



Keys to Buying a Dental Practice and Successful Transition Planning

KATHLEEN JOHNSON

ABSTRACT So, you want to buy your own dental practice. Sounds great, but proceed with caution and follow the critical steps to success. Having spent the last 15-plus years in her management consulting business assisting dentists with selling, buying, and practice transitions, the author has outlined key steps to ensure a smooth transition from evaluating the practice to ownership.

AUTHOR

Kathleen Johnson is with Kathleen Johnson Consulting, Inc., in Anaheim Hills, Calif.

While purchasing or starting a scratch practice of one's own is a powerful dream and something that can easily become a reality, one needs to proceed with caution. Be aware of the fascination of the sense of independence intrinsic in this dream. The dream of owning one's own practice can quickly turn into a nightmare if one is not ready or chooses the wrong practice. The author recommends the new dentist work as an associate for several years following graduation as it can be very valuable in terms of sharpening skills and gaining knowledge of the challenges, benefits, and disadvantages of practice ownership.

Prior to a practice search, one needs to make some basic decisions. What type of practice would be the practice of one's dreams? A totally fee-for-

service, or one that currently accepts PPOs, HMOs, and/or Denti-Cal?

Keys to Avoiding Stumbling Blocks

It is best to know about problems before investing time and significant money.

- Asking price and flexibility
- Will seller carry a note if the bank does not approve the full amount?
- Accounts receivable: amount, aging, collectibility, insurance; is AR for sale?
- Is insurance payment accepted as payment in full?
- Notes, collateral, subordination to bank
- Restrictive covenant not to compete by seller: distance and time
- Must be comfortable why dentist is leaving, especially if he or she is not of retirement age

■ Be assured that all deposits are from dentistry performed in the practice you are purchasing and not from other sources (outside businesses, second dental practice, fraudulent insurance claims) tax returns legit.

■ Be sure one is allowed to talk to current staff prior to closing to assure expected continuity.

■ Talk to the landlord to assure transfer of lease.

Location. Locations should be prioritized based on where one will be comfortable living and practicing. What office setting is being sought? Is it a suite in a professional building, free-standing building, storefront in a shopping center or strip mall? Parking and visibility must also be a consideration.

Get in touch with a broker active in the market. Ask colleagues for referrals to brokers they have worked with and had positive experiences. With the Internet, a dentist can shop broker listings of practices or one can check listings of practices for sale in major dental periodicals and local dental association publications.

Review practice information. These reports will be provided by the broker or directly from a seller if a broker is not involved. When finding a practice that has caught one's interest and appears to be one with potential, you can set a date to visit the practice or attend the broker "open house."

Arrange for financing. Get in touch with brokers, consultants, accountants, and attorneys as they can usually make recommendations for suitable lenders to consider. Most lenders specializing in practice acquisition financing will fund 100 percent of the practice purchase price, plus all related working capital and transition costs needs. Be aware that lenders policies can vary widely in the length of the approval procedure, the

interest rate, terms of the loan, and whether there are penalties for early prepayment of the loan. The author recommends one compare two to three lenders before making a final decision.

Obtain insurance. One will need to find a life and disability insurance agent experienced in working with dentists acquiring dental practices. Be sure to select an agent experienced in structuring and procuring disability coverage for the purpose of collateralizing a business loan. Most practice lenders will require this type

**IT IS BEST TO
have an attorney
to review the
intent to purchase
agreement, the
buy-sell agreement,
and the lease.**

of insurance as collateral for their loans. The most frequently used life insurance product for loan collateral is term life. The most frequently used disability products for this purpose are income disability, reducing term disability, and disability overhead.

Get in touch with professionals. One should not do this alone. It is best to have an attorney to review the intent to purchase agreement, the buy-sell agreement, and the lease. Once an offer has been accepted, one should hire a dental consultant familiar with practice evaluations to assist you with evaluating the practice on site. If possible, one should arrange to be with the consultant during the evaluation. After the on-site evaluation, the author recommends having an accountant review the profit and loss statements and the tax returns

for the last three years.

Office facility things that need to be considered are rent and the time, and terms of lease. Is it transferable? Are utilities included? Is there an option to buy the building? Are there zoning restrictions? What's the square footage? Number of treatment rooms? And are they modern? Expandable? Is the practice computerized? Digital X-rays? As for equipment: What are the units? Age? Condition?

If everything looks positive to this point, one is ready for the next step: Contact your consultant or adviser and arrange for an in-depth practice evaluation.

The first place to start when evaluating a practice is the information on the practice. The author reviews 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 two years. Collection vs. net production is critical as the practice may have a problem with collecting at the time of treatment. Adjustments by type are also looked at to determine if the practice is writing off patient's co-payments, giving huge discounts, etc.

Another critical area may be the production by category, (diagnostic, preventive, restorative, endo, perio, oral surgery, removable and fixed prosthodontics, orthodontics, and TMJ.) Are there procedures one does not do that will reduce production? And what procedures will one be introducing to the practice that will increase the production?

Uncompleted treatment. Is there treatment to do on the current patients or a potential need for extensive dentistry in the patient pool?

Patient population. What is the number of active patients? Active patients are critical in a practice purchase as goodwill is figured in the purchase price. A definition

of an active patient is one who has been seen at least one time over an 18-month period. Figuring this can be tricky as one cannot usually trust the number of patient listed in the computer as active.

Most dental offices are not consistent with updating their patient status. One cannot usually trust the number of charts on the shelves as inactive patient charts are not always removed. What one can trust is hygiene visits per month. The dentist needs to estimate the number of active patients, the estimated percentages of three-, four-, and six-month continued care visits. That would give the number of hygiene visits due per month.

One should review the patient demographics: economic status, insurance dependence, residence/ZIP code analysis, proximity to office, and patient ages, and look at the new patient flow: number per month and referral sources.

Dentist's philosophy. The dentist needs to select randomly 10 percent of the total number of active patient charts. Review the X-rays and diagnosis, type of work, treatment notes, and redos, as well as look at some lab cases.

- Review the continued care (recall) system. Is there one? What type?

- Carefully review the current fee structure.

Staffing. Staffing can be a crucial element of transfer. Is the staff aware of the sale? If not, when does the seller plan to inform them?

- Evaluate salaries, hourly rate, hours worked, length of employment, benefits and if anyone is due for an increase.

Transfer of ownership. Does the seller wish to stay on? If so, for how long and in what role. If he or she wants to stay on as an associate, is there enough work for both of you? What about compensation? Will the seller write the letter of introduction?

Evaluation and Numbers

Philosophy: If practice income minus (overhead + debt service) provides a livable income one can consider a deal. If numbers don't add up: BIG PROBLEM.

In California, the asking price can be as high as a full year's gross income.

Personal variables: What is valuable for one person may not be for another? Are you looking for a bargain or a career opportunity, even if you overpay? This is a decision one needs to take care with and not allow emotions to get in the way.

**A PRACTICE PURCHASE
means that
every day
brings new faces,
names,
and situations
to one's schedule.**

Careful transitioning of one's new practice can be a huge key to success or disaster. That is why the author highly recommends the dentist meet the staff prior to the close of escrow. He or she should interview each staff member to discuss their position and give them information on your background.

They need to know who the dentist is so they can transfer that information onto the patients with confidence.

Since the seller needs to terminate the staff positions at the close of escrow, it is important they know you intend to keep them and that you do not plan to make any drastic changes walking in the door.

The practice one is purchasing may have a staff that is highly paid and receives a huge benefit package. The buyer's first thought may be to not hire them and find

a new staff when getting started, but that would be a huge mistake as the patients rely on the current staff and would not be familiar with anyone in the practice.

Keys to Success

Prior to seeing the first patient, one should set a time for a practice transition meeting with all staff present. The agenda should include:

- Meet Dr. _____, understand his/her professional and clinical philosophy.

- Each staff member should take a few moments to share his or her feelings about the practice change.

- Provide information about any changes.

- Discuss how patients may react to the news.

- Discuss how to answer the phones.

- How to schedule Dr. _____ .

- Hygiene visits and meeting the new doctor

For a new owner, reviewing a patient's chart and finding personal comments about that patient is like discovering a pot of gold. Personal comments offer a chance to jumpstart the relationship and develop it further. If the seller did not note that type of information, the buyer should start by keeping a separate "personal comments" form in the chart or computer notes. Ask about patient interests and family life.

Review personal comments prior to every visit and then follow-up with the patient. One's clinical skills are very important, but showing interest in patients touches them, builds credibility and likeability, and that's what counts with patient retention.

A practice purchase means that every day brings new faces, names, and situations to one's schedule. Consider taking a proactive approach through the most important daily communication forum — the huddle. This allows the team to

gather and share information with the dentist that will help each person provide the most personalized care possible.

The hygienist must make every visit count by building relationships and educating patients about their health. Remove the typical “You look great; see you in six months” routine. Those words do not create value and urgency and do not give the patient a strong reason to return. At the end of the visit, the hygienist should reinforce the reason for returning sooner and be assumptive about preappointing the next visit.

Other sources for finding a practice: CDA classified ads, colleagues,

lending institutions, dental supply companies and the *Dental Shopper*.

Congratulations on your purchase! The author hopes these keys provide the groundwork upon which your practice flourishes for years to come. ■■■■

REFERENCES

Winston M, Seven Steps to Buying a Dental Practice, Dental Graduate Publication 24 (1, 2): May 1999.

TO REQUEST A PRINTED COPY OF THIS ARTICLE, PLEASE

CONTACT Kathleen Johnson, Kathleen Johnson Consulting, Inc., 6074 E. Silverspur Trail, Anaheim Hills, Calif., 92807.