

The Dental Transition

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Why You Should Sell at Your Peak Instead of Slowing Down

When you started your career as a dentist, how did you think you would retire? For many, the ideal scenario was probably that you would dip your toes into retirement by slowing down, reducing clinical days and/hours per week, and taking more time off. Then, you would keep that schedule for a few years until you decided to retire completely. At that point, you would find a young dentist who would be eager to take over your legacy and sell the practice to them. In the past, this was a great way to retire, but unfortunately for most dentists in today's world, it's more of a dream than reality, and can actually delay your retirement.

Why in the world would you sell your practice when you want to keep working for a few more years? You spent the beginning of your career dreaming of practice ownership, and then the majority of your career being your own boss, so why would you give that up before you're ready and are at the pinnacle of your career and earnings potential? It's a legitimate question, and one that you must seriously ask yourself.

Today's typical single doctor buyer is much different from those of years past. Younger doctors want a move-in ready office. They don't wait to add operatories, update equipment, or have a completely outdated décor. Gone are

the days when a buyer was willing to purchase an office that needed a lot of updates. Buyers do not want to spend additional time and money to replace the flooring, pull down wallpaper, update bathrooms, purchase new x-ray machines, a compressor, and other equipment. With the amount of student debt accrued nowadays, buyers need to know they can walk into a practice and not have to deal with additional expenses and construction delays. They also lack the patience to update and build up a practice. In the age of Amazon Same Day Delivery and Uber Eats, consumers are used to getting exactly what they want right now, and dentists are no different. When you start to think about retirement and begin slowing down, you lose interest in keeping your practice updated. Why put in new flooring, buy new chairs instead of repairing your old ones, or upgrade to a Nomad when you only plan to practice for three more years? It doesn't make sense to do these things when you are cutting back and getting ready to retire. But, without these things, you risk not finding a buyer for your practice, or finding a buyer that will only pay a reduced price for your practice. But, if you sell your practice when you are still invested in it, your practice will be updated and attractive to today's typical buyer.

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To sell your practice in a timely manner, your best shot is to keep the practice updated. Give it a refresh every few years; make sure the décor is up-to-date, the paint looks good, that your equipment is in good working order and not antiquated. You need to stay up to date with technology! This doesn't mean you have to have the latest and greatest equipment, but you should have equipment that a 30-year-old dentist will want to use. You also need to keep your new patient flow at a decent level. You don't need to hire an entire marketing team and spend a quarter of your collections on ads, but you need to make sure you have new patients walking through your door each month, and that your schedule is full, and collections are up. If you slow down from five clinical days a week to three, and start taking eight weeks off a year instead of four, and stop accepting new patients, it will show in your numbers. Just because your practice collected \$1 million a few years ago, it does not mean that you can get a purchase price based off of that today. Buyers and banks will fund the sale for what your practice is doing now, not what it did in the past. This will also help you while you are still working in the practice. We always say, "treat every day like it's your first day in the practice." Even when you are going through the sale process, you still need to treat your practice like you plan on working there for the next thirty years.

Buyers can't afford to purchase a practice that collects a lesser amount. Ten to fifteen years ago, a dentist could make a nice living by purchasing a practice that collected \$500,000. A senior doctor whose practice, real estate, and home are paid off can still afford a nice living on this size practice, so it might seem logical for you to just slow down. A younger doctor with student loan debt, a car payment, mortgage, practice loan, and other expenses just can't afford a practice of this size. As much as they may like a

practice, including the location, technology, and décor, they can't purchase it if it will not support their lifestyle.

There is a solution: sell before you are ready to give up dentistry. This way you can achieve the maximum amount for your practice and fund your retirement. If you still need or want to keep practicing, there is nothing stopping you from doing that. Good associates with experience are still in huge demand right now. Depending on the buyer you choose and the size of your practice, you may even be able to keep working in your practice. If this isn't a possibility, then you will still be in demand at other practices. With so many DSOs out there, small groups and individual doctors with multiple practices, good associates are always in high demand. If we had a qualified associate for each practice we sell, each and every one would be sold in days! By becoming an associate, you can negotiate more time off, more scheduled weeks off per year, and a good daily rate or percentage of collections. You can be a dentist and nothing more. If you are like most dentists, this sounds great. You can give up management duties, the headache of staffing, and fixing and updating equipment, and, when you are ready to retire, you don't have to worry about selling your practice. You can quit when you are ready.

Selling early will not work for everyone, but the market is not the same as it was when you entered the profession, or even what it was a few years ago. When you are a few years from retirement or have the desire to slow down, we urge you to discuss all of your options with your family, financial planner, and a qualified dental practice broker to determine what works best for you. You must decide if selling at your peak to achieve a higher selling price and a faster sale is more beneficial for you, or if slowing down, keeping ownership, and taking your chances in the market in a few years is the best option.

Inflation Effect on Dental Transitions and Practice Values

Over the past thirty years, inflation as measured by CPI, has averaged 2.6% growth per year. From 2000 through 2020, inflation never exceeded 4%. Beginning in the Spring of 2021 and continuing through the majority of 2023, the annual inflation rate spiked. According to the BLS (Bureau of Labor Statistics) the US annual inflation rates rose to 7% in 2021, 6.5% in 2022, and has settled in at 3.4% in 2023.

The economic pressure has affected dentistry on several levels, most obvious being in the cost of labor, and maintaining core employees. In addition, overhead costs have increased, while insurance reimbursements remain relatively flat.

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Employees

Staffing has quickly become the most important operational component of owning a dental practice. Almost three years removed from the pandemic, and the industry is still feeling the effects of the large portion of employees who left the workforce, never to return. This has created an increased demand for dental support staff, driving up the cost to hire/retain key employees. It has become commonplace to see sign-on bonuses ranging from \$1,000 to \$20,000, depending on the area of need and the scarcity of potential candidates.

The majority of solo practitioner dental offices simply cannot keep up with the larger "DSO" run competitors who have deeper pockets and economies of scale that allow them to offer more benefits like 401k plans, etc.

Fortunately, paying competitive wages is not the only factor in hiring/maintaining excellent employees. There are many great resources for increasing your HR gameplan. For instance, books like "WHO" discuss having a method for hiring, and focuses on encouraging business owners to treat staff members like customers—with respect. Offer regular and transparent communication. Recognize hard work. Surprise team members with small perks, like lunch or gift cards. Support team building outside of the practice environment.

Staffing can be one of the most overlooked aspects to receiving the maximum practice value. The fact is that most practice valuations are made with the assumption that the full staff will be transitioning with the practice. This is where selling through a professional can make or break your practice transition. Unfortunately, in practice sales done by the wrong company or without a broker, "word can spread" that "Dr X." is selling. In these scenarios, it's common for the staff to find out indirectly, and begin looking for that sign on bonus from another local competitor. Transitions typically fall apart if a key staff member leaves during a transition. Confidentiality is key.

Overhead

General Overhead Cost increases can affect not only operations but values as well. Spending once a year reviewing your Profit and Loss statements with a qualified dental practice transitions specialist is always a great idea. Not only can you get a snapshot of your current practice value, but you should identify several areas of general inefficiencies that can increase your profitability and hence

value for when you do decide to list your practice for sale. In addition, always be searching for strategic investments that will increase your businesses efficiencies (time/cost effect).

Working on Your Business

Dental practices can approach inflation from many angles. They can invest in technology to keep more cases in-house. They can leverage different strategies to cut costs. They can invest in staff retention. They can take a hard look at optimizing reimbursement rates. All of these strategies can help practices manage their overhead and stay profitable, but guiding a practice through economic pressure begins with the fundamentals.

Focus on operational systems, clearly define the practices mission, and speak with your trusted dental practice transitions specialist. We have the insight for successful dental operations trends and can assist by showing the direction to achieve practice goals.

Practice Mergers and Acquisitions Affects

Practice valuations are largely tied to profitability. Quite simply stated:

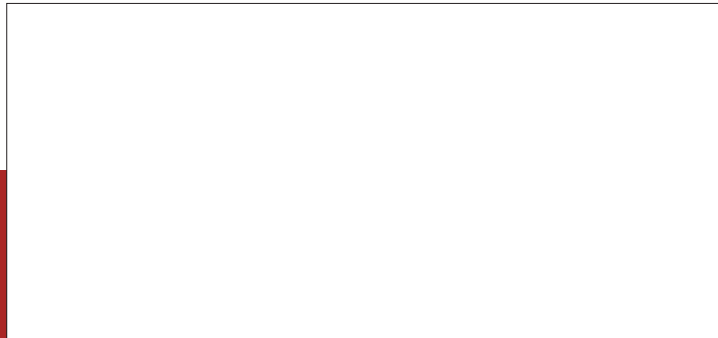
"Is a \$1,000,000 collecting practice netting \$300k worth the same as a \$1,000,000 collecting practice netting \$400k?"

The answer is obvious, which is why focusing on operational efficiencies is the key to gaining a higher value when it comes time to transition your business.

Overall, the largest adjustment in the wake of inflationary pressure on the transition market has been purchasers seeking longer exclusivity periods with more extensive diligence. More than ever, the seller must be prepared to dive deep into their business and share an extensive amount of information to secure the most value for their business.

While Inflation hasn't necessarily affected the ability to "find a dentist match," it has certainly made the world of transitions a more complicated one, which must be navigated with precise systems to achieve the ideal outcome.

Feel free to reach out to us to discuss our transition systems, so that we may plan your transition for the best possible outcome.



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What Our Clients Have To Say About Us Matters

"First, I would like to thank the people at Practice Impact for successfully brokering the sale of my practice in Columbiana, Ohio to Dr. Lindsay Frederick. They made the whole process smooth and seamless. Second, I have sold 2 dental practices in 41 years of dentistry and Practice Impact, Paul Hudanick, sold both of them. He is relentless in getting it right and has years of experience brokering the sale of dental practices. I can't sing their praises high enough. If you're looking to sell or buy a dental practice, call Practice Impact."

Dr. Frank Wanat | Columbiana, Ohio

Contact us TODAY to schedule a free consultation!
