The Five Biggest Pitfalls Dentists Need to Avoid When Buying a Dental Practice

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Troy Patton, CPA/ABV is an accountant from Indianapolis Indiana. Mr. Patton started his practice in 1996 after working primarily in the Health Care Practice at Ernst & Young, was named as the youngest CPA in Indiana and has also been a consultant for the American Dental Association. Mr. Patton is not a Broker and does not work on any commissions. Whether you aspire to acquire one firm or have multiple offices or start from scratch, this report and subsequent discussion will certainly benefit you.

Any Dentist can buy another dental practice if you have the financial resources.

If and when you consider buying your first or another dental practice, the more important questions to ask yourself are:

- Is it the **right practice** for me?
- Once I buy it, how do I **effectively run** it?
- What operational areas of the practice should I **pay special attention** to?
- **What patient numbers and financial** numbers should I pay particular attention to?
- How will I **market & run my new practice** in an efficient manner?
- What steps will **make it more profitable**?

All of these questions (plus dozens more) are important. Unfortunately not one is more important than the other. Each question can be equally critical to profitably buying and running a new practice, depending on the practice you are buying.

Most Dentists Can't Retire As Planned

Did you know many Dentists commit financial "Practicide" because of lack of knowledge and many of the mistakes could be easily avoided. This is serious. Why?

Many Dentists end up running their practice for decades and never build any wealth. In fact 92% of Dentists can not retire at the age of 62 because they lack the resources.

- So if you are a dentist buying your 2nd practice and your 1st or current practice isn't creating personal wealth, why would your 2nd practice be any different?

- Or if you are a dentist buying your 1st practice, it is critical to AVOID the acquisition and financial mistakes that 92 out of 100 of your peers always seem to make!

In this report I discuss **five of the many pitfalls** you can run into when acquiring and running a practice and what happens if you choose to ignore them. They are:

Pitfall #1 - Ignoring Real Normalization of Earnings

Many of you when purchasing a Dental Practice understand what the bottom line of the Dental Practice you are acquiring is on the financial statements you were given.

However, what often happens when a valuation of the practice is prepared, the Seller's agent "normalizes" the earnings of the practice. **This means they pull out certain expenses, some clinical, employee related etc.**

However, if your CPA is not familiar with the "normal" expenses of a Dental practice this amount may seem appropriate.

Upon further examination though, clinical supplies may be low, **wages may not fit the practice, and doctor wages may be inappropriate.**

This is the tip of the iceberg, there are many other expenses like rent, lab fees, etc. that must be reviewed for appropriateness.

Pitfall #2 – A Misunderstanding of the Seller's Utilization

In my years of working with over literally hundreds of practices, an often overlooked aspect of a practice to be acquired is the **Utilization or Realization** of the selling Doctor.

There is a vast disparity of production numbers between what one Doctor does in terms of "drill and fill" and another Doctor can produce.

Most successful practices or highly profitable practices utilize their staff and hygiene hours efficiently and the Doctor is in a role of drilling and filling.

Pitfall #3 - Non Revenue Generation Plan

I always find it interesting when speaking with a new acquirer who has no plans of revenue generation.

I have always heard, *"once I get my arms around this practice, then I'll focus on revenue generation and new profit centers within the practice."*

This is a huge mistake. There are ways to create additional revenues from the start of the acquisition and throughout the first several years to replace the clients which will not transition. Some examples:

- A real (or virtual) **going away or transition party** inviting patients to a physical location, a conference call or online meeting to physically, verbally or on audio or video explain the purchase or transition.

- A **patient retention campaign** with your (new) staff using email, direct mail and ongoing appointments to closely tie your new patients to your practice.

- Using **local online advertising** (Google: pay-per-click and free, Facebook: pay-per-click) to generate new patients coming to the practice.

Yes, some clients WILL NOT transition. This always happens! I do not care what one party tells you about a transition. You will lose clients no matter what and revenues will be hindered under most conditions.

I found there are a couple of effective strategies that seem to work better than most at both transitioning and retaining clients, as well as generating revenue.

Pitfall #4 – Poor Due Diligence of Client Files

Obviously when you acquire a practice, the idea is to get the value out of what you acquired.

Not all patients are created equal when it comes to revenue generation. Some of the clients are going to generate larger cases and thus larger fees.

Others will come into the office once or twice a year for a cleaning and maybe x-rays.

The average patient file should be worth $400 to $525 per patient. This is an average.

If the numbers are lower, then you need to assess whether the patient files are truly "active." If the numbers are higher then you need to understand whether the Doctor does more large cases and if you will be able to repeat this feat!

If lower is the facility cramped or are they doing a lot of managed care. If higher are they a better salesperson than you.

Make sure you give yourself a self-assessment of your sales skills. This will translate into profits of the practice.

This is literally the tip of the iceberg when it comes to Due Diligence.

There is a complete list of due diligence that you must have answers to so you know how to operate this practice you are looking to acquire and what it is going to feel like not just on day one to operate the practice, but in month 6, 12 and 24.

Pitfall #5 - Not Maximizing Your Working Capital

Acquiring a Practice is an exciting time for the Buyer and a nervous time for the seller.

Repeatedly, I see the buyers' emotions take a front seat to the negotiation and construction of an acquisition. **Maximizing the amount of working capital you will need after the sale is often neglected**.

When acquiring a practice there are many steps that you as a buyer need to strategically take to ensure proper working capital is available for the operation of your practice. Some of these ideas do not even cost you any money.

One is the **actual timing** of the closing of the sale. I've seen buyers many times rush to close the sale, caught up in the emotion of the "deal", and months later find themselves cash flow negative, struggling to make their acquisition payment to the bank.

When I privately consult with buyers on a practice acquisition I teach them how to specifically "**schedule" the closing of the practice sale** so that the seller is happy and they, the buyer, maximizes their cash flow and isn't strapped financially.

And there are other negotiation strategies to structure the maximum amount of working capital you'll need to ensure your new practice is profitable.

By using these strategies you create a viable future for the practice, for you and your family and you minimize the probability of a post sale implosion.

The 5 Pitfalls Summary

The above 5 pitfalls are just the tip of the iceberg when looking at potential mistakes when acquiring a practice. If addressed up front even the most fatal pitfalls and potential mistakes can be avoided and turned into positive experiences for you and the seller.

Creating a "pitfall avoidance plan" will create a better acquisition experience and assist you in having a higher probability of a successful acquisition.

The acquisition process can be a daunting task. Not using someone who specializes in assisting acquirers and who looks after your best interests is fatal.

A word of warning. *A Broker who works on commission or is the listing agent for the seller is not the place to turn* (although the Broker does provide a good service in most instances for listing the practice).

Follow the money. If someone is giving you advice and there is a commission involved, be skeptical, gain knowledge, and proceed with caution.

Your Practice Acquisition Is Just The Beginning...

The acquisition is just one step. The operational aspects of a Practice are just as important.

Many get caught up emotionally about the acquisition and fail to look forward three months, six months, or two years after the acquisition.

This may be the most important financial decision of your life. A failed practice acquisition can cripple you financially. If it's a secondary acquisition it can drag down your 1st or primary practice. And it can ruin your reputation with patients and the local community, taking years to repair.

I am sure you would agree it makes good business sense to understand ALL the pitfalls you may face as well as how to address them.

WORKSHOP: Avoiding First and 2nd Dental Practice Acquisition Pitfalls - Live Training Program

If you are considering buying your first or a secondary practice, then I invite you to join me for an educational training workshop on how to avoid the major pitfalls most dentists make in this process.

I will share real case studies of practices that failed, or failed in one aspect and how it impacted the results of the operations. I will share success stories and failed stories and how to be the dentist that becomes one of the success stories!

For more information call **800-800-1776**

To register for our next Workshop go to:

http://www.DentalCPACoach.com/workshops.html

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