Your principal asset
For most dentists, ownership of their dental practice is the major focus of their energy expenditures, financial situation, and professional lives. Years of blood, sweat, and tears, coupled with the relationships formed with both staff and patients, have caused dentists to form a deep-seated emotional attachment with their practice. For many, the dollar value of that practice represents a significant portion of their financial assets. For the new dentist, there is a definite value in acquiring the patient base which has taken the transitioning dentist years to develop and will provide an immediate and substantial cash flow.

All experience transition
Whether it is due to a change in career direction, a desire to cut back on the responsibilities of ownership while still enjoying the benefits of clinical dental practice, or the desire to retire from dentistry, every practice owner faces an ownership transition. Ownership transition can be a total sale or a partial sale, that is, the formation of a partnership. The level of success achieved as a result of this practice transition will be directly linked to the amount of detail given to and the successful execution of the “Transition Plan.”

A buyer’s market
Decreased dental school enrollments and other demographic factors have created an imbalance in the numbers of graduating versus retiring dentists. This trend, which will continue for at least the next ten years, has contributed to falling dental practice sale prices, and has created a buyer’s market. For the previously difficult to market, more rural dental practices, this dental manpower shortage has made finding dentists to serve almost impossible. These changes in the marketplace relative to practice transitioning have made advance, detailed transition planning mandatory.

Goals of a successful transition
Before discussing the development of a transition plan, a brief discussion of the goals of transition is required. In addition to identifying the actual goals, each dentist will need to assign an order of priority to these goals. This prioritization will have a significant impact on certain aspects of the transition plan.

The most common goals discussed by dentists include a (1) desire to, in accordance with their preferred timetable, transfer patient care responsibility, (2) secure future employment for their staff, and give back to the profession by passing the baton to a new dentist, and (3) maximize their practice equity (financial gain from the sale). There is no right or wrong order to the priority emphasis.

The economic health of the transitioning dentist will usually determine the order of the priorities. If the practice sale proceeds are a significant portion of the dentist’s retirement assets, then maximizing the financial return will be at the top of the list. If the doctor has a well-funded pension plan or other financial resources, and the sale proceeds will enhance the quality of retirement rather than providing the primary support for retirement, the order of importance will typically be the desire to provide continuity of patient care, ongoing employment, and passing the baton, with maximizing the financial gain at the end of the list.

Factors affecting successful transitions
Prior to discussing the components of a transition plan, it will be useful to understand what is presently occurring in the transition marketplace. For a successful transfer of ownership, we must first have an interested new dentist. Subsequently, location is at the top of the list relative to a new dentist’s interest in a specific practice opportunity. As previously discussed, rural practices, although typically more profitable than big city practices, are having serious recruitment problems. Ninety percent of all practice sales today are in communities with populations of 50,000 or more people, and eighty percent of these sales are in cities whose metro population exceeds 500,000.

The second factor is the practice’s ability to meet the financial needs of the new dentist. As a result of current levels of dental school related debt, the new dentist must meet specific levels of production to pay for the practice acquisition, school loans, and basic living expenses. Therefore, a practice needs to provide, on the average, $300,000 worth of production for an employed dentist, and $400,000 worth of production if the dentist is purchasing a practice. It is for this reason that eighty-five percent of total practice sales involve practices with gross receipts of $350,000 to $500,000. While the highly productive and profitable practices of today frequently exceed $500,000 in annual receipts, the average new dentist (five years or less since graduation) does not possess the clinical skills required to produce this level of dentistry and subsequently sales trend toward the lower grossing practices.

After finding a suitable location and determining that the practice will provide for the financial needs of the new dentist, the new dentist will consider a multitude of other factors in selecting one opportunity over another. The major factors considered include (1) the practice’s overhead to revenue percent, (2) number of active patients, (3) new patient flow, and (4) recall system effectiveness. In addition, (5) quality and length of prior employment of the staff, (6) practice history, (7) types of procedures previously offered and/or produced, (8) involvement in any discounted dental plans, (9) appearance of the physical space occupied by the practice, and (10) the age, type, and appearance of the equipment and furnishings will play a major role in the selection process.

The above represents the major concerns and factors reviewed by the new dentist. The owner dentist is concerned with (1) the ability of the new doctor to pay for the practice-obtain financing with all the school debt, the tax implications and subsequent net proceeds derived from the sale, (2) the personality and ability of the new dentist to relate to patients and staff, (3) the amount of post sale relationship required between the seller and buyer, and of course (4) the new dentists’
clinical competence. With the exception of the final concern, the other factors can be readily determined and resolved.

Today, one hundred percent non-owner financing is readily available, the tax implications can be calculated, and typically several meetings with the new dentist will address the communication skills and personality of the new dentist.

**Patients’ evaluation of the new dentist**

Most senior dentists know and understand that the senior dentist’s own patients judge their clinical competence by non-clinical factors such as personality, gentleness, office appearance, etc. It is generally not possible to assess clinical competence until a year or more of actual clinical procedures performed by the new dentist are reviewed.

Unless the transition is preceded by a period of employment prior to the actual ownership change, senior dentists must understand they will not be able to address the clinical competence issue. Senior dentists must accept the fact that the only control they have over this subject is the fact that the new dentist has been tested and licensed.

**Determining the transition plan**

The first step in formulating a transition plan involves an appraisal of the practice. The information gathered and evaluated during the appraisal process will aid in determining available transition options. These options may include (1) an outright sale, (2) role reversal sale, (3) partnership, (4) merger, or (5) production acquisition transaction. In addition, the appraisal will typically provide a comparison with other practices involved in transitions, thereby allowing an understanding as to how salable this particular opportunity might be. Finally, the appraisal should also provide ideas regarding enhancing the value of the practice and its desirability as a transition candidate.

**Locating a competent transition consultant**

The next step is locating a competent transition consultant. A transition consultant is one who understands the entire transaction, the various types of transitions, contractual matters, the operational issues of running a dental practice, and the need to have the relationships of the buyer, seller, staff, and patients intact after the deal is done.

The best source for these individuals is word of mouth referrals and/or recognized reputation. They may be national or regional “transition gurus”, the dentist’s personal accountant or another accountant who restricts their practice to health care providers and is familiar with the health care transition field, or an experienced local dental practice broker. Some of the dental supply companies also have knowledgeable consultants who have been assisting in transitions for years.

The transition consultant will help the dentist identify various aspects of his/her transition. Questions needing answers include the doctor’s financial ability to retire and their personal transition goals. For example, how long do they wish to stay on as an associate and/or remain available to aid in the transition process? What is the dentist’s preferred timetable? Are there any preliminary steps required to enhance the value of the practice? Which method of transition has the greatest chance of successful completion?

**Make a plan outline**

The answers to these questions should result in a brief written outline of the plan. The topics should include (1) goals, (2) timetable, (3) appraised value, and (4) anticipated post-tax and sale’s expense net sale proceeds, (5) planned transition options, and (6) a list of consultants to be involved. The plan should also contain an action plan for completion of any activities that will enhance the value of the practice or increase the chances the practice will be selected by prospective new dentists.

Understanding that an inactive practice loses five percent of its value per week, an important part of the plan should also include a list of people to be called in the event of an un-anticipated career ending disability or death. A letter of instructions to family should be included listing those contacts and stressing the urgency to act expediently in transitioning the practice. A part of the plan needs to include sharing this letter and plan with significant family members. Many dentists, especially if incorporated, will execute a power of attorney authorizing a specific individual to immediately begin transition proceedings if required as a result of the dentist’s death.

**When and how to start**

If an appraisal has not been completed or updated within the past two years, this is the first step. Developing an exit strategy plan, even if it is years away, should also begin as soon as the appraisal is completed. A stockbroker will advise that one should set a target sale price the day one acquires a stock. Similarly, the exit strategy is part of the potential financial reward of practicing. Good business sense dictates the plan should really have been started when the practice was first acquired. Part of a transition plan started early in one’s career will allow for inclusion of a well-funded pension plan and less reliance upon practice sale proceeds for retirement needs.

The timetable for the actual implementation of the plan will be dependent upon the personal wishes, needs and financial resources of the dentist. Metro areas are seeing a common market time of one-to-two years from listing to sale. Rural area practices face three-to-five years if they can be transitioned at all. The length of time required for location of a prospect and transitioning of the practice requires that the practice opportunity be listed at the earliest time that the doctor is willing to complete the transition. If the seller is fortunate enough to immediately locate a buyer after listing, the dentist needs to be ready to act. At the time of listing, he/she must also realize they may be continuing to own the practice for a long time.

**An alternative**

For dentists considering retirement, many have a difficult time starting the process because of the emotional attachment to their practice. These dentists, unless or until they find something else they would rather do than practice dentistry, will be unable to activate their transition plan. If the practice of dentistry is their only interest, their hobby, and the center of their later life, there is no law stating that they must transition their practice.

For these dentists, their transition plan is to practice until they can no longer do so. Their plan may be as simple as one day closing the doors and retiring.