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Mythology of Transitions (by Randy Daigler)

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The same myths about buying and selling practices have been circulating for many years. – even when proven wrong they still linger. Both sellers and buyers have heard some of these myths, and there are enough myths to go around, some for buyers and some for sellers. The good news is that when a transition is done right these concerns usually do not actually become reality.

THE IDEAL PRACTICE:
There is no "ideal" practice! No matter how many practices a buyer looks at the buyer will find that every practice has something that they will want to change. Many of the changes will be simple and some will even create greater cash flow, such as adding a new profit center by adding some new procedures in-house. The secret is to find a seller with the same basic philosophy of practice. Then, even if some changes need to be made, the staff and patients will be comfortable with the majority of the changes since they are value based.

NEED CASH TO BUY A PRACTICE:
The majority of buyers have debt due to school loans. Today, graduating with $150,000 to $250,000 of school debt is normal. The lending community has, for the most part, embraced dental lending including some local banks and national dental lenders. Lenders have been willing to provide over 100% financing for the buyer, including money to purchase the practice, accounts receivable and/or working capital, and if the cash flow allows, some equipment.

If there is real estate included in the purchase, most lenders will loan 80% or more of the property price, or loan to value ratio. The other 20% can be provided by either a buyer down payment or again, if there is sufficient cash flow from the practice, the lender can add the down payment to the practice purchase loan. Experienced dental lenders are generally non-collateralized lenders so they do not generally require other collateral or cosigners.

However, if the buyer's bills have not been paid on time, their credit score is low, there is a bankruptcy in the past, or the buyer's personal living expenses are excessively high, there will be difficulty obtaining a loan. Lenders usually require at least two or three years of good credit history to get comfortable with these loans, as well as enough cash flow in the practice to pay the l overhead of the practice, pay the loan principal and interest and pay the buyer's personal expenses.

SELLER NEEDS TO STAY FOR A LONG TRANSITION PERIOD:
This is a very common misconception. If the transition is planned right, the seller can finish his/her work-in-progress in a very short time and make a graceful exit; however, it will not be a good match if you want the seller out and the seller wants to remain working in the practice, or vice versa.

The seller's endorsement is very important and patients generally trust the seller's judgment, at least enough to come back to the practice after the sale. However, the staff actually create the continuity for the transition. It is then the responsibility of the buyer to connect with the patients. The trust of the patient is evident by their return to the practice and it is the responsibility of the buyer not to lose that trust.

IMMEDIATE 30% PATIENT LOSS:
If the buyer keeps the majority of things in the practice the same for the first twelve months there is little if any loss of patients or revenue. There will of course be some individual patient loss, but that is a fact of life for every practice. Actually, profits generally tend to rise up to 10% in the first year. Based upon national transient figures of 7%, if practices didn't grow by 10-15% per year they would all close their doors after a few years.

STAFF WILL LEAVE:
There are instances when a senior staff person will retire when the seller does, but for the most part the staff is eager to stay. They want to keep their jobs and stay working in routines, with people they know and in situations that they can predict. So the buyer can make this possible and ease their anxiety by changing only what is necessary in the beginning. Remember that staff has value to a transition. By keeping their wages and benefits the same there will be no reason for them to leave.

NEED TO RENOVATE
While many practices need some updating, everything doesn't need to be done at once. As a matter of fact, from the patient's perspective, the less changed in the first twelve months the better. Some things that should be changed are things that make the office look old or dirty or things that are non-functioning. The easiest to accomplish to give a facelift is to repaint the office. Taking a slower approach allows the assessment of what really needs to change and how best to do it.

EQUIPMENT REPLACEMENT
Many buyers have been accustomed to using either newer or much older equipment. Both experiences will influence the desire in buyers to have/buy new equipment to work with in their new office. However, like renovations, "need versus want" rules should prevail for the first year. Additionally, the slower method allows your cash flow to catch up with your dreams. It goes without saying that non-functioning or unworkable equipment has to be replaced and, if the cash flow allows, rolling equipment expenses into your loan for the practice may be best. Do not let ego overcome common sense when spending money for equipment or renovations.

MY STAFF/PATIENTS WON'T ACCEPT A PRACTITIONER GENDER CHANGE
Sellers generally tend to try to choose buyers who most closely reflect themselves. As most of the selling dentists are men, that is what they seek as replacements. Some sellers have concerns that if a patient closely identifies with them that they need to find a buyer who is a mirror image. Actually the gender of the buyer is not as important as the way the buyer values staff, patients, quality dental care and the philosophy of the seller as well as the value of money in running the office and diagnosing treatment. Contrary to some of the literature, female successors generally do a great job of working in practices and being owners, so the real issue becomes the seller's concept of his/her successor.

DECLINING PRACTICE
As a method to slow down, some doctors decide that cutting back the practice is a great idea. Actually the contrary may be true. When a practice begins to decline, it loses value. If the net income falls too low, the practice may not provide enough cash flow for a buyer and if it has been consistently falling, buyers will project a lower production level which means a lower value and a lower offer.

If the doctor does not need the revenue from a sale, then no harm is done by continuing to work in it. The alternative is that a sale will provide some additional retirement income. Many doctors let the practice decline because they cannot imagine being retired and not having an office to go to. To them, regardless of how small the practice shrinks, they still have some place to go and practice the profession they love. If the doctor is aware of the consequences of a declining practice they should enjoy it.

No one should force or scare anyone into selling.

MY PRACTICE WILL PROVIDE MY RETIREMENT
The reality of economics over the past two decades shows that unless a practice is worth several million dollars it will not provide the bulk of most retirements. Some sellers in their 40s or 50s are now creating partnerships or adding associates to use the proceeds from the sale to fund a retirement plan that should yield a good return on their investment as they near retirement. The average doctor, however, cannot count on his/her practice to provide any significant portion of living expenses for the future. It is now generally suggested that the sale of a practice not be used in the calculation of retirement funds.