CHAPTER 5

Private practice

Private practices have been defined by the NHS Information Centre and the DDRB as those practices whose private income exceeds 75% of their total fees; whereas NASDA defines private practices as those whose private income exceeds 80% of their total fees. Suffice to say that private practices predominately provide private treatments.

The relatively small amount of NHS work that they provide is usually as a result of their retaining their NHS-exempt patients upon the introduction of the new contract in 2006, and at that time being given a UDA target based on those patients.

The exempt patients in these cases usually comprised children, and private practices will often continue to provide NHS services for children while supplying private dentistry to their parents.

Private dentistry can either be delivered by way of 'fee per item', where the patient is charged a specific fee for each course of treatment, or by way of a 'payment plan' where the patient pays a monthly premium, which will cover various CoTs, either to the practice or a third-party provider such as Denplan or Simplyhealth.

FEE PER ITEM

The fee per item that dentists charge can vary from practice to practice, with the treatment charges being calculated in numerous different ways. The level of fees charged should be at least sufficient to cover the practice overheads and the drawings of the principals, and the practice accounts should detail these amounts, to ensure that the practice can check and pitch its fees at the correct level. However, many practices do not calculate the level of fees that they charge with reference to their accounts. Instead, they often adopt the level of fees that

their predecessors charged, often inflating the amount by a small margin to take into account inflation. Others set their levels of fees to be in line with other dental practices in their area.

To calculate a sustainable level of fees a practice should undertake the following exercise.

- ➤ Ascertain the level of practice fixed costs, i.e. non-clinical staff costs and the practice running expenses.
- ➤ Ascertain the level of variable costs that are incurred by clinical staff and principals while providing treatments.
- ➤ Decide on an affordable level of profit for the principal, which will provide for sufficient monies to pay a reasonable level of drawings, pay the tax bill and provide for pension payments, if appropriate. The level of drawings should be set to afford the dentist the lifestyle he or she wants.
- ➤ Calculate the number of chargeable hours available in the year from all clinical staff fee earners (principals, associates, technicians, therapists and hygienists). Note that not all working hours will be chargeable as there may be administrative and management issues that will need dealing with.
- ➤ Allocate an hourly rate to all fee earners which will produce an annual turnover that will cover the practice overheads, the variable costs and produce the desired level of profit. Note that the BDA publishes average hourly rates of pay for DCPs.
- ➤ Monitor the levels of chargeable hours achieved against a budget on a regular basis to ensure the targeted level of turnover is being achieved.

Most dentists do not maximise the profits that they could make from their practice as they charge their patients too little. They are not aware of the price insensitivity of their patients, and do not realise that the majority of their patients would not consider leaving the practice if the level of their fees were to increase significantly. Obviously, this is not the case when a new dentist takes over a practice, but is certainly the case when there has been a long-term relationship between the dentist and his patient.

Most patients are not aware of the current level of fees that their dentists charge and accept those fees as a necessary cost. Given the infrequency of their visits I would doubt that any patient would notice if their dentist increased their fees marginally, say by 3% every six months, and if that amount was applied to the practice's turnover, the increase in profit could be quite significant.

There are very few individuals who would shop around by asking a number of different dental practices for quotes, although this may become more popular with the increase in the number of new treatments and products that may not be provided by their own dentist.

Although there has been an increase in the number of practices that have adopted a practice payment plan there are still a significant number of practices

that provide a fee per item service, and the reasons for that are as follows.

- The main reason that payment plans with third parties are not adopted by practices is the cost of running the plan. The provider deducts an administration fee from the premium paid by the patient, and only the net amount is received by the practice. Some practices consider the administration fee too excessive and prefer to retain their fee per item system.
- Some dentists consider the monthly amounts payable under a payment plan to be excessive for some patients, especially those with good oral hygiene, and do not encourage those patients to adopt the scheme.
- There are a number of practices that have been running fee per item methods of payment for a number of years very successfully, and cannot see the financial benefit to them of switching to a payment plan.

As the price dentists charge for their services should be dependent upon the costs of running the practice, and the cost of materials and laboratory fees, their fees will vary in line with changes in those costs.

Although patients may not actively look for another dentist if they feel that the charges are too high, they may, especially in times of recession, delay routine treatments or opt for a cheaper extraction than a more expensive restorative treatment. Therefore, the level of fees may need to be reviewed if the practice appointment diaries are not fully booked up.

Table 5.1 gives examples of prices that dentists have charged for various CoTs. The information can be found on the website 'Whatprice' (www.whatprice.co.uk), and has been produced from a survey of the prices that dental patients say they have paid for specific CoTs.

TABLE 5.1 Examples of private dental charges (2009)

Dental work required	Private prices (£)
Apiectomy	388
Braces – ceramic	2 586
Braces – Invisalign	3 500
Braces – lingual	2 167
Braces – metal	1 064
Bridge	574
Cancellation fee	37
Dental crown – composite	379
Dental crown – gold	403
Dental crown – porcelain	375
Dental examination	43

(continued)

Dentures – full	560
First consultation	53
Hygiene clean	66
Implants	1 116
Large tooth filling – non-white	100
Large tooth filling – white	106
Root canal	356
Sedated tooth removal	140
Small tooth filling – non-white	81
Small tooth filling – white	77
Tooth extraction	87
Tooth scale and polish	46
Veneer	342
Whitening	306
Wisdom tooth extraction	179
X-ray	28

Table 5.1 gives an example of the prices that dentists currently charge for treatment in the UK. But dental treatment charges will vary significantly depending upon the geographical area, local competition, deprivation, etc.

If dentists do encounter problems in setting the level of fees there are a number of 'business coaches' within the dental profession who assist practices with their pricing structures, should their accountants or financial advisers not be providing that assistance.

The following is an extract of a recent article by Chris Barrow, which provides a useful insight in practice profitability:

> What would you think if I suggested that the financial performance of your business could be predicted, up to three years in advance – and to an accuracy of +/– 10%?
>
> Wouldn't that make supporting your practice, your family, your lifestyle and the tax man more tolerable?
>
> Here's the formula:
>
> Number of dentists (D) × Average Daily Productivity (ADP) × Number of clinical days (CD) = Gross Revenues (GR).
>
> and . . .
>
> Gross Revenues (GR) – Fixed Costs (FC) – Variable Expenses (VE) = Net Profit before Tax (NPBT).

So, to summarise:

$$D \times ADP \times CD = GR \qquad GR - FC - VE = NPBT$$

With me so far?

OK, now what I want to do is take a look at each of these input figures again, and make an assessment as to how predictable they are – let's say on a scale of 1–10, with 10 being 100% predictable.

number of dentists = 9/10

You can determine how many dentists will work in the building and, happily, they are quite secure in their environment if two conditions have been fulfilled – either

1 they have been there a long time (and tend to stay)

2 they have been recruited properly (forget about courses and qualification and determine their previous ADP – see below).

average daily productivity = 9/10

I've been measuring the ADP of principals and associates (even specialists) for some years now – and report that it's an amazingly consistent number. Elsewhere I have written that ADPs tend to cluster – around £800 per day, £1,000 a day, and £1,250 a day depending on the associate, and around £1,500 per day, £1,750 a day and £2,000 a day for the GDP principal.

It's another conversation to point out that the £800 a day associate on a 50% contract (or the £1,500 a day principal) is probably losing the business money.

number of clinical days = 9/10

One of my clients, principal of a 10-dentist, 6-hygienist practice, sits down with ALL the clinical team once a year and determines how many days in the year they will be showing up. If he can do it, so can you – and then it's just weddings, funerals and illness that screw up the figures. Of course, the beauty of a multi-surgery practice is that one clinician's absence can be replaced by another's extra attendance – especially when they have similar ADPs.

Fixed costs – are what they say they are = 9/10

So provided you don't go mad at a dental exhibition and buy another toy off another salesperson who tells you 'it will pay for itself', then your fixed costs will only move in line with interest rates.

Variable expenses – surely not predictable? Of course they are – 9/10.

If you measure your KPIs (key performance indicators) and measure variable costs as a percentage of sales for a given period you will find the following:

- lab costs (GDP) 10%
- lab costs (cosmetic and implants) up to 14%
- material costs 7%
- staff costs (excluding hygiene) 17.5%.

And your net profit before tax should be:

- up to £500 k sales = 35%
- £500 k – £1.2 m = 30%
- £1.2 m – £2.5 m = 25%
- over £2.5 m = 20%.

So there you have it – a 90% predictable business.

You may have noticed the absence of a couple of apparently important factors.

- What about prices?
- What about membership schemes or UDAs?

The fact is they make no difference at all. Why? Because dentists are 100% disciplined to their existing ADP. It just doesn't change:

- no matter how many plan patients or UDAs you give them
- no matter how big any financial carrot or employment stick.

They just find their ADP level – and stay there. I challenge you to start measuring and prove me wrong. So, the most experienced clients I work with do sit down at the start of their trading year, they interview the existing clinical team to assess CD's – and they predict their business performance.

There's only one factor that can destroy the predictability. If you stop putting fuel in the engine, the most efficient machine in the world grinds to a halt. And the fuel? Patients.

- Existing patients.

- Reactivated patients.
- New patients.

And the systems with which these numbers are maintained are critical – especially now – hence all the marketing seminars you are seeing. Take control of the numbers and they will look after you. I love mathematics in business. Numbers are like the machines in the *Terminator* movies.
They don't throw 'sickies'.
They don't have moods.
They don't bitch, moan and whine.
Numbers are just numbers. But unlike the robots – you can control them. And just like the robots, if you take your eye off them, they will destroy you. If you are more than 10% down in each of the categories we described above, the cumulative effect will bring you down.

Food for thought?

When the prices of treatments which are provided by private practices are compared with the NHS patient charges that patients will pay for similar work performed on the NHS, the cost is much higher, as can be seen in Table 5.2. This is partly because there are only three fixed bandings of NHS patient charges, £198.00, £44.60 and £16.20.

However, there may not be a lot of NHS practices offering the more complex treatments listed in Table 5.2, mainly due to the low income levels that they will generate.

TABLE 5.2 Comparison of charges of NHS and private practices

Dental work required	Private prices (£)	NHS prices (£)*
Apiectomy	388.00	198.00
Braces – metal	1 064.00	198.00
Bridge	574.00	n/a
Cancellation fee	37.00	n/a
Dental crown – gold	403.00	198.00
Dental examination	43.00	16.20
Dentures – full	560.00	198.00
First consultation	53.00	16.20
Hygiene clean	66.00	n/a
Implants	1 116.00	n/a
Large tooth filling – non-white	100.00	44.60
Root canal	356.00	198.00

(continued)

Sedated tooth removal	140.00	44.60
Small tooth filling – non-white	81.00	44.60
Tooth extraction	87.00	n/a
Tooth scale and polish	46.00	16.20
Veneer	342.00	n/a
Whitening	306.00	n/a
Wisdom tooth extraction	179.00	n/a
X-ray	28.00	16.20

* NHS prices in 2009/10

Historically, one of the disadvantages of a fee per item scheme when it was compared to a payment plan was in relation to insurance, as most payment plans will provide cover for emergency dental work on a worldwide basis. However, it is now possible for dentists to source an independent insurance policy for their patients, should this be an additional service they wish to provide for them.

PAYMENT PLANS

There are a large number of private providers of payment plans for dental services. Some offer pure emergency medical and dental insurance cover while others include cover for certain courses of dental treatment. There is a large range of policies that allow the patient to select the treatment that they wish to pay for, and the costs and treatments available can also vary significantly.

Practices who have adopted a payment plan from a third party are often given assistance from the plan provider in setting a level of fees suitable for their practice.

Purely as an example of the cover provided by some of these policies I have included details below of the 'Denplan Care' plan:

> Denplan Care is a care contract that allows the treating dentist to provide an ongoing preventive dental care treatment programme. It also includes Supplementary Insurance and Denplan's Insurance Services.
>
> Denplan Care is a comprehensive package and offers:
>
> - examinations
> - X-rays
> - necessary fillings
> - hygiene treatment (including scale and polishes)
> - preventive dental advice and therapy
> - any necessary extractions
> - periodontal (gum) treatment

- crowns, bridges, dentures, inlays (excluding laboratory fees)
- root fillings.

It does not provide funding for the following, however:
- laboratory fees/prescriptions
- any treatment specified as excluded by the dentist in your contract
- referral to a specialist and specialist treatment
- treatment carried out anywhere other than at your registered dentist except when covered under your Supplementary Insurance
- orthodontics, implants, cosmetic treatment
- sedation fees.

A payment plan has the following benefits for a practice.
- Ensuring predictable practice income and better cash flow, as the patients' premiums (less an administration fee) are received by the practice monthly, irrespective of whether any treatment has been carried out.
- The level of the payment plan premiums is flexible and the practice can set the level of monthly premiums to suit its profit forecasts.
- The patients often pay their premiums early in the month, and the practice receives that income towards the end of the same month, so there is no need to finance the payment of fees for up to a month, as can be the case when providing NHS dentistry or fee per item.
- Payment plans allow patients to budget for their dental costs, and they will be less likely to complain or refuse to pay their liabilities. This can save a lot of management time.

The main provider of payment plans is Denplan with around 6,000 UK dentists being Denplan members. They deal with approximately 1.3 million patients under Denplan schemes. Denplan provides:
- a range of plans to suit all patients
- a conversion programme providing full support and advice for practices moving from NHS to private dentistry
- support and experience for practice development, business planning, marketing and team development programmes
- Professional Development Team and network of specialist consultants across the UK
- a range of products and services.

There has been a marked increase in the number of practices providing payment plans in the last few years and, in particular, the number of practices signing up for Denplan schemes.

The reason for the increase has been the number of practices converting

from NHS dentistry to providing private dentistry services, and the assistance those practices can obtain in the process of the conversion from Denplan. As a lot of the correspondence regarding the conversion is dealt with direct between Denplan and the patients, the dentist does not experience a lot of the resistance that this process can sometimes attract.

However, there may be a number of practices which have signed up with Denplan, upon their conversion from providing NHS services, to obtain the above assistance, but with the intention that within a few years they would set up their own in-practice payment plans. The benefit being that their patients by that time will have accepted the method of monthly payment to pay for their dental care, but that the practice could operate an in-practice scheme cheaper by saving the administration fee that they would otherwise have to pay to the payment plan provider.

There are a number of independent providers that can assist practices set up their own payment plan and provide insurance cover if it is required.

Below is an extract from the literature of an actual independent practice plan:

PRACTICE DENTAL CARE PLAN

(1) We are delighted to offer our Dental Care Plan – our own membership scheme, which enables us to provide you with the treatment and support necessary to control dental disease and restore your mouth to full fitness.

(2) As individuals we have to make more and more provision for our own health needs. We at Practice Dental Care believe that the best way of making treatment affordable, without compromising our high quality of care, is to offer you membership of our own Dental Care Plan which provides the following benefits.

- A convenient payment scheme for routine treatment.
- Greater choice of treatment and materials.
- More time to help prevent decay and gum disease.
- An extended payment facility to spread additional costs.
- A fair and equitable system where everybody pays the same.
- Substantial discount on additional treatment and sundries.
- Worldwide Trauma and Emergency Callout Insurance.
- Redundancy Protection.

(3) Children are born free of dental disease, yet by adulthood 95% of the population has active gum disease and most people have experienced some tooth decay and even tooth loss. It is our belief that disease can be prevented. Our aim is to provide your child with the best Dental Care available to secure their dental health. We ask parents to register their children from birth so that we can see them twice a year on the NHS to help them grow up free from dental disease. However, if they do need treatment, we can offer them

alternatives not generally available on the NHS. To the children of members of our Dental Care Plans, we can offer these alternatives on the same terms as their parents.

CHOICE OF MEMBERSHIP PLANS

Option 1 – Gold Plan £8.95 per month

- Regular and detailed examinations, including checking for signs of possible oral cancer.
- Regular scale and polish visits with the dentist to maintain the highest standard of oral health.
- Continual advice, coaching and discussion about alternative treatments to suit your individual needs.
- 20% discounts on treatments.
- 10% discounts on oral hygiene items sold in the practice.
- A convenient monthly payment by Direct Debit.
- Worldwide Trauma and Emergency Callout Insurance.
- Extended Payment Scheme for large-cost treatments.
- Redundancy Protection.

Option 1 – Platinum Plan £11.95 per month

As for the Gold Plan, but with one additional hygienist appointment per year.

Option 1 – Periodontal plan £15.25 per month

As for the Gold Plan but with two additional hygienist appointments.

Option 1 – Denture Plan £3.55

Members who have full dentures are entitled to an annual examination to check the soft tissue. Members will receive a discount on denture repairs and new dentures, as well as receiving the same insurance benefit as patients on the Gold Plan.

Option 2 – Registration and Insurance

Some of our patients will prefer to pay in full for clinical examinations and treatments as and when they are needed. For those people, we can offer a second alternative, to register with the practice and pay an annual registration fee of £30.00, which gives our registered patients the same level of insurance as our Plan patients. We have listed the details of this option below.

- Worldwide Trauma and Emergency Callout Insurance.
- Patients pay for each examination and treatment as it is provided, at the standard price.
- There is no discount on treatments or items for sale in the practice.
- There is no Extended Payment Scheme.
- Registered patients must attend an examination at least once per year.
- No Redundancy Protection.

> In order to maintain high standards of oral and dental health, we would recommend regular visits to the practice so that we can spot problems early and monitor the effectiveness of treatments. We hope that you will see, therefore, that we have designed a scheme that enables us to provide you with the highest standards of service and enables you to budget monthly for quality preventive dentistry.

The above example shows that the practice has packaged the services it provides and produced a number of options for its patients. In doing so it will gain all the cash-flow benefits of a scheme with a third-party payment plan provider, but without the costs associated with those plans.

It also provides an insurance policy, which not only provides a benefit for the patients but also will generate a receipt of commission from the insurance provider.

It is possible for a well-run practice operating a fee per item payment scheme to generate a decent level of profit, and with good working capital management to maintain good cash flow, but it is far easier if the practice is operating a payment plan. For this reason you will find that most of the higher earning practices will be those with payment plans.

COMMISSIONS ON INSURANCE AND FINANCE PACKAGES

With an increasing number of practices providing more complex dental treatments, such as implants and braces, and some practices expanding into cosmetic treatments, the costs of treatment to the patient have been rising, in some cases quite significantly.

While there has been an increase in disposable income, and an increase in demand for these additional expensive services from patients with sufficient funds to pay for them, there has also been a market for these services from a proportion of the population without the ready cash available to pay for them.

As a result of this there has been an increase in the number of finance packages being made available for patients to effectively borrow the money to pay for expensive dental and cosmetic treatments.

There are currently two types of loans being made available to patients, as follows.

- **Interest-free loans**, usually offered for a period of 12 months. These loans are financed by the dentist, and are effectively paid by the profit made on the dental procedure provided. Often these loans are offered to increase the amount of the complex work that the dentist can provide within the practice.
- These loans often work as follows.

- The cost of initial treatment is divided over the agreed term, to give the amount of the monthly repayments.
- The first instalment will usually be due a month after the treatment starts; the practice will send the patient a welcome letter advising them of their credit limit, should they ever need to use the account again in the future.
- They can spend up to their credit limit, so once they have started to reduce their account, their credit limit is available to be reused, on a revolving basis.
- So if they need further treatment, this will simply be added to the outstanding balance on their account, and the repayments will be recalculated on the new, total value. The revised repayments will continue, until the balance reaches zero, or they have further treatment.
- The minimum payment each month will be set and no interest will be charged, so long as they continue to make their payments on time.
- They will receive a monthly statement, keeping them up to date on their treatment bills and payments made.

➤ The cost to the dentist of providing the interest-free credit varies according to the length of the term. For example, six months interest-free credit could cost the dentist 6.5% while 12 months could cost 7.5% and 24 months 11.5% (at current rates for £5,000 to £25,000).
➤ **Loans which attract an interest charge**, which is paid by the patient. These loans are often for a period in excess of 12 months. The terms and structure of these loans are very similar to bank loans.

Both types of loans can be sourced from third parties, with finance facilities being offered to provide interest-free and interest-bearing credit for treatments usually up to £5,000.

Experience has shown that practices who offer credit are able to provide more advanced and interesting treatments, increasing both job satisfaction and practice success. The benefits to the practice are as follows.

➤ The opportunity to practice more advanced and enjoyable dentistry through the increased take-up of advanced treatments.
➤ Cash flow will improve as the payment for each full course of treatment is sent to the practice bank account at the beginning of the course of treatment.
➤ Fewer bad debts, as the credit company takes the risk of non-payment.
➤ Greater patient satisfaction.

Some practices provide a hybrid loan where the patient and the practice share the interest cost; these loans are called co-payment loans.

When dentists provide their patients with insurance cover for dental

emergencies, these policies will usually cover the following.

- Dental accident cover (up to a predetermined amount per incident).
- Temporary emergency dental treatment in the UK (up to a predetermined amount per incident, with a total limit payable per calendar year).
- Temporary emergency dental treatment when overseas (up to a predetermined amount per incident, with a total limit payable per calendar year).
- An amount for every night spent in hospital under the care of a dental or oral/maxillofacial surgeon for treatment to head and neck.
- An amount for mouth cancer treatment costs for up to 18 months following a positive diagnosis.

Given the high costs of dental treatment patients are very interested in these policies, especially if not covered under a payment plan scheme.

Dentists receive commissions from insurance companies on the sale of these policies, and receive further commissions from finance providers for the interest-bearing loans they initiate. The level of the commissions will be dependent upon the agreed level of premium to charge the patients for the insurance policies and the level of interest to be charged on the loans. These commissions are becoming more significant as the demand for more complex treatments increases.

Practices that are offering credit products will need to apply for a consumer credit licence.

COSMETIC PROCEDURES

Dentistry is no longer just a case of maintaining, filling and extracting teeth, as it was for many years. Nowadays, many people turn to cosmetic dentistry, as a way of improving their appearance, much as they would use cosmetic surgery or even a new hairstyle. The treatments can be used to straighten, lighten, reshape and repair teeth. Cosmetic treatments include the following.

- **Veneers:** these are thin slices of porcelain. These are precisely made to fit over the visible surface of front teeth.
- **White fillings:** are now becoming a popular alternative to amalgam fillings. The new dental materials mean it is much easier to find a perfect match for the shade of a particular tooth. In most cases, it is quite impossible to see that the tooth even has a filling. Sometimes white filling material can be used to cover unsightly marks on the teeth, in a similar way to veneers.
- **Crowns:** when a tooth is badly broken or heavily filled, the dentist may need to crown or ‘cap’ it to restore its appearance and strength.
- **Dentures:** if a tooth is missing, or needs extracting, there are several ways

to fill the gap that is left. In some cases it is important to try to replace any missing teeth in order to balance the jaw. A partial denture is the simplest way of replacing missing teeth. However, some people find dentures uncomfortable and eventually decide to look at alternatives.

- **Bridges:** are ideal for people who don't like dentures or only have one or two teeth missing. Conventional bridges are made by crowning the teeth on either side of the gap and attaching a false tooth in the middle. They are fixed in the same way as crowns. These bridges are usually made of precious metal bonded to porcelain. Sometimes other non-precious metals are used in the base for strength.
- **Implants**: are an alternative to dentures or bridgework, but they are more expensive. Implants are titanium rods, which are surgically placed into the jawbone and act as anchors for fastening dentures or crowns onto.
- **Tooth whitening**: can be a highly effective way of lightening the natural colour of your teeth without removing any of the tooth surfaces. It cannot make a complete colour change, but it will lighten the existing shade.
- **Teeth straightening:** with orthodontics (braces). This is usually done during the teenage years, when the teeth are going through a period of growth. However, many adults also have treatment to straighten their crooked teeth or to improve their appearance. The procedure can take much longer in adults and is therefore more expensive. For cosmetic reasons, clear or plastic braces can be used, which are hardly noticeable.
- **Tooth jewellery:** involves sticking small accessories onto the teeth.

These cosmetic treatments are highly profitable and are providing lucrative alternatives to dentists that have opted not to continue as NHS dentists.

MIXED PRACTICE

By the NASDA definition, mixed practices are those that do not provide either 80% NHS services or 80% private dentistry, but on the whole are carrying out the same CoTs as those listed above.

With practices opting to take on more cosmetic procedures and others converting their patients to private patient plans, the number of practices within the 'mixed practice' definition is reducing each year and looks likely to continue to do so given that there currently appears to be a polarisation of NHS services.

Many PCOs are under a lot of pressure to deliver 'NHS dentistry for all' from the limited budgets they have been provided with, and often try to obtain economies of scale by reassessing contracts to ensure more funding goes to the NHS practices to expand their services, or to PCO access centres, often at the expense of the practices with small exempt contracts.