

Is There a Buyer for Every Practice?

Many practices are not saleable in their present state. Due to the high level of competition in the dental market, buyers are looking for practices that are either: 1) Very well established and have enough critical mass so as not to depend on the location to produce new patient flow, or 2) Are in locations that have proven track record (or clear potential) of attracting and retaining a significant number of new patients. Most but not all, of the current buyer pool prefer main floor, retail strip plazas, in high visibility areas, with solid anchor tenants. This is great news for retiring dentists who own practices in these preferred locations, however we see many dental practices that are located in locations that do not fit this description.

Many of these less desirable practices were established when there were fewer dentists, and patients would essentially find you. There was no reason to change anything as all the equipment is paid for (and very old!), the dentist has no debt and can live comfortably and is happy. Who wants to endure the hassle and expense of moving to a better location with higher overhead? These locations may be on the higher floors of buildings, be less visible, on side streets, in competitive areas, etc. Generally, they are smaller practices too. In addition, there are locations which must be moved as part of a sale, as the lease may have expired or the building is being demolished.

In these cases, practices could be sold as patients only. This process of merging patients to a nearby practice is one the best strategies to create value and create win - win - win transitions for the buyer, seller and the patients.

The reason that mergers work and are win - win - win is due primarily to the fact that patients are fundamentally loyal, and if requested by the current owner, will most likely follow him/her to another practice. This patient loyalty is attributable to multiple factors which include the convenience of the location, skills and personality of the dentist, and the quality of the staff. In addition, most people prefer not to change dentists unless given a good reason to change. With this in mind, for a merger to work, the new location must be reasonably close, have equal or better amenities, some staff should follow and must have similar treatment philosophies. The selling dentist should plan on staying for a year or so to assist with the transition.

The reason that these mergers are win-win for both the buyer and seller is due the financial benefits. Here is a specific example of a recent merger of a 700 patient practice.

	Stays in same location	Merged
Production	\$416,000	\$416,000
Expenses	\$264,000	\$183,000
Cash flow to dentist	\$152,000	\$233,000
Dentist 40 per cent portion	\$108,000	\$108,000
Net Income (after dentist)	\$43,000	\$125,000

The elimination of rent and other fixed costs, in this merger almost tripled its net income! Further, in this practice because the premises lease was finished, there were no ongoing lease expenses, and all staff was absorbed into the new location.

Most patients transferred, and when we modelled the new practice formed from the merger, its value increased by far more than the actual purchase price of the merged practice.

Further, for the seller of the above practice, they received a 45 per cent associate rate to work in the new practice so in addition to getting a very good tax-free sale price, for the same amount of work, their income dropped by a mere \$30,000 to \$122,000.

For sellers of these practices, they must be willing to work in the new practice to transition the patients. In addition, they must determine how to deal with any premises lease obligations that may remain in the current premises.

For the buyers, they must understand the culture and philosophy of the incoming practice, be close enough to retain patients, and have the space to absorb the patients.

This merger strategy requires many factors to be done correctly including matching philosophies, a focus on the patients, a win - win mentality, and an agreement which properly reflects the risk versus reward of this process.

I know many smart dentists who have utilized this strategy to grow their practices, as they are aware of the incremental value that these mergers can create.

Given the right structure and the willingness on both sides to adjust their expectations and adapt to change there is very likely a buyer for every practice. It just may not be who you think it is.

Colin Ross is a Partner in Professional Practice Sales Ltd. (www.ppsales.com), which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: colin.ross@ppsales.com