# ADS Florida Insider

**EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST**

**JANUARY** 2008 | Practice Transitions Made Perfect™ | ADSflorida.com

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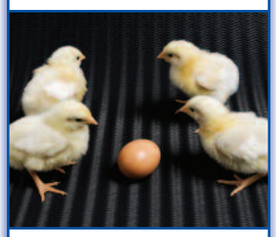







ADS Florida *Congratulates*

Richard A. Stanley, DMD to Alexei V. Mikerin, DDS
*Englewood*

Jared Plitt, DMD
*Miami Beach*

Mark Geltzer, DDS to Elba Franco, DDS
*Miami*

William Ridinger, DDS to Greg Moo, DDS
*Mount Dora*

Charles Helms, DMD & Christine Tran, DMD to Cuong Phan, DMD
*Orlando*

Filiberto Herdocia, DDS to Javier Bonilla, DDS
*Weston*

## Raising Fees

It's that time of year again. We're reviewing our efforts of last year, gathering our tax information for our CPA and hopefully, planning and projecting for a successful 2008. It is all too often that these year-end and first-of-the-year activities consume so much of our time we go year to year without keeping our fees current with our costs of doing business.

For the last few years dentistry has benefited from a greater than normal disparity between per unit charges for lab work and the fees that dentists have been charging. The lab fees have caught up! The rest of the costs in dentistry have also increased and to stay on parity, fees need to be adjusted accordingly.

Careful analysis of your fees can make a significant difference for the upcoming year. Increasing fees 5% in a practice grossing $1 million will fund your retirement for a year! Individually, a 5% increase wonít be felt by your patients, but collectively it makes a significant difference to your practice.

Whether you raise your fees or not your costs continue to go up. Now is the best time to analyze and make the necessary changes. You will leave a significant amount of money on the table for every month you procrastinate.

Success to all in 2008!

H. M. Smith

Hy Smith, MBA | President, ADS Florida


## Prepayments: Avoiding Pitfalls

The value of a practice is determined, in part, by calculating the available income for a purchaser after the practice expenses are considered. Usually, practice financial statements and tax returns are adequate to breakdown the financial condition of the business, providing a purchaser with a good representation of practice income and expenses. By examining the day sheets, deposit slips and bank statements, a purchaser should find a direct correlation between the services provided to patients and the actual practice income.

Recently, though, we have seen some new trends in practices, propagated by the use of health-care specific credit cards and financing plans for dental treatment. These credit vehicles have been welcomed by practices, since once the patient is approved, the entire estimated treatment cost is advanced and paid immediately to the practice (less a pre-arranged percentage withheld by the bank).

What's the problem? When a dentist deposits the money received as prepayment for future patient services into the practice's general bank account, that money becomes comingled with money deposited for services already performed.

While there is nothing illegal or wrong with this practice, if the money has gone into the general account, the due diligence review may not discover the credits. Without full disclosure by the seller, the purchaser may be walking into a practice where many of the returning patients expect their continuing treatment will be provided at no additional cost. Patients will expect that their money has been properly transferred to the new practice owner.

So how can the general practice adapt? An easy solution is to use a separate bank account solely for prepayments, much as escrow accounts are utilized by brokers and attorneys. As treatment is provided, money can then be transferred to the operating account. Keeping the prepayments separated allows the owner to more accurately track the practice collections and profitability. Further, this separation protects the practice in the event that a patient decides not to complete treatment and requests a refund; the money is readily available and has not been already spent or taken by the owner. Finally, maintaining this separation allows for easy accounting and transfer of the patient credits in the event of any practice transition.

We urge you to take a serious look at your accounting procedures for prepayment credits, whether or not you are considering a transition.


# Dentistry is a business.

It seems that a week does not pass by without a call from someone trying get into the dental business. Many of the calls come from "businessmen" who have somehow decided to get into the lucrative world of providing clinical dentistry. Some come from dentists who have retired or are on disability; and others from dentists who have recently graduated from dental school. They all seem to think that merely owning a dental office is inherently profitable.

Depending on location, ownership of professional practices is regulated by state laws. In many states, dental practices can be legally owned only by a licensed dentist. Even though they are regulated by state laws, the dental practice acts in some states are being circumvented by manipulation of ownership records. While those acts were intended to provide some semblance of accountability for patient services, the proliferation of the multiple practice entities seems to indicate that some states are less interested in that accountability than could be reasonably assumed by the laws.

Investors often dissect a profitable business to discover scalability. After all, replicating the process and increasing the capability should take advantage of efficiencies that a single operation could not exploit, such as a discount on materials and supplies. However, even with some cost savings, how much money can really be 'saved' by increased volume buying power? With clinical supplies costing an average of 4%-6%, and office supplies costing about 1.5% to 2%, what is really left to cut? Staff salaries don't change with new ownership and therefore only the salary of the producing dentists and hygienists can be manipulated to create any real profit after expenses. After all expenses, the practice owner expects a 'reasonable' profit.

The reality is, a dentist can only be in one office at any one time and truly provide dental services to patients. It is certainly within the dentist's ability to have multiple offices as long as that dentist is willing to split his or her time between the locations. An alternative is to hire, train and support associates. While there may be some advantage of a very few economies of scale, the financial downside is potentially disastrous. Multiple offices means hiring more staff, duplicate facility costs, and increased managerial duties. If a single doctor is splitting the time between practices, how can this be done efficiently?

Another way to scale the practice is to exploit efficiencies by increasing the size of the physical plant, creating more operatories. Associate dentists can be hired to treat patients under the umbrella of the owner's company. It might seem like a logical extension of the solo practice that as the use of the physical plant is increased, the profitability of the new expanded office would be exponentially more profitable just by adding more associates. Hiring associates, though, adds dimensions of patient care responsibility and liability.

As the physical plant size increases, the cost of acquisition, equipping and operating the facility also increases. Staff must increase to support the additional producers. Advertising costs also increase to attract the volume of new patients for the expanded professional staff.

Most businesses sell products. More sales associates to serve more customers should increase sales and therefore profits. Dentistry though, is a service that depends on either a dentist or hygienist to provide billable services. Dentists are typically paid on a percentage basis and that is usually in the 30%-50% range, depending on experience and specialty training. Hygienists are typically paid $25 - $35 per hour or on commission at 28% to 33%, if not more. With total overhead expenses in most offices from 60% to 75%, paying additional producers can leave little or nothing after all expenses. Of course, if the compensation of those providers can be reduced, net income can be increased. Associates, though, did not generally go to dental school to work for someone else and they often leave after realizing that they can make more money working for someone else or themselves.

In a true evaluation of an office, there is usually only about 10% to 15% left for the owner after attempting to exploit any type of practice "efficiency". While that may be considered to be generous, the hard numbers show $1,000,000 of production would yield approximately $100,000-$150,000 in net income. Contrast that to $1,000,000 in the solo office, yielding approximately $450,000 to $500,000 and the inefficiency comes clearer. Ultimately, unless there is a business model that can be utilized that will provide a patient flow to adequately support multiple doctors, the profitability of the expanded facility will not increase. If this happens, the "business" will obviously fail the scalability ideals and prove unprofitable for the owner.

As more dentists reach retirement age within the next decade, they will look to new graduates to transition their practices. New graduates are bringing a new dynamic to our profession though. Many are not willing to take the responsibility of full time practice. Many feel that their school debt and credit card debt will not allow them to assume new debt to acquire a practice. Many are more interested in only working part time. Whatever the reason, rural practices already feel the pressure of trying to replace practitioners and this trend has no apparent end in sight. As dentists reach retirement, they may be willing to sell their practice to anyone just to get out. The new "businessmen" may have acquired a professional workforce that is willing to work even at a reduced income just to have a job unless the prevailing state laws are more effectively enforced.

# Practice Transitions Made Perfect

## General and Specialty Practice Purchase Opportunities

### NORTH FLORIDA

Contact: Paul Rang, DMD, JD, Don Elsman, DDS or Melody Elsman, RDH

| | | Gross | Buyer Net |
|---|---|---|---|
| Ft. Walton Beach | 4 ops FFS pano 3 days/week RE Available | Ask $100K | |
| Lake City area | 5 ops FFS pano 3 days/week RE Available | $354K | $107K |
| Pensacola | 6 ops FFS 3 days/week RE Available | $374K | $103K |

#### Specialty Practices

| | | | |
|---|---|---|---|
| NE Florida | Pedo 6 ops | $1.2M | $450K |

### WEST FLORIDA

Contact: Greg Auerbach, MBA or Paul Rang, DMD, JD

| | | Gross | Buyer Net |
|---|---|---|---|
| Brandon | 7 ops FFS/PPO Real Estate Available | $1.45M | $438K |
| Citrus County | 5 ops FFS Pano | $705K | $213K |
| Englewood | 4 ops FFS/PPO Real Estate Available | SOLD | |
| Tampa | 2 + 2 ops – Downtown Tampa | Ask $500K | |
| Tampa | 3 ops FFS/PPO Real Estate Available | $550K | $150K |
| Tampa (South) | 3 ops FFS/PPO – Starter/Satellite | Ask $159K | |
| Tarpon Springs | 4 ops FFS/PPO – Starter/Satellite | Ask $125K | |
| Venice | 4 + 1 ops FFS/PPO RE Available | $625K | $125K |
| Venice | 3 ops FFS/PPO | $760K | $208K |

### CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

| | | Gross | Buyer Net |
|---|---|---|---|
| Citrus County | 5 ops FFS Pano | $705K | $213K |
| Cocoa | 6 ops FFS Pano Real Estate Available | $1.1M | $378K |
| Gainesville | 4 ops FFS/PPO Pano | $949M | $333K |
| Levy County | 7 ops 3 days/week | $292K | $ 58K |
| Orlando | 5 ops FFS/PPO Pano | $775K | $280K |
| Orlando | 6 ops FFS/PPO Pano | SOLD | |
| Titusville | 5 ops FFS Real Estate Available | $701K | $176K |

#### Specialty Practices

| | | | |
|---|---|---|---|
| Orlando | Orthodontics 2 days/week | $350K | |

### SOUTHEAST FLORIDA

Contact: Stuart M. Auerbach, DDS

| | | Gross | Buyer Net |
|---|---|---|---|
| Hialeah | 4 ops FFS/PPO Computer & Pan | Ask $225K | |
| Miami | 2 ops FFS/PPO | $233K | $135K |
| Miami | 4 + ops FFS/PPO/HMO *Starter* | SOLD | |
| Miami Beach | 3 + 1 ops FFS/PPO | SOLD | |
| Miami (Kendall) | Relocate your practice and transition | | |
| N. Palm Beach | 4 ops FFS/PPO Cosmetic w/RE | $1.5M | $382K |
| Weston | 3 + 3 ops FFS/PPO w/ Condo | SOLD | |

#### Specialty Practices

| | | | |
|---|---|---|---|
| Palm Beach Cnty | Oral Surgery 5 ops – Well Established | $700K | $232K |

#### Practices Ready Facilities

| | | |
|---|---|---|
| Boca Raton | 6 ops Equipped | Ask $ 35K |
| Cutler Bay | 4 ops Equipped with Instruments | SOLD |

#### Associate Opportunities

General Dentistry: Miramar, Stuart, Tamarac

Orthodontic: Hialeah

### SOUTHWEST FLORIDA

Contact: Greg Auerbach, MBA or Hy Smith, MBA

| | | Gross | Buyer Net |
|---|---|---|---|
| Ft. Myers Area | 5 ops FFS Pan, RE Available | $725K | $237K |
| Marco Island | 5 ops FFS – Upgrades Inside | $700K | $241K |
| Naples | 6 ops FFS – C&B RE Available | $1.8M | $603K |

#### Associate Opportunities

General Dentistry: Naples

**Buyer Projected Net Income Assumes 100% Financing**

**For the most recently updated listings visit** ADSflorida.com

We currently have buyers looking for the following opportunities:

**GENERAL DENTISTRY**
Broward, Collier, Dade, Hillsborough, Manatee, Orange, Sarasota

**PEDODONTIST**
Broward, Dade, Palm Beach

**ORTHODONTIST**
Broward, Dade

**PERIODONTIST**
Broward, Palm Beach

**Hy Smith, MBA**
(239) 262-3077
hy@ADSflorida.com

Southeast Florida
**Stuart M. Auerbach, DDS**
(954) 431-3624
stuart@ADSflorida.com

Jacksonville / Panhandle
**Melody Elsman, RDH**
(386) 517-6911
melody@ADSflorida.com

West / Southwest Florida
**Greg Auerbach, MBA**
(941) 746-7959
greg@ADSflorida.com

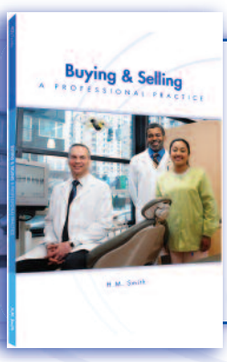
North / Central Florida
**Paul Rang, DMD, JD**
(407) 671-2998
paul@ADSflorida.com

Jacksonville / Panhandle
**Donald A. Elsman, DDS**
(386) 517-6911
don@ADSflorida.com

## ARE **YOU** READY FOR TRANSITION?

*"If you now or ever will own, sell, or work in a dental practice this book is a must read. Hy's decades of experience in creating WIN-WIN-WIN (seller-buyer-patients) transactions is yours in a clear, concise and entertaining account. Wherever you are in your career, the tools to create your ideal future lie within these pages."*

**Gary M. DeWood, DDS, MS**
**Clinical Director, Director of Business Systems, The Pankey Institute**

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**A Professional Practice**

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