Transition to Success

By Dave Baker Brillenz, Practice Consultant, Practice Leadership, Burkhart Consulting

Progressing towards success involves anticipating and preparing for life’s transitions. Have you properly prepared and educated yourself for the next transition in your dental career? If you are selling your practice, are you financially secure enough to just lock up and walk away? As a buyer, do you know what to look for? How will you be sure you are getting a good deal and the right fit? We often find that having a 5-year plan with monthly and annual goals helps you focus on what you want to accomplish and plan effective ways to get there. If a transition is on the horizon for you, prepare a written plan, work the plan, and educate yourself on what the important considerations are as you approach this critical juncture in your career. No matter which side of the coin you are on when considering a transition, there are many areas you should review as a buyer and seller moving into a transition.

Purchasing a Practice

There are several important considerations when thinking about purchasing a practice. Owning a private practice is like being a parent; once you have a child you are the mother or father for life whether you like it or not. If you buy or start a private practice, you are the leader of that practice whether you like it or not, until you sell it. We find many doctors who say, “If I could just come in and do the dentistry, everything would be great.” Considering that most dental offices operate at around a 65% overhead and most associates make 35% of their net production, an associate should see the aspects of leadership and ownership as a positive challenge they are looking forward to before committing to practice ownership. If you are a buyer and want to increase your income by owning a private practice, but you don’t really want to deal with staff issues, office issues or the business side of dentistry, you would be making a mistake. Expecting to hire an office manager to take care of most of these things is an unrealistic expectation in many cases.

As we have shared previously, it is possible to achieve a high producing practice with over a million and a half dollars in annual production and collections per doctor and maintain a 50% overhead, but this is achieved with both a highly effective leader AND a highly effective team. The good news is that leadership is a learned behavior, and great teamwork can be achieved in almost every practice.

"...With proper anticipation, planning and preparation, they (transitions) can lead to great financial reward and some of the best days of your life."

Once you’ve decided you want to move ahead with owning and leading your own private practice, buyers please be aware! In our experience, we find that 75% of purchasing doctors do not believe that all the information they were presented when purchasing the practice was completely accurate, and in some cases, the information was significantly inaccurate. This hurts reputations, relationships and cash flow. Many times the misinformation is not from willful deception by the seller; it is simply a situation where a seller is utilizing inaccurate information which he or she believes to be accurate. Nevertheless, it is always highly recommended that a buyer perform his or her due diligence before committing to purchase a practice. The buyer should take the following steps:

- conducting a comprehensive physical chart audit
- reviewing all of the valuation data and methods
- enlisting a third-party buyer’s advocate skilled in transition to advise him or her on the prospective purchase.

The majority of the time the practice broker or transition specialist is representing the seller, and the seller is paying the commission or fees associated with the transition. The buyer should utilize a comprehensive checklist of important purchase considerations and an unbiased third-party advisor to ensure he or she is making the right decision. The following checklist provides a good starting point:

- Is the annual UCR gross production at least $1 million per doctor provider?
- Is the hygiene department producing at least 33% of that gross production?
- Are the annual collections at least 95% of UCR production?
- Is the number of active patients consistent with the current days of hygiene?
- Is the total practice overhead less than 65% (or even lower such as 55% and 45% for some specialties)?
- Are the overhead percentages in line with national averages?
• Does two times the practice net (or discretionary) income surpass 65% of practice net collections?
• Is the patient demographic stable, and what clinical philosophy does the practice support?
• Is the practice aesthetically modern and pleasing?
• Is the practice in a good, easy-to-find location?
• Is the practice operating efficiently and effectively? What systems are already in place?
• How easy will it be for you to step into the practice and function well?

One last question cannot be overlooked by the buyer. Can the net income of the practice provide enough income to support the buyer’s goals? By net income we mean collections minus operating overhead minus the practice loan or “debt-service” (principal plus interest). Many times associates do not realize the significant hit to their bottom line or take home income following the purchase of a practice, especially if all the numbers presented in the practice transition do not continue as they have historically, which can happen for a variety of reasons.

Selling a Practice
If you are planning to sell your practice, what should you consider? The bottom line questions are these: Is the practice you are selling of such benefit to the purchaser that it exceeds the value a purchaser would find somewhere else? Does the value exceed the benefit of starting a similar practice in your area? Will the practice’s assessed or market value meet your financial goals or needs following the practice sale? When considering this last question, we believe that the following are the top 10 factors in considering a practice’s value:

• annual production
• annual collections
• number of active patients
• practice overhead
• overhead percentages
• practice net (or discretionary) income
• the practice location
• the practice aesthetics and technology
• the patient base demographic
• practice functionality or operational value

A question we often hear is, “Should I invest in new equipment to prepare for my practice transition?” The answer is yes; however, your purchases should not be made the year before you plan to sell the practice. Your equipment purchases should be completed on an ongoing basis, working from a 3-5 year plan that keeps your practice state-of-the-art at all times. This maximizes the benefits of depreciation and doesn’t significantly increase practice expense or liability before the practice sale. However, if your practice is already state-of-the-art and contemporary, you are more likely to sell it quickly and for what it is worth. Work through the previous checklist for buyers to see if your practice has the value needed to create buyer interest and enthusiasm.

Determining Value
Considering market value, in general, you are going to buy or sell your practice for approximately 65% of the practice’s annual collections plus or minus 10%. This percentage depends on several variables including the extent and state of the equipment in the practice as well as current market conditions. A person may choose to buy the practice’s “goodwill” (such as patient charts, trade name, reputation, and not-to-compete arrangement), the practice’s “tangible assets” (such as the equipment and supplies), the practice’s facility and land, or any combination thereof.

In determining value, it is suggested that the selling doctor get a practice valuation completed for the dental practice’s “goodwill” and “tangible assets” from a valuation expert in the dental industry and a separate real estate appraisal from a commercial real estate expert in his or her geographic area. Some valuations are provided at no cost and are a few pages long, and some valuations require an investment of $1,000 to $5,000, include a site visit, and come with reports that can be 40 pages or more in length.

The important thing to remember is not the quantity but the quality of the information and the ability of both parties to have confidence in the validity of the report. Many practice brokers or transition specialists will include this report at no charge as a function of their representing the seller, and normally the seller will pay between 5% and 10% of the transition sale to the practice broker for assisting in the search for a buyer, providing transition advice, easing the transition process, and facilitating the transaction paperwork. Some transition specialists will only charge a flat fee of a few thousand dollars that comes in the 1% to 3% range of the practice value when the buyer and seller have already been identified and have some of the structure of the deal already pre-determined.

Transitions can be extremely stressful; however, with proper anticipation, planning and preparation, they can lead to great financial reward and some of the best days of your life. We wish you the best in your dental journey, and wherever you are in your dental career, we can help you transition to success.