



Dentist or businessperson?

It is always exciting to see a new graduating class. I had the pleasure of seeing our new colleagues wearing the academic regalia of their newly awarded

title, happy for having completed a significant chapter in their personal and professional lives and optimistic about their futures as dentists in private practice, residencies, or the military.

Just before the graduation ceremony, I had a casual conversation with a student who mentioned that he planned to buy a well-established practice; he told me that he just received the valuation for the practice and felt it was a good opportunity. When I asked what valuation method was used, his sincere answer was that he had no idea and that the bottom line number has been determined by his financial advisors.

New members of the profession have to consider some challenges and make difficult choices, especially those who choose to practice in the community. Should such a graduate join an existing practice as an associate or become a partner in a practice by investing in it? As a fresh graduate, is it the right time to assume the responsibility as a partner or will it be better to work with someone and defer that decision until more clinical experience is acquired?

From firsthand experience, I know that the students receive a broad spectrum of preclinical and clinical training and that they are prepared for being competent in all facets of the profession. We also try to expose them to practice-management concepts, understanding that the dentist should be proficient not only in treating and preventing disease but also able to work in a team and make managerial decisions in the practice.

A dentist, new or experienced, is equipped with a vast armamentarium of techniques to address patients' oral health needs, but is that sufficient? Should a dentist who is considering buying a practice be trained for more than that?

This decision may be the single most significant financial step that one will take in his or her life, second (perhaps) only to acquisition of a house. Most of us know to ask the right questions about a house, even though we hire an inspector and a realtor to guide us through the details; a home valuation is easily compared to other similar deals that have recently closed in the same vicinity. In contrast, when we have to evaluate a business—in our case, a dental practice—the process is not trivial.

Risk may be defined as the factor that determines the chances of any decision that we take to be a successful one. The art of business valuation can be redefined in one single parameter: Given that all financial details are available and well-documented, the unknown parameter that will define the valuation is quantification of the risk.

There are many methods for business analysis and valuation, one of the most popular being discounted cash flow (DCF). This method has the advantage of relying on mostly expected future income, but is disadvantageous in that that it requires calculation of the discount rate for future cash flows, so that we will be able to evaluate the net present value (NPV) of the cash flows today. The discount rate encompasses the risk, and its calculation requires a deep understanding of the industry, the specific business, and financial principles. Even a small change in this number can significantly affect the valuation of the business and therefore the price that the dentist will have to pay for the acquired practice.

Need a dentist be proficient enough to perform the valuation by himself? It is my opinion that a dentist should be able at least to ask his advisors the right questions, just as one must do when buying a home. Obviously, the most important question that should be asked is how the discount rate used in the practice valuation has been determined.

I believe that to ask this question and understand the answer that determines such a significant decision, one needs more than practice management courses. While browsing the ADA web site (www.ada.org), I found a course designed for dentists that is described as follows: "This is not a practice management course. Instead, the curriculum draws from the core content areas for . . . MBA students, including: business strategy, organizational leadership, marketing, finance, accounting, economics, quantitative methods, and information systems."

In these challenging economic times, when our young alumni face such difficult professional decisions, I wonder if it would be a good idea to incorporate in the dental curriculum more elements of the abovementioned core content that will provide new graduates with powerful managerial and decision-making tools to complement their fine education in dentistry.

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