



Advisors to the Dental Profession

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*ROI is your
return on
investment.*

Impulse Buying and ROI

Everyone is guilty of impulse buying. We do it at the supermarket or sometimes more extravagantly at the car dealership. Retailers know that we get satisfaction and a sense of reward from these purchases so they fine tune their marketing strategies to capture our impulse buying behavior.

While there is nothing inherently wrong with impulse buying it makes no sense to impulse buy in business. All too often we see products in dental practices that collect dust. In each case, the dentist made a purchase decision in the excitement of the moment and bought something that they never (or rarely) use.

For example: many dentists have the latest intra oral camera. This is touted by the manufacturer as a marketing tool but, is it really used in practice? When we asked why the oral camera was sitting unused on the shelf, the typical response was; "We only use it for special patients."

Other offices have state of the patient education systems. This is an expensive and useful tool, but not in an inner city or rural practice where the dentist has no time to use it and where the patient has no demand for the latest advancements in dentistry.

For a moment, consider the number of obsolete pieces of equipment in your practice. Did you buy them on a whim? In retrospect, do you wish you had not bought it in the first place? Do you wonder how you can prevent this from happening again? What if you could make an informed investment decision rather than an impulse buy?

The good news is you can learn to make informed purchase decisions. The bad news is, all the impulse buys you have already made are now sunk costs. It is too late to change your mind about those past purchases so let's look forward and learn a new technique to make informed future business investment decisions.

This technique will save you money and make "impulse buying regret" a thing of the past. You may have heard about this technique before; it is called Return on Investment (ROI).

The math is simple and it will help you assess whether or not a purchase is worthwhile. In our consulting practice, we look at this and other powerful decision making tools which enable dentists get the maximum return from their purchasing decisions.

The Return on Investment (ROI) Calculation

The ROI can be defined as: $ROI = (\text{Payback} - \text{Investment}) / \text{Investment} \times 100\%$

This measure is used to assess whether it is financially worthwhile investing in a product, service or project within your practice.

In calculating ROI three data points are required:

1. The time period. This is often 12 months but can be longer.
2. The total investment. This includes all costs related to the product, licenses, professional services, maintenance, etc.

3. The return. This is the cost savings and revenue enhancement gained from making the investment. It can be a positive or negative number.

An Example:

Dr. Paper wants to install a dental computer system in his practice but is not sure whether it will be a worthwhile investment. He has been quoted system software that will be \$8,000 and he will need computer hardware of \$10,000. In addition he has to pay a support fee of \$200 per month.

The investment for the first 12 months is:

Purchase Investment

User license	\$ 8,000
Hardware	\$10,000
Support for 12 months	\$ 2,400
Total	\$20,400

The initial investment in the first 12 months is \$20,400.

The benefit (payback) Dr. Paper believes he will gain from installing the computerized system is \$600 per month or \$7,200 for the year. He believes this conservative estimate of gains will come from:

1. Reduced staff overhead
2. Better scheduling of patients
3. Increased treatment co-ordination
4. Improved recare efficiency

5. Better A/R tracking
6. New patients joining due to better patient care

Over a 12 month period Dr Paper's ROI is:

$$\text{Return} = \text{Payback} - \text{Investment} = \$7,200 - \$20,400 = -\$13,200$$

$$\text{ROI} = \text{Return}/\text{Investment} \times 100\% = -\$13,200/\$20,400 = -64\%$$

Therefore, the 12 month ROI is negative 64%.

However, the use of a computer system should be seen as a longer term investment than 12 months so he should calculate the ROI over a longer time period such as 4 years.

Over 4 years, assuming no changes in the benefits accrued per month:

$$\text{Return} = 4 \times \$7,200 = \$28,800$$

$$\text{ROI} = \$28,800/\$20,400 = 137\%$$

Over four years Dr. Paper calculates a positive ROI of +137% indicating that the purchase of a computer system is financially beneficial to the practice if it is considered over a longer time period.

In this example, the ROI calculation has been used as a decision making tool for the dentist. Dr. Paper used this ROI calculation for different time periods and his decision changed from not buying the system to buying the system. Moreover, the ROI provided Dr. Paper with a financial metric to compare this computer system with alternatives.

The payback period is greater than one year.

This is a simple example but it does show how powerful the ROI tool is. We now know that the ROI calculation is simple and can be used in making investment decisions but we have also seen that we used assumptions and different time periods to forecast financial gains.

What are the drawbacks to ROI?

As with any all financial measures, the ROI analysis must be used within the context of a broader evaluation framework. The ROI is just one of many financial measurement tools that support investment decisions. The ROI does not factor in risk and it does not account for intangible benefits, such as the gains from having a good looking hi-tech computer system at the front desk. This may add credibility in the eyes of your patient but being able to measure this would be much harder to do.

So, will ROI be your penultimate practice financial decision making tool? As mentioned, ROI is just one of many financial calculations and models used to help you through the financial decision making process. In our consulting practice, we expand the ROI model, compare and contrast it to other useful financial metrics that you can use in your practice.

For a dentist, ROI is effective at helping you make decisions that will financial impacts on your practice. Although you may continue impulse buying we urge you to start using the ROI calculation in making important practice investment decisions. ROI may not provide you with a conclusive answer but it will provide you with enough data to make comparisons and start asking questions about your investment decisions.

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