KEYS TO BUYING YOUR OWN DENTAL PRACTICE

The decision to buy your own dental practice is an exciting one. The benefits are numerous, but so are the potential pitfalls — the dream of practice ownership can quickly turn into a nightmare if you choose the wrong practice, time the acquisition wrong or fail to make a smooth transition once you take ownership.

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The advice in this article operates on one basic, but important, premise: You are ready (in terms of your clinical experience) to make the move from associate to owner. Of course, no first-time owner can be 100 percent certain she or he is ready, and the only way to know is to take the leap into ownership. So, the next-best thing to absolute certainly is to be certain you are absolutely prepared for the challenges coming your way.

What to Know: Before Buying a Practice

Before you set foot in a single potential practice, there are several things to do and consider.

1. Assemble a team of professionals.

No matter how good you are, how confident you are and how many majors you had in college, you're going to need some help. Obtain an attorney to review the intent to purchase agreement, the buy-sell agreement and the lease. Once an offer has been accepted, hire a dental consultant familiar with practice evaluations to assist you with the due diligence and evaluation of the practice on-site. After the on-site evaluation, have an accountant review the profit and loss statements, and the tax returns for the last three years.

2. Arrange for financing ahead of time.

It's good to know what you are willing and able to spend before you begin your search to ensure you look in the right places. You can get a recommendation on lenders from any number of professionals: brokers, consultants, accountants, attorneys, colleagues and former classmates. Compare two to three lenders before making a final decision. Most lenders who specialize in practice acquisition financing will fund up to 100 percent of the practice purchase price depending on the net profit, plus all related working capital and transition cost needs. Be aware that lenders' policies can vary widely in the length of the approval procedure, interest rate, terms of the loan and whether there are penalties for early prepayment of the loan. So, again, this is something you will want to get started with early.

3. Obtain insurance.

Most practice lenders require disability coverage to collateralize a business loan. The most frequently used disability products for this purpose are income disability, reducing term disability and disability overhead. There are insurance agents experienced in dental practice acquisitions, so it's in your best interests to seek out such an agent.

Pre-search Considerations Checklist:

- ✔ Decide if you want to be totally fee-for-service or will accept PPOs, HMOs and/or Medicaid.
- ✔ Prioritize locations based on where you will be comfortable commuting or living. Remember, this isn't just a job; you are becoming part of the local community. Make sure you aren't just seeing dollar signs when you search, because dentists who are ONLY invested financially are not as successful.
- ✔ Know the kind of office setting you seek. Does it matter if it's a suite in a professional building, a free-standing building, or storefront in a shopping center or strip mall? Don't forget to consider parking and visibility for any practice you visit.
- ✔ Know your maximum asking price before you start asking.
- ✔ Get in touch with a broker who is active in the market. It's always a good idea to ask colleagues and former classmates for referrals. You also can shop broker listings online and through local dental association publications.

What to Do: When You've Got a Practice in Mind

Once you have a practice that looks like it might be a fit, it's time to get excited, but not too excited. There are still a lot of things to consider before you make an offer. Set a date to visit the practice or attend the broker "open house." If you're still excited to move forward, here are some things you'll want to do.

1. Get a practice evaluation.

Contact your consultant or advisor and arrange for an in-depth practice evaluation. Your consultant will review the reports on production, collections, adjustments, new patients and patient visits by month for the current year, each month of the previous year and totals for the previous four years. Evaluating collection versus net production is critical since some practices have regular problems collecting at the time of treatment. You'll want to know if this is an issue. Adjustments by type also are looked at to determine if the practice is writing off patients' co-payments or giving regular

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discounts and why. Production by category (diagnostic, preventive, restorative, endo, perio, oral surgery, removable and fixed prosthodontics, orthodontics, etc.) also should be evaluated. Are there procedures you don't do that will reduce your production for which you might consider bringing in an associate? And what procedures might you be introducing to the practice that will increase the production?

2. Get ALL the details of the physical space.

A practice that looks good in terms of production and at an open house may not look as good if the terms of the lease are cost-restrictive or the office needs a lot of updates. So, consider all the following: What is the square footage? How many treatment rooms are there and will they need to be updated? What equipment stays with the practice and its condition? And, what are the terms of the current lease? Are they transferrable? Are utilities included? Is there an option to buy the building, and are there zoning restrictions?

3. Get to know the patient population.

You'll want to know the type of practice you'll be working in and patient demographics — economic status, insurance dependence, residence/ZIP code analysis, proximity to office and patient ages — is a good place to start. In terms of marketing, you'll also want to know the new patient flow: number per month and referral sources. If these numbers are low, it doesn't necessarily mean the practice isn't worth your consideration. There may be a missed opportunity here and, of course, this also may justify a lower offer.

4. Get to know the actual patient numbers.

What is the number of active patients? Active patients are critical in a practice purchase since goodwill is figured into the purchase price, but determining this number can be tricky. A definition of an active patient is one that has been seen at least one time over an 18-month period, but many dental offices are not consistent with updating patients' statuses. The number of charts on the shelves or patients listed in a database can include inactive patients who are long overdue to be removed. A good number to go by is the hygiene visits per month, and this is something a consultant can help you determine.

5. Get to the bottom line, then decide.

If practice income (overhead plus debt service) is positive and provides a healthy salary, it's time to decide (with your broker) on how much you will offer and, if this looks to be a significant career opportunity, whether or not you are willing to get into a bidding war. A great practice may be worth it if you know you'll be here over the long haul. If, however, the practice income does not provide a healthy salary or is, in fact, negative, you may walk away from the potential deal. Before you do, however, consider what may make this practice profitable (or more profitable). Is there untapped potential here? Are you willing to put in the work? And can you get the practice at a bargain so that your risk is lowered? If so, you may be on to an opportunity a lot of other dentists will kick themselves later for missing.

Pre-offer Considerations Checklist:

- ✔ What are the accounts receivable (AR): amount, aging, collectability, insurance, and is AR for sale?
- ✔ Are insurance payments accepted as payment in full?
- ✔ Be certain that all income is from dentistry performed in the practice you are purchasing and not from other sources (e.g., a second dental practice, real estate/rent, other outside businesses or even fraudulent insurance claims).
- ✔ Do you know why the seller is leaving, especially if she/he is not of retirement age?
- ✔ If the office is leased, will the land lord assure transfer of the lease?
- ✔ Will the seller sign a restrictive covenant, barring him/her from competing in the same market for a set time?
- ✔ Will the seller carry a note if the bank does not approve the full amount?
- ✔ Can the seller assure you she/he will not talk to current staff prior to closing to assure expected continuity?

How to Do it Right: Making a Smooth Transition

Careful transitioning of your new practice is so important to your initial success. This is a big change for the staff and patients, and it's likely not a change they have been planning — and possibly one they haven't even been expecting. You'll want to make sure staff and patients alike are confident that your arrival will mean good things for the practice moving forward.

1. Meet the staff.

This is your team, your frontline. They know the patients, and a good way to make patients comfortable with a new doctor/owner is to quickly gain the confidence of your staff. You should interview each staff member before the close of escrow to discuss their position, hear their thoughts and to give them information on your background. Once a transition is announced, the staff will be able to speak freely with patients, and having this pre-meeting will likely have them reassuring patients that this new chapter for the office will be a good one.

2. Reassure the staff.

Since the seller needs to terminate the staff at the close of escrow, it is important that they know you intend to keep them on and that you do not plan to make any drastic changes walking in the door. For instance, some members of the staff may be overpaid in terms of their role, their experience, their abilities or simply the market. The staff may be receiving a benefits package that isn't sustainable. Your first thought may be to not retain staff members, or to make sweeping changes to the benefits package. This would likely be a mistake. Patients rely on the current staff and would not be familiar with anyone in the practice if you brought in a completely new one. Beyond that, a good staff doesn't just know how to do their jobs; they know how the office works and the little details that make the day run smoother.

The last thing you need on the first day is a mutiny or a staff that is just as inexperienced with the office and the patients as you are. Yes, some changes may be necessary, but drastic changes overnight should be reserved for emergencies. Most changes are best to implemented gradually and not during the transitions in ownership.

3. Work with the current owner.

Decide with the current owner when and how the staff will be informed about the sale. Will he or she introduce you to the staff at that time or a later one? In some sales, the current owner wants to — or is willing to — stay on for a limited time and this can be a great way to transition the practice. Be sure to define how long this will be and what role the (now) previous owner will assume. If he or she wants to stay on as an associate, is there enough work for both of you? And what about compensation? And if the previous owner has no desire to stay on, see if she/he will write a letter of introduction for you to the patients.

4. Have a staff meeting.

Although you will meet with staff individually before seeing your first patient, you should set a time for a practice transition meeting with all staff present. Your agenda should:

- ✔ make sure the staff understands your professional standards and clinical philosophy.
- ✔ allow staff to share their feelings about the practice change.
- ✔ make changes clear, and get feed back and questions from staff regarding the changes.
- ✔ decide how patients should be informed of the change.

5. Use a trick of the trade.

For a new owner, reviewing a patient's chart and finding personal comments about that patient is golden. Personal comments offer a chance to jump-start the relationship and develop it further. If the seller did not make a practice of noting that type of information, start a "personal comments" section on charts or computer notes. Then, you can review personal comments prior to every visit and then follow up with the patient. Your clinical skills are crucial, but showing interest in patients touches them while building credibility and likeability — and that's what counts with patient retention.

Transition Considerations Checklist:

- ✔ What is the previous owner's philosophy? Randomly select 10-15 percent of the total number of active patient charts. Review the X-rays and diagnoses, type of work, treatment notes and redos. Look at some lab cases. Really get to know your new practice.
- ✔ Does the office have a continued care (recall) system? What type would work best for the patients in this location?
- ✔ What is the current fee structure? If you need to increase fees, can any of them be implemented gradually or at a later date, after patients have gained confidence in you?
- ✔ Evaluate staff salaries, hourly rates, hours per week, lengths of employment, benefits and find out if anyone is due for a salary increase.

A Final Note

Every purchase and every transition is different. There will be surprises and not everything will go according to plan. Sometimes the surprises will be good ones, and sometimes Plan B will lead to even better things. The important thing to remember is that if you prepare for this big move, and you assemble a good team of professionals to help you along the way, your dream of owning your own practice will become a reality — and it may be even better than you dreamed.