

# It's Your Choice:

## Start a Practice from Scratch or Purchase a Practice

By John F. McDonnell

Future dental business owners can choose to start a practice from scratch or purchase an existing practice. Either choice can result in success or failure. With either choice, the prospective owner needs to be a proactive planner and seek out expert advice and support. During my 4 decades of helping new owners make healthy decisions, I have observed successful and unsuccessful examples of both choices.

### Both Choices Can Be Successful

As a full-service consulting organization, we frequently represent the new owner exploring a start-up practice or a practice purchase. Both have advantages that attract new owners and obstacles that require planning to overcome them.

In my experience, dental dealers [Author: Who do you mean by “dental dealers”?] are an important source of support for any dental practice, but they are normally biased toward practice start-ups and don't get excited about a practice purchase.

On the other hand, practice brokers are generally biased toward practice purchases and not supportive of a practice start-up.

Although both of these perspectives have merit, I have found that both options can be very successful for the prospective new owner when he or she plans properly and seeks support from outside advisors.

### Preparing to be a Business Owner

After helping more than 1,000 dentists become new business owners during the past 40 years, I have encountered a common theme: “I feel qualified as a dentist to promote excellent care and patient management, but I am poorly trained and prepared for the business of dentistry.”

Whether starting a practice from scratch or purchasing an existing practice, the new owner must prepare and become comfortable leading and managing the busi-

ness. Less than 5% of the US population are business owners managing revenue of more than \$500,000 (the average solo practice revenue). [Author: Overall or just in dentistry?]

With proper planning and support, the new owner can be successful. On the other hand, the path is filled with possible difficulty and potential for failure.

I hope that the following advice will ensure your path to success and help to prevent bumps in the road.

### Starting a Practice from Scratch

*Why New Owners Make This Choice*

- control of location, size, and design
- ability to choose dental equipment and technology
- ability to choose décor and furnishings
- ability to hire one's own staff
- ability to implement one's own systems and practice vision

A common characteristic of a new owner choosing this strategy is recognizing that creating and controlling the practice environment is advantageous to purchasing someone else's practice environment.

### Advantages

- likely to remain in the location longer
- longer life for equipment and furnishings
- a larger portion of the initial investment is an asset with positive tax consequences
- ability to plan and create your dream office
- ability to choose an area with less competition and more growth potential

### Disadvantages

- cash flow can be a problem
- no or few patients when you start the practice
- no track record or history to build on
- more time and effort required to plan and get the practice started

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## How to Successfully Start a Practice from Scratch

1. Secure a demographic analysis of your chosen area from a qualified source.
2. Be aware of the number of competitors in the area as well as current and future population growth.
3. Identify a location that is visible and accessible.
4. Decide whether you want to rent or purchase a building or condominium.
5. Be certain to have adequate parking for both staff and patients.
6. Display signs effectively and in plain view.
7. Choose the correct size space for current needs and future growth.
8. Equip two rooms in the beginning, but plan your space for five to six rooms.
9. Complete your business plan and cash-flow projections before committing to a lease or equipment purchase.
10. Consider hiring a lease negotiator to save money on the lease.
11. The lease term and renewal provisions must be acceptable to both you and the lender.
12. Choose a qualified dental dealer to support you.
13. Choose a lender that will finance the project 100% plus working capital and flexible payments.
14. Choose an accountant who specializes in dentistry.
15. Choose a consultant who specializes in dental practice start-ups.

## Real-Life Examples of Unsuccessful Start-Ups

1. A young dentist started a new practice in a growing area and invested \$350,000 to build and equip the office. The dentist properly researched the demographics but found out too late that they were the fifth new dentist in the area. The community was able to support

only two or three new practices. The consequence has been that expenses are met, but very little income is generated by the practice.

2. A dentist started a new practice in a growing area but did not create and implement a proactive marketing plan. Although he did quality dentistry, he lacked the communication skills to present and obtain treatment plan acceptance. After 4 years of no success and constant cash-flow problems, the practice was sold at a loss by the funding company that held the loan. The dentist now works as an associate in another area.

## Real-Life Examples of Successful Start-Ups

1. A senior dental student about to graduate had researched an area that needed another dentist and identified an excellent location. He created an excellent business plan and secured funding from a local source with flexible terms. He committed to a dental accountant and a consultant to help him implement his marketing plan and assist in hiring a quality dental team. This dentist has now passed the 3-year mark and has been very successful.
2. A 10-year US Army veteran left the service and wanted to start a dental practice. After researching an area he liked and identifying a need for a new dentist, a space was identified. A lease negotiator saved him thousands of dollars over the term of the lease. A dental accounting firm and a consultant provided cash-flow projections and a marketing plan for the practice. The start-up was accomplished well under the projections, and the practice has been very successful.

The common theme in these success stories was proper planning and the selection of a support team to ensure the start-up's success.

## Purchasing a Practice

*Why New Owners Make This Choice*

- an already existing patient base with a track record
- includes an existing team of experienced dental auxiliaries
- has a more predictable cash flow than a start-up
- existing patient base can refer new patients
- normally there is untapped potential for growth within the existing patient base

A common characteristic of a new owner choosing this strategy is his or her need or desire to have a predictable income generated from the newly purchased practice on day 1.

## Advantages

- income from the practice is available immediately
- new owner can be busy and productive on day 1
- less time is needed to purchase a practice than to start a practice from scratch
- peace of mind of having a track record to build on

## Disadvantages

- the need or desire to make equipment or furnishing changes, which cost money
- the new owner may not be well accepted by the existing dental team
- employee salaries can be high in a mature practice, which can strain cash flow
- the new owner may not be prepared technically to provide the services rendered by the previous owner

## How to Purchase a Practice Successfully

1. Decide where you want to live. This is important. We receive many requests to help clients sell their cur-

rent practice and purchase a practice in another state.

2. Identify the type of practice you want (location, patient mix, revenue sources, etc). Is the practice fee for service, preferred provider organization, or capitation?

3. Decide the size of the practice and how many days and hours you want to work. A practice needs to have revenue or potential for revenue of \$400,000 to \$500,000 to support practice expenses, debt service, and personal expenses.

4. Have a professional valuation of the practice performed—this is an absolute must.

5. Hire a dental accounting or consulting firm to perform a conservative cash-flow projection, to ensure financial stability. Analyze your return on investment and net profitability.

6. Obtain funding that fully addresses your purchase price and working capital needs with terms that fit the cash-flow projections. You can acquire 100% funding plus working capital.

7. Assess your ability to provide the procedures/services that the former owner provided.

8. Identify whether the staff will remain after the purchase.

9. Create a business, marketing, and growth plan for the practice.

10. Analyze the likely retention of active patients.

11. Analyze the hygiene program and recare (checkup) system. This is an important part of the value of the investment.

12. Prepare for the transition of the practice by properly informing the staff and patients.

### **Real-Life Examples of Unsuccessful Practice Purchases**

1. A dentist purchased a practice in a small community. The selling dentist insisted that his long-term

dental team not be told of the pending sale until settlement. The staff was not aware of the sale until the day the new owner started to practice. They were angry with the former owner and didn't want to support the new owner. Most of the team needed to be replaced. This made the first year unnecessarily difficult for the new buyer. With a healthier plan, this could have been avoided.

2. An excellent technical dentist with a quiet, laid-back personality purchased a practice from a gregarious, well-liked dentist. The former owner presented and got acceptance of many large treatment plans. The new owner had a different philosophy. He didn't present these larger treatment plans and was unable to convince patients to accept his recommendations. As a result, a practice valued with consistent revenue of \$700,000 per year was now producing revenue of only \$450,000 per year. The former owner had to come back and take over the practice. The new owner left and has been an associate in another practice for more than 15 years. In retrospect, the unsuccessful buyer was not a good fit for that particular practice.

### **Real Life Examples of Successful Practice Purchases**

1. After 4 years in the US Army, a dentist was ready to purchase a practice. After a year of searching and looking at many opportunities, he was unable to identify a practice. A professional organization was hired to act on his behalf to purchase a practice. An excellent practice was identified and purchased in a growing community. A successful transition was accomplished. The dentist hired a dental accounting firm and consulting organization to support his business plan. After

8 years, the practice has grown from the original \$500,000 yearly gross to \$1,100,000 based on a 4-day week. This solo practice owner's profit is 43%. With proper planning and hard work, this was a healthy practice purchase.

2. A 30-year-old dentist had worked for several dentists in dead-end associateships and was ready to become a new business owner. Being frustrated and unhappy as an associate, he decided to start a practice from scratch. After hiring a consultant to advise him, he was told that a \$350,000 investment in the start-up was not workable. The consultant then represented this buyer in a practice purchase. The new owner was an excellent fit for the practice, and cash-flow projections supported the financial requirement. The staff was excited about the new buyer. This buyer has been very pleased with his choice.

The common theme in these success stories was proper planning and recognizing the need for support from expert advisors.

As a new business owner, you will spend most of your waking hours at your business. Doesn't it make sense to maximize the potential of your asset by using sound business planning and professional consultative assistance? Practice ownership and its associated responsibilities are a challenge for every dentist. Success and peace of mind are not easy to attain. But if you follow some basic concepts relative to business planning, you will look back over your successful career with pride and satisfaction as both a clinician and a businessperson. The time to begin planning for becoming a new business owner is today. Read, take courses, and seek out professional support. Your future is now! ■