

Plan Today for a Successful Transition

Now is the time to prepare for your practice transition. Observers are telling us that there are and will continue to be fewer dental practice buyers. The following factors are contributing to this growing trend:

- Baby boomer dentists (born after 1945) are approaching retirement age.
- Dental graduates are decreasing.
- Many graduates are choosing employment instead of ownership.
- The current dental graduate debt average is in excess of \$150,000.
- Many graduates return to their country of origin outside the United States.

Practice startups are more common. With 75% of all dental practices being owned by a solo practitioner, planning transition is more critical than ever.

Future owners are becoming more selective and have more choices. Currently, practices sell for approximately 62% of the previous 4-year average revenue.

To ensure a healthy practice transition, employ these 4 strategies:

- Maximize your growth with a plan.
- Assure your savings with a written financial plan.
- Obtain accounting advice that includes proactive tax planning by advisors who understand dentistry.
- Create a plan for your transaction.

Every practice needs a plan for growth. There is great opportunity for increased revenue and controlled expenses in every practice. Many dentists are comfortable with patient treatment, but not with the business of dentistry. Because of the shortage of dentists and the increasing awareness of the dental consumer, there is an unlimited opportunity to grow.

Growth must be planned and connected to a budget that includes revenue and expense goals. All too often, a dentist will expand and spend \$300,000+ to move and equip their new office, only to find they have eroded cash flow. This is frequently done without a solid revenue and expense forecast. With proper planning, profitable results are achieved and growth is positive. However, without a plan, negative consequences can occur.

When growth planning is successful, additional savings for retirement will be 1 of the results. A written financial plan that is monitored routinely on a yearly basis is critical. Recent years have shown us what can happen when we don't have a finan-

cial plan. Financial and retirement planning have become too complex to proceed without qualified outside help.

Many dentists are retiring later and enjoying longer years of retirement. The old savings standards have changed, and solid planning is a necessity. Social Security statistics indicate only 5% of those self-employed are able to retire with funds beyond their Social Security.

When you have instituted a growth strategy that allows for increased savings, be certain that you're paying your fair share of taxes. Dentists are creatures of habit. Many have stayed with the accountant they chose when they first became a business owner. This can be successful, provided that the advisor has grown and kept pace with tax changes.

In the majority of cases, this advisor does an excellent job with historical compliance, but not with tax planning advice. Many dentists are unaware of their tax consequences until it's too late to do any valuable planning or prepare for payment. Tax laws are changing too frequently not to have the best accounting advice available.

The time to plan a transition is the day your practice is started. There are many methods to transition a dental practice. It is astounding how many dentists have no transition plan or think they have only 1 choice—to sell and leave. Each situation is unique and should be customized to fit the needs of the dentist. The following represent options for practice transition:

• **Create an equity path for an existing associate.** Many owners have their heir-apparent already working in the practice, but have no process or agreement for the future sale. Nothing good can happen without a written agreement. The result can be a fractional or outright sale.

• **Identify an associate for the practice with an equity plan.** There is a shadow practice in most solo practices. Procedures are referred out; patients are unseen; available hours are not covered; and new patients are turned away. Identify an associate candidate, develop a growth plan, and commit to future ownership to cover your otherwise lost business.

• **Sell the practice and leave within 6 months or less.** When you are truly ready to retire, move to another geographic area. Tired of business and staffing issues,

many dentists sell outright and leave immediately or within a 6-month period. This normally occurs when the practice **can't support both** seller and buyer staying.

• **Merge your practice into a larger practice and facility.** In this method of transition, the seller can normally stay with the practice as an employee and continue to earn additional income for a period of time. This is particularly beneficial to the practitioner who still wants to practice but doesn't want to deal with management and staff issues.

• **Merge a practice into your facility.**

With a large enough facility, this method allows the seller to remain as an employee of the buyer and in their current location. The buyer can increase practice size by combining the existing practice with this new purchase.

• **Create a solo practice group.** This allows both parties to be independent and in control of their individual practices, while sharing the benefits of a larger facility. When a sale occurs, it can be to the solo group or to an outside buyer. This is particularly applicable when partnership is not preferred.

• **Develop an equity enhancement program.** This method allows an associate to earn equity in the practice after a 5-year period. At the end of the 5 years, the associate owns the practice that was developed and is independent of the original owner.

• **Sell the practice after death or disability.** This is the poorest method of transition.

Too many times, families have not prepared for death or disability in the solo-owned practice. A solid plan will assure the best price in the unfortunate case of unexpected death or disability.

When you apply these 4 strategies, you will give yourself the best chance to have a successful practice transition. Many dentists have done well in 1 of these strategies, but not in others. The benefit of committing to all 4 ensures the best opportunity for practice transition.

The future is now. Start planning your transition today. ●



John F. McDonnell is the founder of the McNor Group, a dental brokerage, appraisal, accounting, and practice-management firm. He is a member of and serves on the executive board of American Dental Sales.