

Some Myths and Realities

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Myths become realities, and realities become myths. After 30 years working with dentists in practice management and brokering the sale of practices, I thought it's time to dispel some of the myths and discuss the realities of buying and selling a dental practice. Accordingly, here are some of the important considerations you should keep in mind when contemplating buying or selling a practice. There is much more to be considered, of course, but this will serve as a starter.

- Myth: "There is a formula for determining the value of a practice."

- Reality: There is no single formula. Many variables affect the value of a practice: gross volume, net profit, office location, and physical plant, to mention just a few. The value of a practice cannot be expressed simply as a percentage of the last year's reported gross income. The value might vary from 30 percent of gross to well over 100 percent of gross.

- Myth: "Staff should not be told you are selling until the transaction is completed."

- Reality: One of the most important elements in the sale of a practice is the staff's continuing goodwill. Promptly and properly informing staff of a pending sale will eliminate the resentment they would have at not being informed and will assure their positive acceptance of the purchaser. However, from the beginning, staff should be assured that their jobs are secure.

- Myth: "The seller has to stay for a long time after the sale in order to make the best transfer."

- Reality: The best transitions are often the shortest. It is often too expensive and not practical to have the seller stay for more than two to three months. Conflicts over production (money), treatment, and patient and staff loyalties may arise.

- Myth: "The seller can save money by bypassing a broker's fee and finding a buyer by himself."

- Reality: Here, the old adage applies: "He who has himself for a lawyer has a fool for a client." Expert brokers always justify fees by obtaining for sellers more than they could by themselves. And, among other reasons too numerous to go into here, a seller typically gets bogged down by one prospective buyer who appears to be serious. The seller may then stop seeking other prospects, thereby reducing his or her options as to selling price and pre- and post-sale terms.

In addition, whenever a seller shows even the slightest amount of anxiety about selling his or her practice, it is often taken for weakness, and he or she might be taken advantage of by the prospective buyer or by his or her own representatives (his or her "advisers," such as an accountant, lawyer, family, or friends). An expert broker, however, will defend against the above pitfalls. He or she will negotiate and structure the pre- and post-sale terms to enhance both the profit and the peace of mind of the seller, creating a win-win situation for both parties.

As indicated earlier, problems and impasses will inevitably arise during the course of the negotiations - more than meets the eye and more than you can anticipate. Just remember, buying or selling a practice will be one of the most important transactions you will ever make. It is certainly one of the largest, if not the largest, in financial terms, and in implications for your future happiness and security. Be careful!

