

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.

5. HAS THERE ALREADY BEEN EXTENSIVE DENTISTRY PERFORMED ON PATIENTS?

If so, then the only income you will get from the active patients, for the most part, will be in hygiene services. When there is more complete dentistry performed, there will be less of a return on investment. If there has not been a lot of comprehensive dentistry completed, there is potential that patients will need more comprehensive care. The downside of this can be that some patients may leave because they may feel as though you are trying to sell them something they do not need. However, as you see patients for re-care, you will build up rapport and trust, resulting in a patient who will be receptive to your treatment recommendations.

6. WHAT ABOUT RE-DOS OF DENTAL WORK?

It should be in the contract that any re-dos of dental work completed by the seller must be performed by that dentist and paid for, including lab fees. There's usually a standard time frame of around six months from the time the new dentist takes over. I've seen buyers get the short end of the stick if this clause is not in the contract. For any warranty work or re-dos, you can require that the seller set up an escrow account for an agreed amount of time that you can draw from to be reimbursed for doing any warranty or re-do work.

7. HOW WAS THE PRACTICE PRICE DETERMINED?

Ideally, the seller has had a certified valuation performed. If so, make sure to verify that the person who did the valuation is certified and reputable. Valuations should include an analysis of recent tax returns, projected future cash flow, a review of accounts receivables, and any employment agreements or leases. The seller's insurance agreements should also be reviewed. Do not assume what you are told is accurate.

8. WHAT IS THE VALUE OF THE EQUIPMENT?

Fair market value for equipment should be determined using a dental equipment appraisal service. You can also do a straight-line depreciation method (which figures out the estimated useful life of the asset), and this data should be available in the practice's tax returns.

9. ARE THE STAFF MEMBERS TECHNOLOGY-SAVVY?

I've seen practices with staff members who have been with the dentist for 25 years or more, and they are usually practicing a style of dentistry that is outmoded. The time and frustration to train such staff on new techniques and practices is generally not worth the effort, as they typically will not want to change. If you encounter this situation, consider whether or not you should factor in the staff in your decision to purchase the practice, as there is a good chance one or more (if not all) will leave the practice within the year.

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 a 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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