

# Choose your heir apparent now!



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The following factors and trends can impact the transition of dental practices for the next decade and beyond.

- Demographic projections show that retirees will outnumber dental graduates by the year 2008.
- In 1995, 23.4 percent of professionally active dentists were 55 years of age or older. That percentage is projected to reach 33 percent by 2005 and 40 percent by 2010.
- Graduating dentists have decreased from about 5,800 in 1983 to approximately 4,000 in 1999. This trend will likely continue.
- 75 percent of practices are solo-owned.
- The value of dental practices has declined by percentage of gross in recent years and is likely to continue declining. It has declined from 73 percent of gross collections in 1983 to 62 percent in 1999.
- Less than 5 percent of all dental practices have a written transition plan with their "heir apparent" in place.
- Stress levels and burnout symptoms are increasing because of business, management, and growth demands of practices.

- The average life expectancies are increasing yearly and are now in the mid-70s for men and women.

- Those who plan to retire in their 60s need to prepare for as much as 25-plus years of retirement.

- Baby boomers have and are spending money on cosmetic dental services more liberally.

- Some economists predict that the next 10 years will continue to boom and allow for a continued high utilization of discretionary dental services.

To respond to the above factors and trends, we recommend that all dental-practice owners create and implement a transition strategy and financial plan immediately.

The majority of practices either do not have an heir apparent in place or do not have a clear win-win agreement with their candidate. Because of the shortage of available qualified candidates, it becomes imperative that dental-practice owners choose their heir apparent now or create an agreement with their existing associate. The time to begin this is when the owner is in his/her 40s or 50s, while the practice is likely to be at its peak. The owner can be negatively impacted at a later age by the factors and trends previously mentioned.

## Successful strategies

- Choose the heir-apparent candidate when your practice is growing and healthy.

- Hire an associate — a minimum profit of 25 percent from the associate candidate's production (when

planned properly) can be expected. (Example: \$200,000 associate production at 25 percent = \$50,000 owner profit.)

- Have a written agreement and a contract with the candidate which includes employment and transition specifics (i.e. timeline, terms, and price).

- Have a foundational appraisal of the practice performed upfront to avoid future misunderstandings.

- Establish a work schedule which allows vacation and free time for the entire team, but allows the practice to remain open and available to patients.

- Explore acquiring patient records or merging in an existing practice to jump-start the candidate's production.

- Create, implement, and monitor a full financial plan so that you can become part of the 5 percent who can choose retirement at age 62.

- Engage an accountant who understands dentistry and provides tax-planning strategies.

- Take communication and self-development courses with your full team to prepare for growth and change.

Now is the time to create and implement your healthy transition strategy.

The value of your practice will increase, but, more importantly, you will practice during your final 15-20 years with less stress, more income, and peace of mind, knowing that your practice is sold and your patients are well-served.

Act now!

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