9 Questions You Should Ask Before Buying a Practice

BY KEVIN TIGHE

Buying a dental practice is one the biggest financial decisions of a dentist’s life, and gathering accurate data will determine if you end up with a good deal or not. This requires you to complete a comprehensive examination of any practice you are interested in with the same care and attention to detail you would give to a patient. Start this examination by asking these nine questions.

1. HOW MANY ACTIVE PATIENTS ARE IN THE PRACTICE?

I can’t tell you how many times the buyer of a practice finds out what he or she bought isn’t what was represented. Verify with your own eyes that you have an accurate active patient count, which should be easily confirmed through the practice management software if the information has been accurately entered. There is no definitive answer on what defines an active patient, but I recommend counting any recall patients going back 12 to 18 months.

If you find that the practice’s software is not accurate, there are a couple of ways you can determine the patient count:

• Depending on how many charts there are, you can take the time to go through them to determine when the patient was last seen.
• Review a sampling of 10 percent of the charts and multiply by 10. This average should provide you with a number that is close to the active patient count.

2. IS IT A BUYER’S MARKET?

Some indicators of whether you are in a buyer’s or seller’s market include the number of new dentists versus those retiring, state-specific laws on how many practices a dentist may own and more. If you are in a buyer’s market, I recommend holding a portion of your payment — say 10 percent — until the transition has been successfully completed, which includes understanding the various systems and protocols in use in the practice, such as financial arrangements and accounting. Request that the seller introduces you to as many active patients as possible. What you can negotiate will, to a large degree, be dependent upon whether you are in a buyer’s market or not, but almost all sales are 100 percent financed these days, so you might not be able to negotiate much along this line.

3. WHERE IS THE PRACTICE LOCATED?

Location is important (visibility makes a difference), so it is well worth the time and effort to carefully review the lease if you’re not also buying the real estate. This includes knowing the details of the lease and the options for renewing. Of course, you also want to ensure the location fits the patient demographic you’re seeking, and you want to know how many potential dental practice competitors are already in the area.

4. WILL THE SELLING DENTIST STAY ON AND INTRODUCE YOU TO PATIENTS?

Discuss the seller’s long-term plans if he or she is planning to continue working in the practice. How long the seller stays on mostly depends on if there’s an adequate patient base (or not) to keep both the seller and buyer busy. In my experience, having the seller staying on for a long period of time is not workable unless there is work to do as an associate and the new dentist can produce at a good level.
It is a tough call, but I recommend that you ask the selling dentist not to inform his or her staff of the pending sale, as you do not want to create instability prior to the sale. However, this is not a “deal breaker” one way or the other. Once the transaction is complete, the seller should have a staff meeting to inform everyone about the change in leadership and ensure that there will be a smooth transition. They also should be told not to worry about their job security.

In addition, I recommend that the selling dentist sends a letter (one letter per patient household) using the practice’s current letterhead and that he or she personally signs each one, and, where appropriate, include a personal note and use the patient’s first name. A few months later, the buying dentist can send another introductory letter, brochure or pamphlet. The higher the quality of these materials, the better.

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