

Good, Better, Best – The Market has Spoken

Approximately three years ago, we wrote an article in Volume 59 of The Professional Advisory entitled What Will Happen to Dental Practice Values in the Next 10 Years?

In that article we cited key market factors that affect the market, and tried to predict how these factors will affect practice values. The key factors mentioned included; the economy, aging population of dentists, and the significant influx of new dentists. The premise of the article was that because of the aging dentist population there would be an increased supply of practices for sale in the market. In addition, because of continued new dentist graduation and immigration, and a strong economy, there would also be continued demand for those practices.

The normal conclusion based on supply and demand economics should have been that if the above were to occur, total practice prices would fall. However, in our article, it was our conclusion that the increase in supply of practices would not result in an overall collapse of prices, but instead the market would segment itself resulting in a greater differentiation of market prices between different practices. In our article we said that strong “high demand” practices would continue to increase in value, and the weaker or “average demand” practices would decline.

Based on our recent experience it seems that this forecast is being realized. The market continues to stay very strong for the high demand practices. However, we see that there has been a decline in the demand for average or below average practices.

This segmentation of practice values has very significant implications to many dentists, and it is important that dentists realize how their practices measure up.

In our experience the high demand practices generally have similar characteristics. These characteristics include:

1. Location: Main floor location with good access and visibility. The practice will have a long term lease with some protection versus competition, and ideally, be located in a growing community. The good news is that rural and small town practices, are gaining popularity as they generally have less competition and more patients.
2. Patient count and demographics: Usually high demand practices have more than 1,200 active patients, good new patient flow, no specific ethnicity, and production that is reproducible. (A conservative Preventive and Restorative orientation versus lots of Specialty procedures)
3. Practice Operations: Efficiently run practice with good staff, strong hygiene orientation, collection of co-payments, and updated facilities (not new, but clean, current, and with some newer technology)

On the other side the practices that will experience weaker demand are as follows;

1. Location: Not on the main floor, low visibility, leases with demolition clauses, no exclusivity in the building or plaza, or a highly competitive area.
2. Patient count and demographics: Usually low demand practices have less than 800 active patients, low new patient flow, large proportion of ethnicity, and or perform lots of Specialty procedures.
3. Practice Operations: Average practice performance, problems with copayment collections, and older or run down facilities.

Those practices that fall into the former category will be in good shape when it comes time to sell. Those in the latter category will benefit from some enhancements in how the practice is run in order to reposition the practice to obtain good value.

1. Location: While we cannot change the location of a practice, the current market is asking for good exposure. If a practice is not in a high demand location, or has lease issues, this may result in the need to merge the patients into another nearby practice.
2. Patient count and demographics: smaller practices are less attractive as they don't have strong cash flows and do not provide full time dentistry. If a practice has significant ethnicity, there is a concern that there needs to be a specific dentist to take over that practice. In these cases, a growth strategy should be implemented to include all potential patients.
3. Practice operations: This is an area that can be managed. The practice can be improved operationally. Co-payments should be collected, and practice performance should focus on preventive treatments and patient education. In addition, although it isn't a good idea to completely renovate, the practice facilities should be updated, clean looking, and the adoption of base technologies can be implemented.

In the cases where a practice is in the average or low demand category the seller must be realistic about what they have. If the practice cannot be improved prior to selling, they must be willing to accept that the market conditions may limit their ability to sell their practice at a price that meets expectations.

Naturally the best practices attract multiple offers and therefore the best prices. Those that are not in that category would be wise to seek assistance in preparing their practice for sale years ahead of their closing date. It is certainly not impossible to move from good to better and maybe even to best, but it does take insight, planning and time.

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