Repeatedly Reap the Rewards of Selling Your Practice

I don't want to turn into one of those "crotchety old grandpas." Well, I've got a 4-year-old granddaughter, so I probably already am that crotchety old grandpa … but you know what? There really are a lot of things I see that were better "back in the day." For example, it used to be that when a dentist wanted to sell her office, she had a 4X move: She owned the land, she owned the building and she owned the practice. So she'd find a dentist with moral responsibility and ethics and say, "This is the person who I want to take over my patients."

Today, I see people selling dental practices to kids who don't have the skill and can't do the dentistry—the selling dentist is just finding a buyer and having the bank finance it. The bank wants the money, the selling dentist wants to cash out and run, and the next thing you know, some kid who's already $350,000 in debt buys a practice for $750,000 that's mostly doing surgical placements of implants and endo, and this kid can't do either. But here he is with this huge practice, now doing $750,000 a year, and in the first year of ownership he drives it into the ground. Two years later, it's a bankruptcy case—the kid is depressed, the patients are confused and it's all just a bunch of crap.

We need to bring back the model where dentists own their land, their buildings and their practices. When they want to sell their practices, they'll look at things very differently because they'd be the ones carrying the loans. When they carry that loan, they've got skin in the game. And they have an opportunity to do what I call "a 4X move."

X's and ohs

For the sake of easy math, let's say that today Dr. McGregor is ready to sell her practice to Dr. Cabelo for $500,000. The first X would be the practice itself—the transferring of the business name, patient list and those sorts of things. The second X would be the loan financing—if McGregor carries the loan herself, and Dr. Cabelo pays her instead of going through a bank, at 10 percent interest over 10 years she'd make almost another $500,000—an income stream over the next decade. (The real-life interest rate would be a few percentage points lower, of course, but you get the point.)

Dr. Cabelo, meanwhile, gets guaranteed financing—and also a safety net, because he knows that ol' Doc McGregor thinks he's a great guy. Furthermore, Dr. McGregor's still living in his town, going around telling everyone to come see him, because she's invested in the success of his business. And she can help smooth things over if he ends up having leadership issues with the front-office people who'd worked with her the past 10 years, or if a patient comes in and says that he doesn't trust the new guy and wants his old doctor.

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by Howard Farran, DDS, MBA, publisher, Dentaltown magazine

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So the kid has a mentor who has skin in the game and is incentivized. This is a no-brainer! So different from most transitions nowadays, where the seller transitions for, like, four months and then he's gone. That's just weird. Why didn't the seller transition at the natural pace, which is when the existing patients quit asking him to come back, or when the buying dentist is fixing all the problems and doesn't need the mentorship?

Land a second chance to earn more

After a decade, Dr. Cabelo has paid off his loan and now owns the practice. Dr. McGregor, meanwhile, still owns the land and the building. The only natural variable in real estate is occupancy—and commercial real estate is a cash cow as long as you have a tenant. Well, she has a tenant—a very incentivized renter who's paid off the practice over the past 10 years, and wants to buy the building. Which leads to the third X: selling the land and the building; and the fourth X: financing it herself, just like she did for the practice.

If Dr. Cabelo starts making noises that he wants to go a mile down the street instead, Dr. McGregor can say, "Well, buddy, knock yourself out. That's going to cost you a couple hundred thousand dollars in tenant improvements and moving, and all your patients are used to coming to this location."

That doesn't happen too frequently these days. More often, when a dentist sells her practice, Wall Street and big banks make the other $500,000 off the interest. Why are you giving that income stream to big banks? Why don't you make that money?

And regarding the land and building: Why did you rent for 40 years and faithfully put all your money in stocks when you're living in a country that's $19 trillion in debt, with a stock market that dropped in 2000, when the NASDAQ went spiraling, and downright crashed in 2008? Meanwhile, you don't own any real estate, you have no bonds and you don't have any cash. You think that's really a smart idea?

You don't want all your money in paper stock when you can have land and buildings, or have cash in the bank or under the mattress, so to speak. You want things diversified! I think this is a much healthier way to go. ■

Howard Live

Howard Farran, DDS, MBA, is an international speaker who has written books and dozens of articles. To schedule Howard to speak at your next national, state or local dental meeting, email rebecca@farranmedia.com.

2016

4 NOV — **Benco Customer Appreciation Event**
Bonita Springs, Florida

2 DEC — **2016 Gateway Open House**
St. Louis, Missouri

2017

27 JAN — **Tulsa County Dental Society**
Tulsa, Oklahoma

3 FEB — **PreMidWinter**
Lombard, Illinois

10 MAR — **Coastal Carolina Orthodontics**
Jacksonville, North Carolina

28 APR — **Winnebago County Dental Society**
Rockford, Illinois