



# Before You Pull the Trigger...

## purchasing a dental practice

Perhaps you're tired of working for someone else. Maybe you're fresh out of dental school and want to work for a dentist who will sell his or her practice to you after a reasonable transition period. Or, suppose you're just not ready to retire and you've decided to take advantage of the new Arizona Licensure by Credential law -- you want to sell your practice and relocate to The Grand Canyon State. Whatever your circumstances, before you start looking for a practice, do your homework!

Last month (INSCRIPTIONS, April 2004 -- revised 2006), I presented "Selling Your Dental Practice: Your Retirement Future." As a follow-up, I will discuss points to consider when purchasing. To recap my previous message:

- The average new dental start-up office (2,000 square feet with 5-6 treatment rooms, 2 fully equipped to start) costs between \$450,000 and \$550,000 to complete.
- The cost also includes some working capital and marketing allowances.
- Would the cost of purchasing an existing dental office rival or exceed the cost of a start-up? Would you have to replace outdated equipment? What can you do to enhance your chances for selling your practice?
- A "must" purchase is the American Dental Association's *Valuing a Practice: A Guide for Dentists* (see box for more information). Read it, learn it and memorize it!
- According to *Valuing a Practice*, a practice is likely to sell for between 40% and 65% of the average last 3 years of gross income.
- Many factors can either raise or lower the value. Find out what those factors are.
- It would be wise to insist that the asking price be determined by an independent dental office appraiser. Be wary of an asking price that has been determined by a broker whose commission is at stake.

Once you've done your homework and are ready to begin looking for the right practice, sign up as a "Seeker" in AzDA's Associate Placement Program. At this point, the majority of our providers with whom you will be matched have not yet signed on with a broker. Where the application asks the type of position you desire, indicate "Associateship Leading to Purchase." For more information and a Seeker application, log onto [www.azda.org](http://www.azda.org). If this avenue creates an opportunity for you, be sure they establish the asking price before you help the provider build up his or her practice. To do so later is unfair to you and will cost you more for the practice (source: *Valuing a Practice*).

At this juncture, I'd like to mention another resource. Contact your local dental brokers, many of whom advertise in this journal. The seller usually signs an exclusive contract with the broker to show the practice. Don't hesitate to contact all of them to see what they have available. This will give you the largest selection from which to choose.

### Next Step

Let's assume you've explored all of your options and have found one or two offices that seem to make good business sense to you. Your very next step -- above all others -- is purchasing a comprehensive demographics report, an independent study of the location that interests you, covering several Zip Codes. These reports usually cover past, present and future growth patterns; the current number of patients per dentist; and provide suggestions for marketing this area should you decide to purchase there. You can obtain these reports through many of the local dental consultants or healthcare finance companies advertising in INSCRIPTIONS.

You've done your homework. You've found a practice that you really, really want to buy. Before you pull the trigger, so to speak, consider a statement from *Valuing a Practice*:

"A future earnings stream is the most important thing a dentist receives when he or she purchases a dental practice."

## Earning Stream

When analyzing your future earning stream, remember that there is usually significant patient attrition, attributable to many factors including age, gender, socioeconomic, ethnicity, personality and your skill level as a dentist -- whether real or perceived.

The longer the transition period (one year or more), the better for both buyer and seller. The buyer has a better chance at minimal attrition. The seller can command a higher asking price. This is where a demographics report becomes paramount. Be sure you can also generate a stream of new patients to fill this void.

## Equipment

Be sure to determine whether the new office you're considering purchasing has decades-old dental equipment you will soon have to restore or replace. Also, does it have a digital x-ray system? If not, and you want one, you now have an additional expense of converting a traditional film-based system to a digitized one. Going a step further, what are all of the high-tech options you'd like to integrate?

## History

Here's something else -- will you have to replace, at your expense, a significant amount of substandard dentistry? Before purchasing any practice, communicate with the Arizona Board of Dental Examiners (BODEX) at (602) 242-1492.

Provide the name or names of all dentists who have treated patients in this facility for the last three to five years. BODEX will respond with a disciplinary history including the number of complaints filed against any or all of these dentists, how many were dismissed, how many were upheld and the categories in which any complaints were filed. Your phone call, which you may place anonymously, can be an important aid in determining the quality of dentistry performed in this office prior to your arrival.

## Final Comment

As Chair of the Arizona Dental Association's Associate Placement Program, I have the distinct honor and pleasure of speaking with many, many private practitioners (Providers). One common thread runs through all.

After many years of professional devotion to building a business and patient service, the emotional investment is huge. After all, many patients are also relatives, friends, neighbors and friends of relatives, friends and neighbors. Many patients attend the same places of worship as the doctor. The doctor shops in their stores and patients teach their children and coach their children's teams.

Therefore, it matters, very much, to find the "right doctor" to take over these responsibilities, especially when the doctor lives in the same small community and will therefore remain in close contact with ex-patients as they run into one another on the street or in the grocery aisles.

If I've just described you, and the first words from a buyer's mouth are, "How much can I make and how many days off will I get each week?" you will not consider this person a candidate to purchase your practice. You are looking for a doctor who will genuinely convince you that he or she will carry on your tradition of devotion and commitment. Only then can this become a win-win situation for buyer, seller and patient.

Now, go ahead... *pull the trigger!*

**Dr. Gordon Osterhaus Chairs the Associate Placement Program for the Arizona Dental Association and represents New Office Start-Ups and Equipment Sales for Valley Dental Equipment Co.**

## Resources

- *Valuing a Practice: A Guide for Dentists* available from the American Dental Association's Catalog Sales and Service Department at (800) 947-4746 or online at [www.adacatalog.org](http://www.adacatalog.org)
- *Directory of Dental Practice Appraisers and Valuators Sixth Edition* free for ADA members -- download at [www.ada.org](http://www.ada.org)
- For information and publications on tax laws, visit [www.irs.gov](http://www.irs.gov) and use the search functions for maximum efficiency in locating what you need. Online documents include "2002 Tax Changes for Business Taxpayers," "Frequently Asked Tax Questions" and "Small Business Tax Calendar: A Roadside Check" among many others