

# **8 Critical Steps in Buying a Dental Practice**

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When the time comes to purchase a dental practice there are certain things you need to know. What follows are the 8 most critical steps you need to take to turn your desire to “be your own boss” into a reality.

## **Step 1. Timing**

Is it was wise for a graduating dentist to buy a dental practice the minute he or she gets out of dental school? The answer is, it depends upon the dentist. Some dentists exit dental school with a working knowledge of how to run a business. Perhaps they took business courses in college or had experience working in a family business prior to getting their diploma. For those lucky few, the answer is yes. Because they are business savvy buying a practice right out of school will probably work out just fine. But, for most new graduates, it is rarely a good idea.

Taking a job as an associate dentist for several years allows you to gain experience in the dental field and familiarize yourself with the business side of dentistry. It allows you to make mistakes on the other doctor’s dime and if the dentist you are working with is highly successful, you can learn proven techniques for everything from how to handle employees to patient scheduling. The knowledge you can gain from a position in a thriving practice is incalculable. Also, if you’re happy in your first position and stay a while, you may be able to purchase the practice from the owner when he or she retires. Wouldn’t it be great to purchase a practice where you understand staff dynamics, you’re familiar with the patient base and have realistic business expectations about the value of the practice? One last point, working as an associate for two or three years gives you time to discover the kind of practice you want in your future. You may graduate dental school thinking you want to practice one kind of dentistry and discover that you enjoy something totally different. Experience is a great teacher.

## **Step 2. Buy Versus Build**

The second step in the process is to decide whether to purchase an existing practice or start your own from scratch. I’ve heard practitioners say, “I can build a practice for a lot less money than the practices I find on the market.”

And while that's probably true, in the long run, buying an existing practice is less pricey and less risky as well. When you purchase an existing practice you purchase an operational dental business with an immediate patient base and dependable revenue stream. It takes three times as much money to bring new patients into your practice as it does to generate income from an established patient base. And don't forget, overhead costs start immediately. It takes time to advertise, promote a new practice and entice patients through your front door. And, it takes time and money to diagnose treatment, deliver the treatment and collect from patients and insurance companies. Therefore, while the price tag of an existing practice can be higher than the out-of-pocket costs of a startup, the practice purchase is usually less costly overall. Also, the Return on Investment (ROI) is faster when you purchase an existing practice than it is when you build your own. You start getting ROI (money back in the bank) immediately upon close of escrow. Like I said before, when you start a practice from scratch, ROI takes time. Another benefit is that financing an ongoing business is easier than financing a start-up. Also, it takes lots of time and energy to build a practice. There are hundreds of decisions to make, employees to find and interview and critical purchases to decide upon. With an existing practice all those hassles, decisions and purchases have been made.

### **Step 3. Location**

When a dentist contacts me and says, "I want to buy a dental practice." I always ask, "What are you looking for?" If the dentist replies that he or she is "flexible", I know they need to do give the question more thought.

I can't tell you how many practices I've had to sell for dentists who in a relatively short time were, "sick and tired of commuting an hour back and forth to work." Look for a practice within 30 minutes of your home or the city you plan to live in. Close proximity is beneficial for three reasons: 1.) Emergency patients can be great practice builders as long as your office is not so far from home that emergencies are more of a hassle than an asset. 2.) Being close to your office reduces daily stress, gives you more time with your family, and makes it easy to do paper work in the evenings if need be. And 3.) Automobile costs are greatly reduced when you work and live close to home. Obviously there are other considerations when purchasing a practice such as, the visibility of the location, accessibility to roads and freeways, size of active patient base in the area and plans for future growth in the area.

#### **Step 4. Practice Preferences**

The kind of practice you want to buy will depend upon the kind of dentistry you want to do. Choose a practice that fits your dental expertise and temperament. For example, if you enjoy a slower paced environment and want to see only a few patients a day, you'd be miserable in a practice that sees 20 patients a day. Likewise, if you enjoy a fast paced environment, you wouldn't be happy in a small practice. Also, you should consider the patient make-up of the practice. If the typical patient is in a lower socioeconomic class and only wants "necessary" dentistry performed, be sure that's okay with you. On the other hand, if you want to do ideal dentistry and have a high acceptance rate of your treatment plans, plan accordingly. Likewise, if the majority of the patients are of a particular ethnic group, make sure that is acceptable to you. This may sound obvious, but I see it all the time.

#### **Step 5. Valuing the Practice**

There are many methods for valuing dental practices. Most experts favor the income-based approach. The income-based approach recognizes the critical components of a successful practice: practice income, expenses and an appropriate compensation for the owner. Owner compensation is not just the amount listed on your tax return. Total compensation includes additional items such as the value of health insurance, company car, trips, and patient entertainment. And, even though the IRS may deem these so-called perks to be taxable income, the income listed on a tax return or a profit and loss statement is not necessarily the same amount of income that was earned by the seller or could be earned by the buyer.

Don't get fixated on a maximum or minimum purchase price of say \$200,000. Find the practice that suits you best and once you find it, ask the Broker to show you how the price was determined. Don't be afraid to spend \$300,000 or even \$400,000 to buy the right practice as long as there is sufficient cash flow to service the debt and provide you with good take-home pay. An experienced Broker, or good dental accountant, will be able to help you make that determination.

#### **Step 6. Understanding Overhead**

Overhead is the cost of doing business and includes: rent, staff salaries, dental supplies, insurance and other things. If overhead is too high the practice will suffer and the financial security of the dentist is at risk. For the savvy practitioner, high overhead can be an opportunity to reduce costs and improve financial performance.

One way to measure the health of a dental practice is to look at overhead as a percentage of practice income. Experts agree ideal overhead should range from 62 to 65% of general practice revenues and up to 74% in practices with one associate. With that said, it's important not to become hyper-focused on any one item in the overhead as long as the entire picture looks good. Look at the complete financial statement. A good Broker can help you get an honest evaluation of the anticipated net income if you don't have an accountant who is familiar with dental practices.

### **Step 7. Understand the Tax Consequences**

There can be substantial tax consequences for both parties in the sale of a dental practice. A conscientious, experienced and principled Broker will ensure that the purchase and sale of a dental practice is structured so that the process is a "win-win" situation for all concerned. Obviously, you'll want to meet with your CPA and attorney in advance of signing any documents to ensure you are properly protected.

### **Step 8. The Broker**

No two dentists are alike and so too with dental Brokers. When choosing a dental practice Broker look for experience, integrity, and proven expertise in the Industry. Most dental practice Brokers hire salespeople to answer the phone. This can be frustrating and a colossal waste of time having to explain the same stuff to a different person each time you call the Broker's office. Ask with whom you'll be speaking when you call the office? And, if your contact person changes with the weather, find another Broker. Look for a Broker with banking contacts and CPA connections. Be sure your Broker has a working knowledge of how a dental office operates and understands the difference between a fee-for-service office and managed care office. It's critically important to buy a practice that not only fits your needs, but fits your skills and temperament as well. When you buy the right practice you not only enjoy dentistry more but you set yourself on the path to a successful dental career.

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