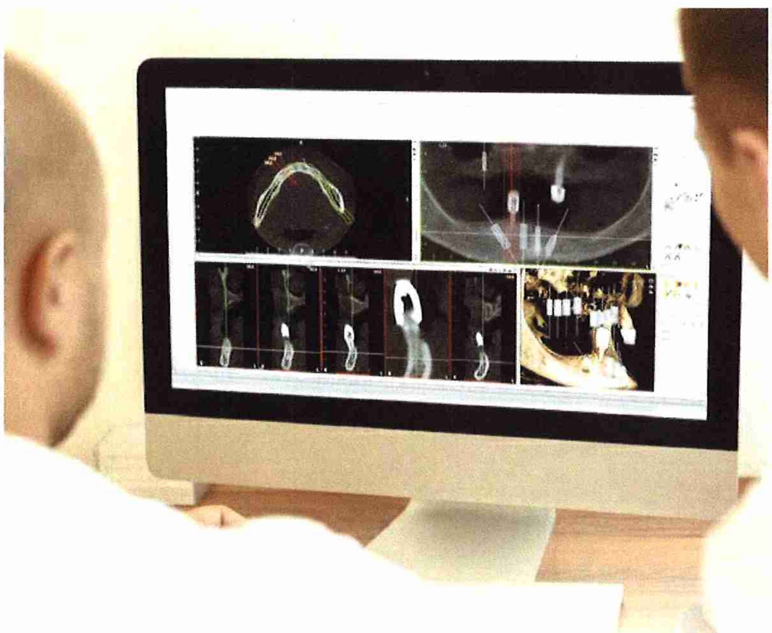
YOUR MAP TO Technology Purchases

By William P. Prescott, E.M.B.A., J.D.

Before you make a large technology purchase, you have to determine if it's a good investment that will help you better serve your patients and grow your practice. You also have to make sure it's a technology you and your team members will actually use.

Here's my recommendations on what you need to consider before making a large technology purchase:



Return on Investment

Authorize your CPA to determine the increase in collections necessary to maintain your profit margin and calculate your anticipated return on investment.

In one case, a multi-specialty practice wanted to install expensive technology for implants. We met with the CPA, who was to determine whether the technology was appropriate for this practice, and it was. A cost versus benefit analysis was undertaken. The specialists worked with the CPA to determine the number of patients per month who would benefit from the technology, the cost per patient and how the fees would be paid.

We also discussed the doctors' commitment to using the technology, the planned staff training and overall implementation of the technology in the practice, given the facility design. As part of the overall implementation in light of the cost, we analyzed anticipated patient acceptance and budgeted a marketing campaign with an outside advertising consultant.

The accountant also determined whether to lease or purchase the equipment, the repayment period, variable versus fixed interest, prepayment penalty, accelerated depreciation and expensing deductions and credits. Based on the information the doctors provided the CPA, there was an acceptable anticipated return on investment from the technology purchase. This item was and still is monitored on an ongoing basis with all advisors.

What your CPA cannot tell you is where the additional collections will come from. You need to take responsibility to ensure your targeted profitability is maintained.

Timing of Payments

The CPA must also determine the timing of payments and anticipated cash flow in light of the useful life of the technology. To the extent that the payments are not matched with useful life, you may end up purchasing and paying for replacement technology while also paying for the outdated technology.

Contract Review

Have your attorney review contracts for technology purchases to ensure you understand what you have agreed to before, not after, you sign.

Consider this story. A young, but established, dentist invested a large sum of money into a digital x-ray system. The manufacturer's representative told the dentist the system would be removed if it did not perform to expectations, and it did not.

The dentist called the representative to remove the system—after it was purchased and paid for by lender financing. The representative did not return his calls. Turns out the sales agreement did not provide that the x-ray system could be returned and the purchase price refunded.

The company that sold the digital x-ray system was not the dentist's dental equipment and supply company that "made things right" and would continually service the

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dentist over his entire career. It was a company the dentist used for a one-time purchase and that was to service the digital x-ray on a limited basis thereafter.

After a lawsuit was filed, the company immediately removed the technology and refunded the purchase price.

Allocate Usage Costs

If you are a co-owner, allocate technology costs on the basis of usage. For example, two practice owners purchased technology that only one planned to use. The technology cost was allocated to the dentist who used it. The other was unaffected.

This decision required a careful allocation of costs by the CPA. The owners maintained their good working relationship because no one was paying for technology they didn't use.

Unnecessary Purchases

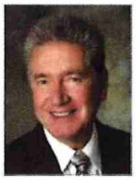
Many years from now, when it's almost time for you to retire, do not purchase technology the purchaser will not pay for. Otherwise, you limit your candidate pool.

A dentist who planned to retire purchased expensive equipment two years before doing so. His young associate, the purchaser, did not use this equipment and it was excluded from the practice purchase price. The retiring dentist sold it back to the dental dealer for almost nothing.

Insufficient Patients and Referral Sources

If you are a new practice owner, a young dentist or specialist who is purchasing or establishing a practice, do not purchase technology with insufficient patients or referral sources. Do not overspend on technology thinking a highly efficient facility will attract patients and/or referral sources. It will not.

Over the last 42 years, I have seen many practices invest in technology that was not used well, if at all. The difference from past years and now is the technology cost is much higher and is continually increasing. You and your staff must be committed to using the technology and need sufficient patients to purchase it. tND



William P. Prescott, E.M.B.A., J.D., of WHP in Avon, Ohio, is a practice transition, dental and tax attorney, former dental equipment and supply representative, whose most recent book is titled Joining and Leaving the Dental Practice, Second Edition. For this and Mr. Prescott's other publications, program materials and articles, see PrescottDentalLaw.com. Mr. Prescott can be contacted at 440-695 8067 or WPrescott@WickensLaw.com.