

Capital budgeting

An important step before raising funding, or capital, for your dental practice is to estimate its capital requirements.

Some of the capital you raise will likely be used to increase your working capital. Working capital represents your practice's current assets, such as patient collections and bank account balances, which can be turned into cash to pay your practice's current liabilities, such as utilities and office lease payments, over the next operating cycle (usually 12 months). A substantial part of working capital, however, will likely be used for capital investments, such as new equipment. That's where capital budgeting comes in.

Capital budgeting is the process of identifying and ranking which capital investments will potentially add the most value to your practice. The process involves considering the following:

Constraints

The amount of capital you can raise is typically limited, imposing a constraint on your choices. As you increase your practice's debt, the degree to which your practice is financing its operations through debt versus wholly-owned funds (its debt-equity ratio) and the amount of cash required to pay for interest and principal on a debt (its debt-servicing requirements) both increase, usually making it harder to raise additional capital.

Project ranking

This helps allocate your available capital to projects that contribute the most value to your practice.

Measurement

A common method to assess the value a capital investment will provide to your practice is to calculate the return on investment (ROI)—that is, the amount of an investment's return relative to the investment's cost. ROI can be used to evaluate a variety of investments against one another to determine which is best for your practice.

Starting a dental practice or acquiring an existing one involves evaluating several financial considerations, all of which require you to think like a business owner (which is what you'll be, after all). But those financial decisions are also closely entwined with your vision for your practice. Your path to success starts with finding a way to bridge those two worlds.

Note: We recommend practice owners consult qualified professional advisers for legal, finance, accounting and tax guidance when considering starting or acquiring a practice.

Let's connect

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