

# The Dental Transition

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## Improving Profitability to Maximize Practice Value

The most important factor influencing practice value is Profitability (also known as Net Cash Flow). Therefore, increasing productivity and improving the bottom line of your practice will not only increase your personal income but also enhance the value and marketability of your practice when the time comes to sell. Here are a few strategies that you should consider utilizing to increase production and efficiency in your dental office.

**1.** Increase your UCR fee schedule 1-3% annually. If you are in-network with PPO insurance plans, periodically review these plans and submit an updated UCR fee schedule requesting a higher reimbursement rate. You may want to consider utilizing a company (i.e. Five Lakes) to assist you with doing a PPO evaluation for your office to determine which PPO plans you should add/retain/drop and negotiate more favorable fee schedules with the plans you add/retain.

**2.** Offer flexible payment plans that allow patients to pay their fees over a period of time utilizing a third-party patient financing company (i.e. Care Credit), or by allowing your office to debit their credit card on a monthly basis.

**3.** Perform "financial surgery" on your practice to determine where you can "trim fat" and reduce overhead expenses. Compare your major overhead expenses to the following industry benchmarks and make changes as necessary to bring your expenses within the normal range:

- Staff Salaries (including benefits & payroll taxes): 25-27% of revenue
- Rent (including utilities): 6-10% of revenue
- Lab Expenses: 6-10% of revenue
- Dental Supplies: 5-6% of revenue
- Office Supplies: 1-2% of revenue
- Advertising: 2-5% of revenue
- Total Practice Overhead: 60%

**4.** Consider enhancing your website (i.e. add patient testimonials and promote what differentiates you from other practices).

**5.** Utilize a patient communication system for recall notices and patient newsletters that interacts with your patients via email and text messages.

**6.** Increase new patient flow by routinely asking patients for referrals (e.g. "Thank you for coming in today. We appreciate having you as a patient. What can we do to get more patients like you?"). Write thank you notes and/or provide a small gift to patients who refer their friends, family, and co-workers to your practice.

**7.** For some practices, reputation marketing is the largest source of new patients. Enhance your online reputation by encouraging patients to post positive reviews on Google and Yelp. There are patient communication systems, apps/ plug-ins, and marketing firms that can facilitate the process

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## Improving Profitability to Maximize Practice Value

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of soliciting and posting positive online reviews to multiple platforms.

**8.** Provide business cards for all staff members with their name/position and encourage them to hand out the cards to friends, neighbors, and others in the community. Reward your individual team members for generating new patient referrals.

**9.** Track where your new patients are coming from and eliminate marketing expenses that are not generating a strong ROI.

**10.** If you have debt on the practice, now is a good time to consider consolidating your loans at lower interest rates to lower your loan payments and re-invest the savings in marketing and updating equipment/decor.

**11.** Reduce disability insurance costs by extending the elimination periods and raising deductibles on your health insurance plan.

**12.** As you near the end of your lease term, you may be able to renegotiate the lease rate on your office space and/or receive funds from the landlord to improve your office space, especially if you offer or agree to extend the length of your lease term.

**13.** Meet with your staff to solicit their ideas on how to increase new patient flow, increase practice productivity/efficiency, and reduce overhead costs. Establish daily and/or monthly production/collection goals and implement a staff bonus plan to reward your team for reaching those goals.

**14.** Evaluate your team to determine if there are areas for improvement or staff changes that should be made (i.e. replacing a poor performer with a top performer).

**15.** Following their appointment, personally contact every patient to see how they are feeling. For new patients, mail them a hand-written note after their first visit to welcome them to the practice.

**16.** Survey patients and review the results with your staff to see how you are doing in the following areas:

- Friendliness of dentist and staff
- Seeing patients promptly
- Explaining services and costs clearly
- Providing personal attention that does not make the patient feel rushed
- Acceptance of insurance plans
- Providing flexible financing plans
- Sufficient appointment reminders
- The look and feel of the office
- Convenience of office hours

**17.** Report all cash collections and reduce writing off discretionary/personal expenses through your practice financials in the 2-3 years leading up to a practice sale.

By implementing the above strategies and keeping a finger on the pulse of the profitability of your practice, you can rest assured that you are in the position to maximize the value of your office when the time comes to put your practice on the market.

## Thinking About Selling Your Practice to a DSO? Don't Go At It Alone.

If you are considering selling your practice to a DSO, you need to explore and understand your options. McLerran & Associates is here to help. Here are several factors to consider when selling to a DSO:

- Competition is a good thing ... you need to shop your practice to multiple DSO/Private Equity buyers in order to receive the highest price and best terms. If you entertain an offer from only one buyer, you may be leaving money on the table.
- While DSO buyers may pay a premium price for your practice, there are numerous other deal points that will have a significant impact on your net sales proceeds, post-closing compensation, and overall satisfaction with the transaction.

- Not all DSO/Private Equity Buyers are created equal. You need to vet potential buyers to ensure they have the capital to complete the purchase and the right culture, practice philosophy, and infrastructure to support you and your practice post-closing.

When selling to a sophisticated buyer like a DSO, you need an experienced advisor who will represent your best interest, negotiate the details, and guide you through the process. McLerran & Associates has spent years vetting DSO/Private Equity buyers in order to provide our clients with the best possible options and terms available in the marketplace. Call us today for a free consultation.



# A Step by Step Guide to Selling a Dental Practice

Selling a dental practice is a complicated process which extends far beyond simply finding a buyer and closing on the sale. Therefore, to ensure your practice transition is successful, it is imperative to follow these critical steps:

**1.** Are you ready to sell? Making the decision to sell your practice is one of the most important decisions you will make in your professional life. Therefore, it's prudent to put a great deal of thought into when and how you would like the transition of ownership to occur, including evaluating the financial (including tax consequences) and emotional implications of a sale prior to initiating the transition process. Once you are emotionally and financially prepared to move forward, the next step is to choose a transition strategy.

**2.** There are countless ways to sell a dental practice. In order to tailor a customized transition strategy to fit your individual situation, you should begin planning your transition 3-5 years in advance of a sale with the assistance of an experienced dental practice broker. Undoubtedly, if you wait too long to start planning, you will have fewer options available to you when the time comes to sell your practice. Another advantage of beginning the process well in advance of a sale is the ability to address/correct issues and avoid making mistakes that could have a negative impact on practice value. This ensures that you maximize the value of your practice upon sale and position the future practice owner for success.

**3.** Once you have made the decision to sell and have selected a transition strategy, you are now ready to initiate the transition process. The first step in this process is to collect all of the information your practice broker will need to complete a formal practice valuation/appraisal, including: financials, practice management reports, office lease, equipment list, pictures, etc. Upon completing the valuation and establishing the asking price, your broker will construct a comprehensive practice profile that will be utilized to confidentially market your practice to prospective buyers.

**4.** When you sell a dental practice, maintaining confidentiality during the transition process is extremely important. Therefore, your practice broker should require all potential buyers to complete a confidentiality agreement prior to receiving any information regarding your office, oversee all communication with potential buyers and their advisors, and schedule all practice showings to occur after office hours.

**5.** The next step is to find the right buyer for your practice. Your practice broker will confidentially market your practice locally and nationally, and spend the time necessary to evaluate the needs, goals, skill-set, and creditworthiness of potential buyers prior to providing them with your practice information and scheduling a showing.

**6.** Once an ideal buyer has been located, the next step in the process is to agree on the terms of the purchase in a Letter of Intent, which should detail the proposed purchase price, intended closing date, assets included in the sale, and a list of contingencies that have to be met before the transition is completed (at a minimum).

**7.** Upon agreeing on the principle terms of the sale, the next step in the process is for the buyer to secure financing. Since most buyers will require 100% financing, it is important for your buyer to work with lenders who are familiar with dental transactions. Again, your practice broker should play an active role in referring the buyer to several experienced dental lenders and helping position their loan request in a favorable light with each lender to enhance the probability of securing financing approval. This involves understanding each lender's unique underwriting requirements, presenting a comprehensive practice prospectus, cash flow analysis, and supporting documentation (financials, practice managements reports, etc.), and proactively addressing any potential red flags up front.

**8.** While navigating the financing process, the buyer should also be working on completing their due diligence on the practice. This typically involves meeting the selling doctor, reviewing patient charts and practice reports, inspecting equipment, and consulting with an accountant to evaluate the cash flow of the practice.

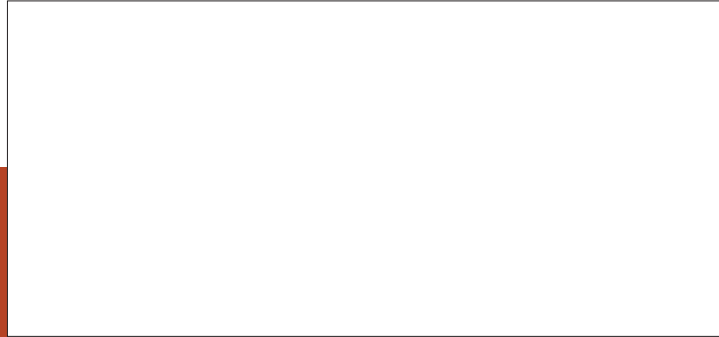
**9.** The most important document involved in a dental practice sale is the Asset Purchase Agreement, which serves as the legally binding document detailing all of the terms of the sale. This document should be specific to a dental transition and be a win-win agreement that protects both sides and discusses how common issues, such as accounts receivables, credit balances, and rework will be handled post-closing. Your practice broker should either provide you with a draft Asset Purchase Agreement and/or introduce the parties to experienced dental attorneys to assist with drafting/reviewing the APA and any other legal documents associated with the sale.

**10.** In addition to the APA, the buyer will need to negotiate an assignment of the existing office lease or negotiate a new lease with the landlord. It is important to consider the requirements of the lender when negotiating the lease terms and to approach the landlord at the proper point in the transaction to protect confidentiality while not delaying the closing.

**11.** As the closing date approaches, the buyer and seller will need to work closely with his/her advisors to ensure that all the details of the transition are completed prior to closing, including transferring/establishing service provider accounts (utilities, phone, etc.), PPO credentialing,

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establishing business bank accounts, merchant services, and third-party financing options, drafting a transition letter that will be mailed to the active patient base upon closing, and ensuring the lender receives all necessary documentation to fund the buyer's loan on the closing date.

**12.** Throughout this process, the staff and patients are typically unaware that the dental practice is being transitioned to a new doctor. The reason for this is simple: to protect the goodwill of the practice. Selling a dental practice is an emotional process for any doctor because of the relationships developed with their patients and staff over the years. Timing of this introduction, how the initial meeting is handled, and training the staff on how to explain the transition to patients is a critical step in ensuring a smooth transition of ownership and maximum patient retention following the sale.

While this list covers the most significant steps required to sell a dental practice, it is by no means comprehensive. Each practice transition is unique and presents its own set of challenges to overcome during the transition process. Therefore, it is imperative to be educated about the process and employ the services of experienced professionals (practice broker, attorney, accountant, etc.) to help you navigate the process, protect/maximize the value of your practice, and ensure your transition is as smooth and successful as possible for all parties involved.

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