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Hiring the Right Dental Practice Broker

continued from page 3

How will you market my practice and qualify potential buyers? Your dental practice broker should have an informative and comprehensive website in place to market your practice and educate potential buyers on the process of purchasing a practice. The broker should also market their company and listings in local and state dental journals. While this is absolutely necessary in marketing a practice, it should only be the starting point. Once a buyer inquires about a listing, your broker should spend time with them prior to visiting any offices to discuss their background, career goals, practice philosophy, personal financial condition, etc. During this initial meeting and subsequent practice showings, the broker should be learning about what type of practice is a fit for each buyer. If your dental practice broker places a priority on developing relationships with buyers then they should have a pipeline of qualified doctors who may be the right fit for your office when the practice is listed.

As we have discussed, it is imperative that your dental practice broker have the necessary experience and skills to effectively handle your practice transition and maximize the value you receive for your office. They should also take a proactive and hands on approach to marketing your practice and qualifying potential buyers to ensure a successful transition for all parties involved. By asking your colleagues and advisors for a referral to a local practice broker and utilizing the questions in this article to qualify your broker, you can feel confident that you have chosen the RIGHT dental practice broker to represent you in the sale of your practice.

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The Dental Transition

NEWSLETTER

In this issue

- 1 BUYER HOT BUTTONS
- 3 HIRING THE RIGHT DENTAL PRACTICE BROKER
- 3 WHAT OUR CLIENTS HAVE TO SAY ABOUT US MATTERS

Buyer Hot Buttons

Our preferred strategy to maximize practice value and reduce the stress and time required to sell a dental practice involves addressing common issues that buyers are focused on before the practice is placed on the market.

In this article, we will review the practice attributes that today's buyers are paying close attention to – their “Hot Buttons” – as well as our recommendations on how to address those Hot Button issues in order to make the practice as valuable and marketable as possible.

Hot Button #1: Asking Price. Today's buyers are sophisticated and very well informed about the market value of dental practices in their area. If the practice is initially priced well above its true market value, it will take much longer to sell. Even if you find a buyer who is willing to offer more than the market value, overpriced practices will ultimately end up selling near their true market value once the buyer's advisors and practice lenders begin to weigh in on the practice purchase price.

Solution: Set an asking price for the practice within the normal range of market values in the area. This is accomplished by conducting a thorough analysis of comparable sales in the local market. Be sure to engage an experienced, local broker to accomplish this task.

Hot Button #2: Practice Location. We find that the majority of buyers are looking to purchase a practice primarily in the urban/suburban areas of Texas. Therefore, it usually takes longer to sell

a dental practice in a rural area. In addition, most buyers prefer a retail-type space with good visibility, although an attractive professional building location is also a viable option.

Solution: Utilize a long-term, strategic analysis of your current location. If the area is “going downhill” or the building in which the practice is located does not have the type and volume of tenants it once did, consider the costs vs. benefits of relocating your practice to a better area or a different type of building. If you are 7 to 10 years away from transitioning your practice, the benefits and potential gain in practice value can often justify the investment required to relocate.

NOTE: If your practice is in a rural area, the other “Hot Buttons” discussed in this article become even more important to buyers.

Hot Button #3: Equipment & Aesthetic Appearance / Cleanliness. Because most buyers have been practicing for less than 5 years, they would prefer to utilize newer equipment and digital technologies in their practices. The practices that have digital radiography and chair-side computers tend to sell quicker and at a higher price than their counterparts.

Also, first impressions are important, so practices that do not have a positive “curb appeal” when buyers walk in the door for the first time can lose value and take longer to sell.

Solution: Just as with your location analysis, it is imperative to have a long-term plan for keeping your equipment and facility up to date. The more time you have until the practice sale, the

Continued on Page 2

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Buyer Hot Buttons

continued from page 1

easier it will be to garner a sufficient return on investment from purchasing new equipment. We recommend that you upgrade your equipment 3 to 5 years prior to selling your practice.

In regard to aesthetics, we again recommend updating your office décor and finishes 3 to 5 years before the sale to initiate a positive response from potential buyers. Hiring an interior designer or remodeling the practice can enhance practice value and marketability.

Hot Button #4: Practice Cash Flow. Most buyers are looking for practices that generate sufficient net cash flow (after operating expenses) to cover their personal living expense needs, which can be substantial considering that many potential buyers have student loan debt in excess of \$200,000. Additionally, the ability for a buyer to obtain financing for the practice purchase is heavily tied to the historical cash flow of the practice.

Solution: Cash flow is related to both expense control and revenue enhancement. Start by ensuring that your major expense categories (staff payroll, dental supplies, and lab fees) are within industry norms. Next, make sure that you are doing everything possible to enhance practice revenue, increase case acceptance, attract new patients, and retain your existing patient base.

Hot Button #5: Type of Patient Base. When we sell a dental practice, our experience has been that the majority of buyers are looking to acquire a practice with a fee for service and/or PPO patient base. DMO patient bases are definitely waning in popularity and, with the recent changes to Medicaid reimbursement in Texas, a patient base with a significant Medicaid component may be viewed negatively by some buyers.

Solution: With the help of a practice management or insurance consultant, conduct an analysis of the insurance plans that you currently accept along with those that are prevalent in your market area to determine if it is worthwhile to drop some plans and possibly add others. If handled properly, these changes may help increase new patient flow, decrease practice overhead, and make your practice more valuable and marketable to potential buyers.

If Medicaid accounts for the majority of your patient base, you have likely already experienced a significant decrease in revenue and should consider developing a long-term strategic plan to build a fee for service and/or PPO patient base. A location/demographic analysis will be essential to identifying potential opportunities in your area.

Hot Button #6: Active Patients & New Patient Flow. Active patient count and new patient flow are extremely important to buyers in evaluating the health and goodwill of a practice. We have often heard that, on average, patients switch dentists every seven years. Therefore, an easy way to determine if your patient base is growing or declining is to divide your number of active patients (seen in the past 24 months) by seven and compare the result to the number of new patients you have seen in the past year. If the number of active patients leaving your practice each year is larger than the number of annual new patients, then your patient base is shrinking and may be cause for concern.

Solution: Conduct a periodic analysis of your active and new patient counts to evaluate the health of your practice and identify trends that may need to be corrected. Enhancing the patient experience and maintaining an effective recall system can ensure maximize patient retention, while implementing an internal marketing strategy (asking for referrals from existing patients) and an effective external marketing strategy (such as a website or direct mail) can improve new patient flow. Hiring a practice management consultant on a periodic basis can help you and your team to stay on track in these areas.

Hot Button #7: Upside Potential. When an acquisition opportunity provides the buyer with the potential to increase revenue through making minor changes in the practice, the buyer will typically be more inclined to offer full market value for the office. Retaining services that are being referred to specialists, increasing operating days or hours, and implementing relatively simple internal or external marketing strategies are all attractive ways for a buyer to increase revenues and patient flow.

Solution: While you should take advantage of the revenue potential of your practice prior to the sale, be sure to identify and quantify any opportunities that you have not pursued to your practice broker and potential buyers.

By understanding the factors that influence a potential buyer's perception of value, making the changes necessary to maximize practice value and marketability, and planning ahead, practice owners can ensure that they will be in a great position when the time comes to sell their most valuable asset.

Hiring the Right Dental Practice Broker

Selling a dental practice is a huge life event for a practice owner and will have a significant impact on your financial stability and quality of life after the sale. In previous articles, we discussed the reasons for hiring a dental practice broker and their role in the transition process. While it is important to understand the role of a broker and the importance of utilizing their services, it is also imperative that you hire the RIGHT dental practice broker to represent you in the sale and facilitate a smooth transition. When selecting a dental practice broker, consider asking the following questions before signing a listing agreement:

What experience do you and your team have with dental practice transitions? Your dental practice broker and their team should possess a significant amount of experience in practice transitions/sales and a diverse skill set including an understanding of finance, accounting, marketing, and professional sales. Since the broker will be involved in valuing your practice prior to a sale, it is essential they are able to analyze your practice financials, reports, and equipment list to arrive at a fair market value which is in line with current market conditions. Experience in marketing (both traditional and internet) is also necessary to give your practice as much exposure as possible to potential buyers. You will also want to inquire about how many transitions the broker has been involved with in your area over the course of their career and particularly over the last couple of years. This will give you sense of how active they are in the local market and is a reflection of their experience in pricing practices properly, marketing effectively to potential buyers, and working with all parties to successfully close practice sales.

Who do you represent in the sale? It is our belief that a dental practice broker should work diligently to structure a win-win transaction but represent only the seller's interest in the sale. By exclusively representing the seller, clearly disclosing this fact to the buyer, and assisting both parties in building a strong team of advisers (including a knowledgeable CPA and attorney), the broker has the ability to represent the seller's best interest while ensuring the buyer has proper representation and is positioned for success following the purchase. Beware of working with a broker who advocates dual representation, in which they represent both the buyer and seller. Under this arrangement, the broker is obligated to share all details with both parties, including any statements made by either party concerning pricing or terms. Since the seller's and buyer's interests are typically converse to one another, it is nearly impossible for the broker to fairly represent both parties under a dual representation arrangement.

How are you involved in the local dental community? It is crucial for your dental practice broker to have intimate knowledge of the local dental market. To truly understand the market, the broker needs to be actively involved in the local dental community. Are they involved with the local dental society and various study groups as both sponsors and guest speakers? Are they actively networking with dental supply companies, local dental attorneys and accountants, practice management consultants, local financial investment firms, commercial real estate brokers, dental lenders, etc.? Are they hosting seminars to educate dentists on practice transitions and the process of buying or selling a practice? Are they cultivating relationships with potential buyers? If your potential dental practice broker isn't doing these things then you will need to consider whether they truly understand and are committed to the local dental market.

Continued on Page 4

What Our Clients Have To Say About Us Matters

"I would like to thank McLerran & Associates for assisting me with the sale of my dental practice. I had a unique situation and very short time frame to work with but the team at McLerran & Associates were up for the challenge. They handled the entire process in a timely and professional manner and located an experienced buyer who was a great fit for me, my staff, and my patients. I found the transition process to be both financially and professionally rewarding and I am grateful to McLerran & Associates for their expertise and guidance." - Paul Craven, DDS, MAGD (Austin, TX)

"I would highly recommend McLerran and Associates for any Dentist that is looking to sell their practice. They were very instrumental in making the sale of my practice a success. The company is well known and respected and because of that, they have a wide variety of prospects that approach them. I never felt any pressure to accept a client or an offer, which was great! When I signed a contract the experts within McLerran and Associates worked diligently and efficiently to bring the deal to a close. I am forever grateful to McLerran and Associates." - Yvonne Thomas, DMD (Houston, TX)