

The Dental Transition

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Should I Employ a Professional to Assist me in my Practice Sale?

Naturally, any response we offer to this issue could be construed as partial. The only real benefit we have seen a doctor gain by undertaking the sale of their practice on their own is the avoidance of a professional's fee. On the other hand, with the belief that they will save money by selling their practice without professional guidance, the doctor must also make certain assumptions and assume specific risks.

They must first be confident that they can accurately determine and objectively substantiate a value for their practice, a value that is very near market value or what a professional appraiser would place on it. Next, they must assume they can get a purchaser to believe their determination of that value is objective, unbiased, and fair. Then they assume they will be able to establish the necessary banking connections to finance the purchaser's acquisition, or else they assume they will be able to self-finance the sale in a way that mitigates their risk yet is fair to the buyer. They must also possess the knowledge, ability, and expertise to work through the complex legal, financial, and tax issues surrounding the sale. A poorly structured transaction may cost far more in taxes than one would have paid to a consultant.

If the dentist uses an attorney or accountant to assist them, they must presume they know something about dental practice transitions and that they will help rather than hinder the process. Moreover, the doctor risks spending hundreds, even thousands of dollars in legal and accounting fees without completing the transition. Finally, they will surely spend many, many hours putting all the pieces of the puzzle together, learning step by step as they go.

Of course, it may be possible for a dentist to facilitate the sale of their own practice with great success; however, should you decide not to use a qualified, experienced transition consulting firm to assist you, then at least be aware of the risks you take by doing it on your own. These risks include, but are not limited to:

1. The risk of wasting countless hours with a buyer candidate who thinks they can wait you out for a lower price.
2. The risk of not being able to agree on the price or terms of the sale with the purchaser because neither of you can speak objectively or with authority to the issues.

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3. The risk of being caught in adversarial negotiations due to an unreasonable purchaser or an overzealous advisor for either party.
4. The risk of locating the perfect buyer, only to later lose them because they are offended by something your attorney has said, requested, or by the manner in which negotiations were undertaken.
5. The risk of not realizing the full fair market value of your practice and selling it for less than it is worth.
6. The risk of selling the practice above market value and bankrupting the buyer by effectively stripping their ability to meet cash flow demands due to a stifling debt service.
7. The risk of becoming weary of the process and negotiating away large sums of money just to get it over with.
8. The risk that the purchaser will be unable to secure the requisite financing.
9. The risk of drafting or having your attorney draft documents that do not properly address key issues, allow for certain provisions, and clearly define the essential obligations of both parties.
10. The risk of leaving your practice in the hands of a successor who fails to manage the practice properly and alienates staff and patients.
11. The risk of not properly securing your position as a lender should you choose to self-finance a portion or all of the purchase price.
12. The risk that the anticipated sale will not happen during your lifetime or that your unforeseen, early death will leave your spouse/partner with the unpleasant responsibility of selling your practice.

All of the above risks are taken from true accounts.

When all is said and done, the few thousand dollars saved by doing it alone may or may not offset the associated risks.

What Our Clients Have To Say About Us Matters

"Practice Impact delivered superior service from the first meeting all the way to closing. Paul and his team were attentive to all my needs as well as being available, friendly and they made what can be a challenging experience feel as though you're guided with experts holding your hand."

– Dr. Mary Ellen Wynn Cincinnati, Ohio

"I was very pleased with Practice Impact's professional manner throughout the transition! My questions and needs were answered on a timely basis. Paul and Mollie were very helpful with coordinating the next steps to make this transition smooth. I couldn't have asked for a better transition team!"

– Dr. Veronica Brunet Coldwater, Ohio

Should I Buy A Second (Or Third Or Fourth) Practice?

Lately, we have seen more dentists thinking about buying or opening additional dental practices. They see the successful expansion of “corporate dentistry,” or what is more commonly known as dental service organizations (“DSOs”), and wonder how they can emulate that success.

Before you take that leap of buying a second practice, here are four questions you might want to consider before moving forward:

1. Why do you want to own a second (or multiple) practice(s)? If your primary motivating factor is money, you may find that insufficient. Too many dentists impulsively decide to buy a second practice as their idea of “getting rich quick,” only to be disappointed. Recall why you chose dentistry as a profession in the first place. Success usually follows people who are passionate about what they do and do it for the betterment of others. Someone who is only interested in making money without helping others along the way usually finds success to be short-lived. Those who happen to make money as a side benefit to doing what they love, while genuinely caring for and helping people, will find success in abundance and perpetuity. At this point, you might also ask yourself how you define success.

2. What financial risk will you be facing? Buying a second practice usually involves leveraging your investment through debt by borrowing funds from a bank to acquire the practice. Additional debt obligations could mean a strain on the cash flow if there is a bad month. Furthermore, many lenders have tighter financing requirements when lending for a second practice. Besides having a thoughtful, well-laid, and written plan for managing more than one practice, the bank will also want to see a considerable savings cushion, possibly \$100K or more parked in a business savings account.

3. Are you willing to give up discretionary time in your life to commit to managing a second practice? If you already own a practice, then you know investing in a practice is not like parking your money in a mutual fund and then sitting back and watching it (hopefully) grow. Andrew Carnegie suggested you put all your eggs in one basket and then watch the basket. The important part of Carnegie’s advice is to be sure you’ve got the right basket (i.e., the “right practice”) and make sure you watch the basket very carefully (i.e., “manage the practice properly”). This type of business requires time, effort, resources, attention, management, and

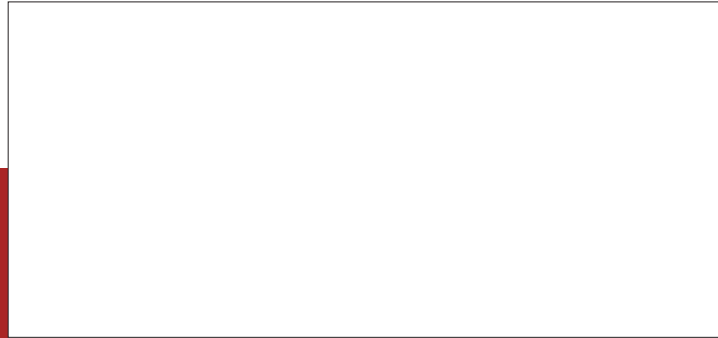
a fire extinguisher constantly on stand-by. If one practice requires all that, a second practice will too. Ostensibly, you could be looking at twice the time, twice the effort, twice the attention, and twice as many fires to put out when it comes to managing two or more practices. At a minimum, you will probably need to spend an extra five or more hours a week overseeing the operations of the second practice.

If you regularly review your current practice statistics and financial statements and are continuously studying up on ways to be a better practitioner and practice owner, then running another practice, even though it may complicate your life, may be of value to you. Moreover, if you are currently running a successful practice and can implement efficient processes and systems, and are able to motivate and keep staff, it is possible you could duplicate this success in another practice. However, if you have little desire to regularly review all your practice stats and to study more about how to effectively lead and run a successful practice, then owning a second practice will most likely be a burden you wish you had never got into.

4. Will you be able to easily find, maintain and/or replace associate dentists to work for you in the practice? Attempting to work two practices yourself only doubles your stress and overhead without doubling your revenues. The only prudent course is to hire another dentist to work for you in the second practice. Many doctors who own more than one practice find retaining quality associates more challenging than expected. And if you want to increase production while keeping fixed overhead expenses as low as possible, it is better to acquire a practice that can accommodate two associates working full-time, which means finding two good associates. Plus, you will want associates who are willing to adopt and integrate with your processes, systems, and practice philosophy and have the right clinical and productive skill set to produce at a reasonable level, and, of course, excellent interpersonal skills and a good chair-side manner. And there is always the risk that once you have found the “right” associate, they may eventually leave to buy or start a practice of their own.

While there are certainly advantages to multiple practice ownership, owning more than one practice is commonly outweighed by the challenges and risks. For some, it has been a way to create more wealth and income. It may have also given them a worthy goal to work towards and filled them with

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a sense of accomplishment. However, many dentists who have pursued a second practice only to find it is more than they can handle, or it is not complimentary with their preferred lifestyle and becomes more of a headache than it is worth to them.

A second practice may be a great move for you and your career, but before you make that decision, know what you are getting into and--perhaps more importantly--be very honest with yourself about why you want to go this direction in the first place. It would be well-advised for you to talk to other dentists who have owned more than one practice and get their take on it before acquiring additional practices. If you are looking to build some wealth through practice acquisitions, then reconsider your motives by asking yourself a lot of questions.

For example, how do you truly feel about putting in the additional work and assuming the additional risks associated with owning and managing another practice? If you are up for the task and want a challenge as well as an opportunity to make a positive difference in the lives of more people, including associates, staff, patients, and community, then perhaps it will be worth it.

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