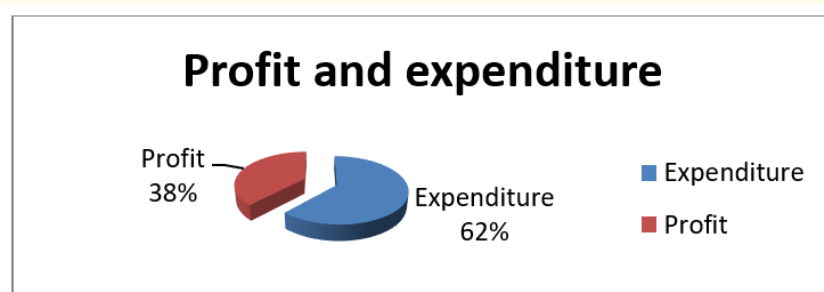
Data analysis for the 2013 forecast.



Graph 2: Note: NHS represents the highest income source.



Graph 3: Note: the wages already represent 41% of the whole expenditure.



Graph 4

- The average net profit per associate was about £70,299 in 2008, the associates are dentists who work on a profit-sharing basis within a dental practice, but do not have a share in responsibility of running the practice, not the ownership of practice property and equipment [11].
- The average UDA rate paid to associates was £20.82.
- Until recently the usual agreement was for the associate to be paid 50% of their gross earning less the laboratory bills that could be attributed to them, however in recent years there has been a certain move to another approach where principles have varied the proportion of income they deduct from the associate. In April 2006 the new contract was introduced which provides the payment of fees for the practice based on the number of UDAs the practice has completed.

Gross Fees	70,000
Lab Fees	4,130
50% of Gross Fees	35000
50% of Lab fees	2065
Total	37065
Total amount due to be paid to associate annually	32,935

Table 2

**Where do we want to go?**

We want to maintain the same percentage of the profit (at least 38% or increasing it) when a new associate joins.

**How do we get there?**

By studying all the phase and expected changes of the strategy plan through and a SWOT analysis.

**Changes**

We should expect a lot of changes that must be taken into consideration among these changes are, since the strategy of change is expected all the changes should be expected too and it should not affect the working system:

1. Self changes: (A new member is going to join the team), the team should be aware in advance
2. Other questions and risk assessment: At the heart of this analysis is the question of what income the practice will produce when the new dentist takes over. Major factors which determine this are human, professional and demographic [8]:
  - Are the fees set at levels which will produce adequate profit under new management?
  - Is the new dentist comfortable with the nature of the practice? If the quality of dentistry is substantially higher than the dentist has been used to, it may prove impossible to live up to. If it is lower, it might not be easy to raise standards [6].

- If an upgrading of quality is required, are the patients willing or able to pay for it?
  - Are the technicians adequate and their charges appropriate?
  - Are the patients of a social mix which is likely to respond favourably to the new dentist?
  - Does the practice require 8, 15, 30 or 60 patients a day to produce the necessary income and is this compatible with the 'dentist's working methods'?
  - What are the likely future practice community population trends and competing dentist numbers and types? [6]
3. Financial changes: We should expect an average net profit of 70,000/ year and extra sources are needed to cover the extra expenditure, taking into consideration that the annual profit was around 33600 this can be achieved by different means [8]:
- According to the data collected (usual agreement was for the associate to be paid 50% of their gross earning less the laboratory bills that could be attributed to them [3] so we have an annual wage of around £33000 to be paid by the associate, bearing in mind trying not to affect the profit as much as possible, this can be achieved by:
  - Internal
  - External.

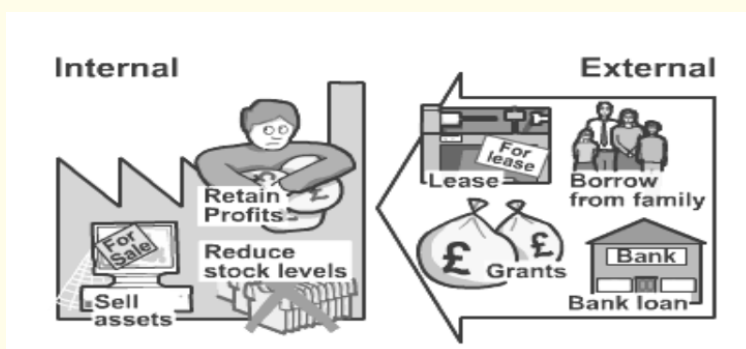


Figure 1

1. Internal sources of finance are a cheaper way to raise working capital. Obtaining finance externally is usually the last option as interest has to be paid [12]. Might include:
  - a. Increase the value of NHS contract.
  - b. Provide addition service to existing patients (such a more hygiene work) there are different tools used to provide tangible evidence [11] of the quality of service on offer:
    - Place
    - People
    - Equipment
    - Communication material
    - Symbols
    - Price.
  - c. Introduce new service to exiting patients (such as orthodontic, botox, this can be done by the associate).
  - d. Gain new patient.

- e. Purchase goodwill from another practice.
- f. Reduce lap service by introducing updated machines (CATCAM).
- g. Reduce the amount of patient you lose by using a robust patient education system [5].
- h. Increase the prices yet (One of the mistakes made by many practices is having different treatment fees for different patients. Dental fees should remain consistent because, Patients talk among themselves and by charging different fees for the same procedure and it makes it easier for your dental receptionist to quote a fee to a patient and Patients do not like financial Surprises [7]. The best solution is to keep a balance between demand and supply.



Figure 2

- 2. **External sources of finance:** A sole trader or a small business may be able to borrow money from family or friends without paying interest. Loans from a bank or a building society can be expensive. An agreed amount is borrowed and repaid over a fixed period of time with interest. A bank overdraft is also expensive. Grants from central or local government can cost the firm nothing. Firms often lease equipment or machinery to avoid a large outlay of cash. This is useful if a firm needs to upgrade within the medium term as technology advances. Why would it want to do this? [12].
- 3. People and patient changes: Which include introducing new associate to patients and to the staff [9]
- 4. Clinical process changes which might involve many things among them the relation and cooperation between the new member and the old staff [10].
- 5. Marketing changes.
- 6. Communication changes.

After consideration all the changes, we can list all in a SWOT analysis in response to change.

**Unexpected change**

(E.g. competition requires you to reduce prices by 10%, or the price of amalgam trebles overnight).

Strength	Weakness
<ul style="list-style-type: none"> <li>a) Things that the associate does well (restoration, minor surgeries)</li> <li>b) Specific skills such as ability to improve implantation operation, special endodontic skill) which might mean extra income and profit</li> <li>c) Personal characteristics (honesty, persistence, intelligence, etc.).</li> <li>d) Education, which can include formal degrees as well as certificates in other fields, such as orthodontic, Botox</li> <li>e) Contacts who can help you reach your career goals. Such as previous patients and recommendation for good lab services</li> <li>f) Open more times leading to more patients and income</li> <li>g) High possibility of increasing the practice annual profit</li> <li>h) Providing better patient care [2].</li> </ul>	<ul style="list-style-type: none"> <li>a) Things that the associate have difficulty doing</li> <li>b) Job-related skills that they need to acquire or improve, such as learning computer applications or getting specific job experience</li> <li>c) External factors such as multiple job losses, no references, large gap in employment, work experience that doesn't match education (limited access to transportation</li> <li>d) Personal limitations like poor coordination, severe sensory issues, anxiety, problems managing anger, and other personal challenges</li> <li>e) Weak cash flow for the first while is an important point that should be considered</li> <li>f) Teamwork needs improvement, particularly in areas of task responsibility</li> <li>g) Sickness issues with staff [4].</li> </ul>
Opportunity	Threats
<ul style="list-style-type: none"> <li>a) Positive potentials (for instance, a chance to retrain for a different line of work</li> <li>b) Are there industry trends or regulatory</li> <li>c) Changes that you can capitalize on?</li> <li>d) Participation in a growing market (looking at the practice as a business</li> <li>e) Cheaper tooth whitening and other service could bring in more new patients to the practice</li> <li>f) Consider updated equipment such as CAD/CAM/ CEREC machines (if the associate is confident using them) to change lab fees from external costs to internal costs.</li> </ul>	<ul style="list-style-type: none"> <li>a) Personal limitations</li> <li>b) External factors such as new technology making some jobs obsolete; seeking employment in a highly competitive field with few job openings; etc</li> <li>c) Possibility of large increases for malpractice insurance</li> <li>d) Increase competition</li> <li>e) Change or withdrawal of NHS funding will seriously affect turnover</li> <li>f) Recession may reduce the amount of private treatments chosen over NHS treatments.</li> </ul>

Table 3

Data collection

Due to competition you need to reduce your prices 10% which means we can collect here a reduction of profit from £33606 to £33011 annually, due to price reduction. Here before we use a SWOT analysis we will list some of things that might take place in such condition [2]:

1. Self changes: In this case the prognosis is much more serious. If the cumulative total is decreasing, then the business is in danger of using up its reserves (its surpluses) simply to stay alive. Either its costs have got out of hand or it needs to generate greater income (new patients, higher prices, more profitable types of work, etc). If this is a temporary situation - due perhaps to a change in the market, or the economic situation - a fairly wealthy business may be able to stave off the liquidators for some time [1].
2. Financial changes: In the reduction of prices it will be necessary to gain some source of funding such as depending on
  - a. Internal resources: Providing new services, saving charges from the lab, as an immediate increase in price will not be the best option here, also spreading large payment over a long period of time, find other sources for material supply which can save money [10].
  - b. External resources: As depending on personal and/or friend support and other bank management resources.
3. People changes which include: Difficulty keeping the financial level for all staff, yet at the other hand it might mean more patients which might compensate [7].
4. Clinical process changes, which will try to compensate for financial loss, and this might involve, unable to update new software for some time.
5. Marketing changes, with cut on the expense used on marketing.

**On SWOT analysis**

Strength	Weakness
a) Fairness and Equality of access to NHS and private patients b) Many new customers come c) Well trained support staff	a) Teamwork needs improvement, particularly in areas of task responsibility b) Patients are still kept waiting c) IT equipment old, communication with staff by paper or face to face d) The competitive practice might have better facilities/ services e) Weak cash flow for some time
Opportunity	Threats
a) More moderate class families could be attracted to the practice if the proper advertisement method is used b) Cheaper tooth whitening could bring in more new patients to the practice c) Use better and more motivated service when compared to other clinics to stimulate larger number of people	a) IT equipment needs to be protected by more robust virus/hacker protection b) Demand for services may reduce due to recession (or NHS / private mix may alter)

**Table 4**

## Conclusion

Although many methods to collect finance in the dental clinic exist, one must bear in mind, there are strengths and weaknesses which should be taken into consideration in addition to any unexpected change which can have a major role in the financial status of dental clinics.

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