

Aren't All CPAs the Same? No. And Here's Why.

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Certified Public Accountants are everywhere. You can find excellent, well-qualified CPAs in your church, through your kids' schools, or even hanging out in your neighborhood. You can call them up by the dozen on Google. Maybe you already work with one.

But if you don't hire a CPA who specializes in the dental industry, you probably won't get the best possible results.

Your CPA should never just be the "guy who does your taxes." He or she should be someone you chat with several times a year to make sure you're doing what's best for your practice—especially when you're considering a big decision.

You need that person to know dentistry—not just numbers. Nothing against your neighbor or your current CPA. They just don't know dentistry like a dental CPA, so they can't ask the questions—and deliver the answers—that make your practice as profitable as it can be.

MEANINGFUL QUESTIONS

Sharing your practice's financial statements with a typical CPA is like

showing x-rays to a patient. They understand what they're looking at, but they don't have the indepth knowledge to gain real insight or make the most effective recommendations.

For example, I was recently looking over a profit-and-loss statement from a prospective client I'll call Jeff. His practice showed about \$800,000 production, but only \$10,000 in lab fees—very low for his production level, and a sign that he's not doing enough complicated, higher-margin work. By the way - his old accountant praised him for lowering his overhead last year with reduced lab fees.

Asking him about his lab fees sparked a meaningful discussion that included lots more questions from me:

- Do you and/or your staff need help with selling skills?
- Do you use an intra-oral camera? It's not just a diagnostic tool—it's a sales tool, because it's easier to discuss procedures when the patient can actually see what you're talking about.
- Can your patients afford more advanced dentistry? Do you offer alternative financing options?
- How do your patients pay? Is there room for savings on merchant card fees?

A typical CPA might not even know alternative financing was available for

Dental CPAs



dentists, and would almost certainly know nothing about intra-oral cameras. When your trusted advisor has some idea of the common struggles in your industry, he or she can ask better questions—and give you better advice.

How can a CPA make a recommendation on an equipment purchase if he doesn't know the difference between loupes and a handpiece?

KNOWLEDGEABLE CONVERSATIONS

Here's another example. A client I'll call Susan called the other day to run an idea past me: Should she spend \$50,000 to build out another operatory? A typical CPA might ask her how much revenue

the new chair would generate, weigh that number against the investment, figure in the depreciation on the buildup and the equipment, and advise her to go ahead. After all, it should pay for itself within a few years. But a typical CPA might not recognize that the real question wasn't about revenue at all—it was about Susan's ability to make more effective use of her available resources.

Here's the rest of the story: Susan's hygiene was booked out eight weeks, so she figured she needed another hygiene chair to clear some room on the schedule, alleviate overtime, and increase production. But I knew she already had four chairs — one hygiene, two operatories and one overflow—and that she complained about feeling overworked. So I asked her how often

she used the overflow chair, and she said about 25% of the week.

I said, "Why do you want to spend all that money, when you already have a chair available?" Instead, I recommended that Susan hire a part-time hygienist to work the overflow chair two days a week. If her business continues to grow, she can make it full-time & revisit the buildup. Meanwhile, she can see how she handles the workload of checking one more hygiene chair, while she's generating more revenue—without spending \$50,000.

That's the kind of knowledgeable conversation I have with dentists every week. How could a typical CPA, without a deep understanding of the business of dentistry, make the right recommendation?

BUYING A DENTAL PRACTICE?

The most critical time to consult with a dental CPA is when you're buying a practice. While a typical CPA will give smart advice and help you avoid obvious pitfalls, only a dental CPA can analyze the current practice thoroughly enough to make sure you're paying the right price for the right practice.

Let's start with the basics. Any good CPA will take the practice's net income, make adjustments for owners' compensation, owner insurances, and discretionary expenses, and multiply by 2.5 to get a ballpark purchase price. He or she may even know that a rule of thumb for purchasing a dental practice is to pay 65% of the previous year's gross revenue. For example, take a practice with:

$\$1,000,000 \text{ gross revenue} - 74\% \text{ overhead} = \$260,000 \text{ net income}$

$\$260,000 \times 2.5 = \$650,000$

$\$1,000,000 \times 65\% = \$650,000$

You get the same number. So who needs a dental CPA?

WHO NEEDS A DENTAL CPA?

You do — if you don't want to overpay or buy a practice that doesn't fit your desires. Your typical CPA won't know to ask about all these variables:

- Why is the overhead so high? I usually look for something closer to 60% for a general dental practice.
- Is the current dentist overpaying his staff? Should you ask him to let

someone go before you buy the practice?

- What kind of practice is it, really? Is there a balanced mix of hygiene and treatment, or is it more of a "prophy machine," with all hygiene and little advanced treatment? There is nothing wrong with that business model, but is that what you want to purchase?
- Is the location ideal? Does the practice location provide greater visibility to the public? Is it in a desirable area for the type of patient you want to attract?
- Is the existing staff a good fit for you? What if you're a relatively young doctor, but the staff are all approaching retirement?
- What are the patient demographics? Older or younger? With kids or without? Are they affluent enough to pay for higher-margin procedures? Do they have dental insurance?
- Does the patient count make sense, considering the other practice data? An active patient is defined as a patient that has had treatment or hygiene within the last 18-24 months. Does the patient count make sense with the number of days worked, product mix, and practice production?

A dental CPA, taking all the above into account, would caution you against

paying \$650,000 for this practice. Its high overhead and low visibility location suggests that a lower multiple would be appropriate.

A dental CPA would also know how to gauge the practice's growth potential, based on questions about your skills relative to the current procedure mix:

- Can you keep pace with a \$1 million practice? Are you comfortable checking two or three hygiene chairs and keep one or two operatories going?
- Do you have the expertise to replicate the current dentist's procedure mix? Does selling dentist place 40 crowns a month? Do they use a Cerec or E4D machine? Do they do soft tissue, laser and other minor endodontic procedures?
- Can you add to the procedure mix? Or will you have to refer out procedures such as implants, Invisalign®, or endodontic and periodontal work?

Only a dental CPA can analyze the current practice—and assess it against your skills and experience—to derive the most accurate purchase price.

There are lots of great CPAs, but when you're making major decisions about your career and your practice, you'll want a CPA who knows dentistry nearly as well as you do. Have a neighbor who's a CPA? Share a friendly beer—but share your business questions with a dental CPA.



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Chris Cuadros is the Founder of Crossroads Tax Advisors, an Indianapolis-based consultancy specializing in accounting and tax services for dentists. Crossroads Tax Advisors work exclusively in the dental industry, so we know the ins and outs of running a successful practice through accounting, tax preparation, consulting, and planning.