

Experience counts!

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Many doctors seeking to purchase a practice fall in love with a particular one for the wrong reasons. It may be the location; it may be the perceived opportunity for growth; it may be the gross and net income the selling doctor reports. Seldom does a prospective buyer know enough about the intricacies of practice transfer to do good "due diligence." This is where an experienced broker can be especially valuable. By evaluating the business side of a practice, as well as the dental side, a broker can prevent disastrous mistakes. A good broker is concerned not only with the numbers, but has an instinctive understanding of who is going to work out with whom, and who isn't.

Appraising dental practices, particularly specialty practices, is a combination of science and art. For example, a high-income practice belonging to a "super-personality" doctor may not be a good fit for a low-key practitioner. Upon transfer, many such practices show a high level of patient falloff because those patients are used to being "kissed and hugged" by the former owner. It can be difficult or impossible for these patients to transfer their affections to the new owner.

Conversely, a practice with an average income in a blue collar neighborhood might have more value and transfer quite easily. The skilled broker carefully considers such factors as the age of the selling doctor, his reasons for selling, his reputation, his facility, and his actual averaged tax-reported income, any of which the unsuspecting buyer may overlook.

The professional broker will take the reported and filed financial statements and analyze them for reasonableness. A practice's income tax returns can show a low net profit (and thus low taxes); however, some doctors may show business expenses that are actually personal ones. The broker can recognize this and adjust the appraised value of a practice to show more precisely just how profitable (or unprofitable) the practice actually is. The prospective buyer then can have a projected idea as to the profits that might be realistically generated after a transfer.

A good broker can read arcane figures and interpret them based upon what he knows of the buyer and seller. For example, if a doctor shows a stated income - but refers out all of his periodontics, orthodontics, and pedodontics, which the buyer plans on doing himself - should the dollar value of that referred work be added back into the gross income column? The broker can develop a sales figure that is more accurate than the traditional "X percent of the gross income" commonly used.

Every seller thinks his practice is worth a million dollars (or more!), and every buyer thinks it's overpriced. It's a capitalistic world; both parties should negotiate. To guarantee a successful outcome, each party should carefully consider the broker's input.

A broker's services are even more valuable to the seller. One of the best benefits is to guarantee only qualified purchasers to the seller. Finding buyers with the necessary finances, backgrounds, and skills, as well as personal comfort with the seller and his practice, saves time and helps avoid last-minute failures to complete the sale. In my 32 years of brokering practice sales, the commission paid by the seller is more than offset by the better price achieved, the time saved in advertising and interviewing unqualified or unsuitable prospects, and in expensive legal and advisory fees.

It hardly matters if the broker acts as an agent for the buyer or seller. What does matter is that both parties are treated fairly, and that the transfer results in a win-win situation for the doctors and the patients.