

The Most Important Number— The Active Patient Count

 **HENRY SCHEIN**[®]
PROFESSIONAL PRACTICE TRANSITIONS

In dental school, the number that will have the biggest impact on the new dentist's future is the "clinical procedure unit count." The unit count is the number of clinical procedure "units" required for graduation. Although there are several other requirements necessary for graduation, completing the required number of clinical units is the total focus for most dental students during the last two years of dental school.

These units must be accomplished or the new dentist cannot graduate from dental school—and thus have been described as the single "most important number" in dental school.

As you move into practice, you will encounter another "most important number." This is the "active patient count" or "active patient base." It sets the parameters for the operation of the business aspects of the clinical practice, and has equal importance to the dental practice owner and the new dentist considering an associateship. As important as it is, less than 5% of all practicing general dentists know what their "active patient count" is.

Defining the Active Patient Count

The active patient count is defined as the number of different individuals seen in the practice during a prior specified time period. The ideal specified time period being the prior eighteen months; however, there is variation between different consultants as to what this period should be—twelve, eighteen, or twenty-four months.

We prefer eighteen months. Part of this variation is caused by limitations of various dental software programs. Many programs can only provide twelve or twenty-four month reports.

Another reason for this variation surrounds the definition of different individuals seen versus why seen and what type of procedure they had. Some consultants use patients who were seen as a new patient with a complete new patient exam or were seen for at least one recall exam during that period.

Others will use any patient seen, including those who have only come in on an emergency basis, but have not actually returned for ongoing care.

We prefer "any patient seen" for any reason. We will use this information to determine, among other things, hygiene staffing needs. If the practice is well managed, most of these individuals seen will be converted to regular patients, enter the recall system, and become part of the active patient count.

Our definition in this discussion is the number of different individuals seen for any procedure during the prior eighteen

months. The critical point is that the active patient count is calculated and the information gained is "used." We will attempt to determine this number several different ways to get a range of values that are averaged for the final active patient count.

Role in a Practice Purchase

The primary purpose of purchasing an existing practice is to acquire the active patient base. It is the most important asset purchased, and it is the asset that has the most value.

What gives this patient base value is the "time" it has taken to develop the base and what the base does. The current patient base in any dental office takes 7-15 years to build. Even if the current patient base was originally purchased by the current owner, the time factor was invested by the prior developer of the practice.

The active patient base represents instant and ongoing cash flow to the practice. When we break down the value of the various assets that comprise a dental practice, the asset with the least value is the equipment. Expensive dental equipment can be acquired in 60-90 days, whereas years are required to build a patient base.

The dollar value assigned to the active patients is called "goodwill." There are a variety of items constituting the "goodwill" of the practice, none come close to the value and importance of the active patient base. This represents the fact that the majority of active patients will continue to receive and pay for their dental care needs regardless of whether the original owner has moved on.

Whether it is called "goodwill" or the value of the patient files and records or the value of the active patient count, knowing the active patient count allows this value to be calculated. The value of this goodwill of the practice is generally considered to be one year's adjusted net practice income. Dividing the adjusted net practice income by the number of patients in the active patient count yields an individual patient value.

There are times when only the patient files are transferred to the new owner. In this case, a per-patient dollar amount must be calculated and the sale price for the goodwill becomes that value times the number of active patients.

Role as a Practice-Management Tool

This number continues to be invaluable to the ongoing management and operation of the practice. The first area the active patient count comes into play is in calculating and monitoring of the practice production potential. At \$450 per year per patient, an active base of 1000 patients grosses receipts

of about \$450,000. Looking at what practices are doing on the national level can result in ideas for even more gross and net income.

The active patient count allows analysis of required staffing needs, especially from a hygiene perspective. The average hygienist sees ten patients per eight-hour day, equaling (with a six-month recall schedule), 250 recall patients for each weekly hygiene day.

If a practice undergoes a normal attrition rate, they will experience approximately a 17% erosion of their active patient base each year as patients relocate, die, etc. In a healthy, growing practice, the practice will replace these patients with 20–25 new patients per month.

If the number of available hygiene days is not continuously increased, the inability of patients to be seen in hygiene will seriously limit the growth of the practice and its future income.

The active patient count also determines whether the practice can support a full or part-time associate. The new dentist should inquire about the active patient count. A solo practice attempting to incorporate a full-time associate requires a minimum active patient count of at least 1800 active patients. Fewer than this number indicates the practice will have difficulty supporting both doctors.

In a well-run practice, 70%–80% of new patient referrals come from the existing active patient count. Relying on the practice's existing patient base as the primary marketing tool requires carefully reviewing the active patient count. Without the patients, the only other source for new patients is an external marketing program.

Careful ongoing monitoring of the active patient count is required to track practice growth or decline. Tracking this number on a monthly basis provides valuable insight into the health of the practice.

Calculating the Active Patient Count

There are several ways to determine the active patient count. Software systems can run the scan, but few are capable of such activity.

A chart audit, actually counting every patient seen during the defined period, we recommend eighteen months, is another method.

Most doctors are unwilling to actually put in the time personally to do this. Their only other alternative is to pay the staff for several hours to do it.

The active count can also be determined by estimating the active patient count from a partial chart audit. This yields a percentage based on the number of positive answers. Next, the total charts are estimated to determine the total chart count.

This number is then multiplied by the percentage to yield the approximate “active” patient count.

One might estimate the active count by using the number of available hygiene appointments. The number of hygiene days in a week is multiplied times the number of patients seen per day times twenty-five weeks (one six-month recall cycle).

The final method involves multiplying the number of recall exams for the prior twelve-month period times 50%.

Normally, more than one of the methods are used and the actual estimated active patient count is then stated as a range.

Prediction for Success

No matter how the active patient count is calculated or verified, it must be done when considering a practice opportunity. Whether a new dentist or an established dentist, just “wanting” something to happen, does not mean it “can” happen. If the practice has an insufficient number of active patients, either situation will be a major struggle.

As a management tool, knowing the active patient count and its various uses and applications is critical to the long-term success of either opportunity. Once the initial number is determined, it is relatively easy to monitor and track.

Monitoring the annual individual patient values lets the doctor know their total prior-year practice receipts. Dividing this number by the active patient count yields the average patient annual value.

For the newly acquired dental practice, the active patient value should normally increase from 10% to 20% per year during the first couple of years of ownership. These larger initial increases are typically due to increasing fees to proper levels coupled with the increased energy and enthusiasm the new dentist owner will bring to the practice. After the first couple of years, this number must increase according to the annual dental inflation rate. The active patient count coupled with the annual gross receipts is something that takes just seconds to calculate on an annual basis, but is critical to the monitoring of any dental practice.