

Staging A Dental Practice

In the real estate market, staging has become a huge part of the successful sale process. Staging is the act of preparing a space for sale with the goal of making the property more appealing to a larger group of potential buyers. Successful staging results in sale prices between 6-20 per cent higher than unstaged properties.

In the dental market, staging is probably an important element in preparing an office for sale, yet it is rarely implemented. In many cases, dentists simply wake up one morning and decide to list their practice, or even more astonishing, get a knock on their door from a random buyer and are convinced to sell to that buyer. In these cases, there is little chance to properly stage the practice, and even if successful, the selling price was likely not maximized.

Selling a dental practice should be a strategically planned event, should be under your timeline, should include a group of experts, and should be implemented well in advance of the actual event. Ideally the planning process should begin 2 - 5 years before the actual sale.

Dental practice staging can be grouped into two categories - Early Preparation Staging Period and Time of Sale Staging Period. In the early preparation period, which could be anywhere from one to as many as ten years prior to a sale, the focus is to address the big picture business elements. In the Time of Sale staging period, the techniques focus on cosmetic and operational features.

Early Preparation Period

Lease: The premise lease terms must be reviewed far enough in advance of the sale to be able to negotiate changes, and to eliminate the potential for your landlord to affect a sale. The premises lease should have a term of at least 10 years remaining at the time of sale (including renewal options), be void of a demolition clause, and have conditions that are reasonable for uninterrupted operations.

Employees: If you have an associate, he or she must be on a contract. It is also becoming more common to have employees on employment contracts. While some dentists do not want to rock the boat with employees, these contracts definitely improve practice value by limiting the potential liability from employees.

Equipment and Practice Assets: We generally don't recommend upgrading equipment immediately prior to a sale. However, if you have a 5+ year window, there may be some benefit to upgrading equipment and décor, and there is always a benefit to adopting productive technology. Any changes should be neutral in nature with the need to be attractive to a large audience. Be careful of overspending and don't forget that the assets are never the most important part of a practice value (it is location, patients, and profits).

Corporate and accounting structure: Many sales have been disrupted by poor accounting and poor corporate structure. In a typical sale, the buyer will dig deeply into the accounting and corporate structure. If too many questions arise, and the numbers don't add up, the deal may fail or at least the values will be questioned. To take advantage of the small business capital gains exemption, the seller will incorporate and sell shares. While dentists can incorporate at the time of sale, there may be advantages of incorporating well in advance of the sale. Incorporation may also include various complex share issues, including adding family members, cleansing the non-income producing assets, and repayment of shareholder loans.

Operations and Management: In advance of a sale, consider how efficient and functional the business side of your practice is working. This could start with a Valuation to determine your current value, and discover areas that require attention. The practice operations may include employee manuals, patient communication techniques, collections, especially with respect co-payment, a strong hygiene program.

Your hygiene side should receive focus. If started early enough, practices could benefit from consultants, new patient marketing programs, or increases in practice hours. The benefit is an improved bottom line, and any incremental expenses are one time only.

Time of Sale Period

Declutter and cleaning: A classic residential real estate technique that also applies to your dental practice. Many older offices become cluttered, and possibly look unclean. A cluttered office implies that it is disorganized or the owner doesn't care. The office should be cleaned, decluttered, small repairs made, repainted, filters changed, etc. It should show pride of ownership.

Purging Chart purging should be completed in advance of a sale. Many offices have charts in one area, so a patient who last visited the office 10 years ago is still beside an active patient. The active chart area should have charts for patients seen in the past three years, and an area for those who have fallen out of the practice. This purging provides a chance to recover those patients prior to moving them to the inactive file.

Accounts receivable: This is a huge concern for buyers. A large Accounts Receivable (AR) implies a lack of management, and potentially insurance fraud from not collecting co-payments. In the practice management software, all old AR should be written off, and all efforts must be pursued to collect as much as possible. Further there needs to be clear evidence about your collection policy. Many practices put signs at the front desk highlighting your co-payment collection policy. If you don't collect copayment or at least demonstrate an attempt to collect, it is presumed that those patients are not loyal to the practice.

Bookings and Production: At the time of sale, dentists sometimes take their foot off the gas and let bookings and production slide. While understandable, this is the worst thing that you can do. During the sale process, the office must run at current levels, and extra care must be taken to ensure that the schedule stays very full.

Think like a buyer. Be critical of your practice and take steps to make it better. In a best case scenario, this should start well in advance of the actual selling decision. The process should involve working with experts (Accountants, Lawyers, Equipment Specialists, Brokers, Consultants, etc.). Even if you cannot undertake this process well in advance, there are some short term techniques that can make your practice more attractive to a wider group of buyers and therefore command a higher selling price.

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