Practice Transitions, Part One – Buying/Selling a Practice

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Dentaltown Magazine is pleased to present the first of a three part series on transitions. In part one, we will examine the buy/sell process and provide advice for dentists contemplating a career change. Part two of our series will include several case studies of actual transactions and the details that were necessary to have success. Finally, part three, will address hiring an associate to grow your practice prior to retirement. We are honored to share the expertise of three transition specialists in this three part series. Imtiaz Manji, co-owner and CEO of Mercer Advisors, Mastery and Transitions; Fred Heppner and Jeffrey J. Tonner, JD, of Tonner-Heppner Transitions, LLC; and Larry M. Chatterly of CTC Associates took the time to answer many questions and provide case studies for this feature. Please note, editorial cuts were made in situations where advice was repeated.

What advice do you have for dentists considering a practice purchase and how should a dentist prepare?

Chatterley: Many times, the seller’s current staff can shed some interesting light on how the practice has been and is presently operating. We recommend that prospective purchasers “interview” the staff and ask the following questions: What do you like best about this practice? Which areas do you feel the practice could improve in? What things should I know to help make this a smooth transition? Here are just some of the things you can realistically expect as the process unfolds:

• Expect to deal with a sincere but sometimes uninformed seller looking for the highest price, with unreasonable terms.
• If you’re not sure how to utilize your lawyer and accountant in this specialized process of practice transition, expect to pay for their education without the result of a completed transaction.
• Just when you think you have everything in order, expect the seller and his advisors to change their minds at the last minute about this or that.

Tonner & Heppner:
• Does the office cash flow? Find a dental CPA who will analyze the practice’s financial statements.
• Can you do the dentistry? Examine the office’s production by procedure code and/or category/class and determine if the dentistry is within your scope of care. Further, examine the radiographs, treatment plans and treatment rendered and confirm the services are within the scope of treatment that you, the buyer, is capable of rendering. It’s also necessary that the treatment matches the buyers’ dental philosophy.
• Are the patients there? Examine the patient charts and determine that the patients are active (have had a visit within the past 18-24 months).

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• Retain professionals that will represent you and not the seller; avoid “dual representation” and the conflict of interest it brings.
• Obtain financial pre-qualification with a recognized dental lender, private bank, or obtain private funds to make the purchase. Additionally, keep personal expenses within reason before buying a practice; avoid purchasing expensive homes, cars, etc.
• Find a practice where the dentist has a similar personality, treatment style, and practice philosophy.

What advice do you have for dentists considering a practice sale and how should a dentist prepare?

Chatterley: Every dentist who has decided to sell his practice has certain preconceived ideas about what the process entails. Here are just a few of the things you can realistically expect as the process unfolds:
• Your most interested buyers will have little money, if any at all, and will need financing.
• If you want all cash, expect to discount your price somewhat depending on your location.
• Unless you take the proper steps up front, expect to have every disclosure, every number, every minute detail of the transaction, and every representation you make scrutinized, questioned, and negotiated.

Always tell the staff the truth. We have found the sooner you tell your staff about the possibility of a transition, the better. We suggest the following four-part system in developing a win-win transaction with another doctor.
• Seek to understand before being understood, that is, understanding and defining the other’s expectations.
• Plan activities that allow a positive relationship to develop.
• Cultivate a sense of mutual trust by opening questions about your goals and needs.
• Allow the relationship to fully develop before discussing business in earnest, thereby enabling both parties to discuss issues without being defensive.

Tonner & Heppner:
• Assemble all pertinent financial documents and allow a professional dental practice broker to analyze them and help determine discretionary earnings and ultimately assist in determining the sales price.
• Enlist an accounting professional to forecast proceeds from the sale, any tax consequences as a result of the proceeds earned, etc.
• Make sure the broker you retain is one who will represent only you in the transaction, not both buyer and seller.
• Make sure all equipment is in good working order; keep the office clean and ensure it presents itself well.

How do you determine how long it should take to sell a practice?

Chatterley: Generally, the smaller the town the longer it takes to sell – sometimes up to 36 months in rural or less desirable areas. If you are a specialist living just about anywhere (metro or rural) you can expect at least 18-24 months, assuming a buyer can be found. For general dentists in the major metro areas, expect six
“Generally speaking, big city practices tend to have a higher value, since many more people want to live in, say, San Francisco, than in a rural community. Small town practices, on the other hand, don’t usually command the same selling prices as city practices, but because they operate in a less saturated environment, they tend to have a more lucrative bottom line.”

– Imtiaz Manji
Co-owner and CEO
Mercer Advisors, Mastery and Transitions

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“Once the practice is sold, do your best to let go. This may be the hardest part of the process for many sellers, but the transition will be much better for both parties when you give the new doctor room to make his own contribution and run his practice his way.”

– Larry M. Chatterley
CTC Associates

Is it better to buy/sell a practice in a big city or a small town?

Chatterley: Most dental school graduates prefer to live in cities and suburbs, not in rural America, resulting in greater competition in the more populated parts of the country. As the demand for acquiring a practice in a preferred city has gone up, the purchase price of a practice in a preferred city has also gone up. By contrast, in rural areas, a lack of interested purchasers is driving the prices down.

Manji: Generally speaking, big city practices tend to have a higher value, since many more people want to live in, say, San Francisco, than in a rural community. Small town practices, on the other hand, don’t usually command the same selling prices as city practices, but because they operate in a less saturated environment, they tend to have a more lucrative bottom line. It’s not always as simple as a city versus small town trade-off. Detroit is an example of an urban area that is seeing a severely depressed market right now, so practices there are not commanding comparable “big city” prices, and are in fact valued below practices in more desirable suburban communities.

Tonner & Heppner: Traditionally, it is difficult to sell in rural areas due to the small number of qualified and interested buyers.

Which is better: Selling your practice and staying on for a transition time, or a turnkey sale where the owner leaves after the deal closes?

Chatterley: Once the practice is sold, do your best to let go. This may be the hardest part of the process for many sellers, but the transition will be much better for both parties when you give the new doctor room to make his own contribution and run his practice his way. Keep an open mind and always support the purchaser publicly. More than likely, patients will call you at home to express their concerns over the changes taking place. When they do, be sure to remain firm in your support for the purchaser. If necessary, encourage the purchaser to seek professional advice from someone who specializes in managing dental practice transitions post-sale. This person will educate and advise an inexperienced purchaser on dealing with the myriad of issues which he or she will face as an owner or partner in the practice.

One of the great myths surrounding practice transitions is that 20 to 50 percent of the patients will leave the practice after the sale. In reality, a well-managed transition will result in an attrition rate less than 10 percent. We have heard of cases where patient loss was more than 30 percent, but those transitions were either A) handled by the doctors themselves or by other professionals who lacked experience in dental sales, were ill-informed, or poorly prepared, or B) purchased by a doctor with poor patient relations, lackluster management skills, or a clinical philosophy wholly unlike the selling doctor.
Tonner & Heppner: Most buyers would like the seller out a short time after the purchase due to the fact that the practice’s profit is needed to satisfy the owner’s debt and living expenses. Where a practice has enough productivity to satisfy another part-time dentist, the new owner might hire the seller back for a period to help transition the patients.

What is the range of fees for transition consulting to sell a practice?

Chatterley: We do appraisals, negotiations, candidate matching, detailed facilitations of the transition, documents, post-transition follow up, staff meetings and practice management. In most cases, we charge either a tiered flat fee based on the selling price, a fee of eight percent of the selling price, or an hourly fee of $275.

Tonner & Heppner: Industry standard is 10 percent of the purchase price. This does not include professional fees that may be incurred from a CPA, Attorney, or other professional hired to assist in the process.

What is the range of fees for transition consulting to buy a practice?

Chatterley: We charge a flat fee of $10,000 (or $15,000 if the practice is self listed), which starts with helping the buyer find a practice, through transition consulting and post-transition support. Or we can charge an hourly fee of $275, which would include as much or as little of those services as needed.

Tonner & Heppner: $7,500 up to five percent of the purchase price.

What is the best time frame for a transition?

Manji: For the most part, you can expect a successful transition – one that optimizes the value for all parties involved from initial agreement to final sale – to take place over three to five years. From a life-planning point of view, though, you need to start well before that to have the best options. If you’re 10 years away from retirement, you need to begin your education and have this on your radar as something you need to be strategizing about each year. As you get closer, you need to be making more concrete plans, getting your strategic and economic plans in place, and allowing time for things like appraisals and an associate search. ■