Practice Purchase Tips & Advice

In most places across the province, the market for dental practices is definitely a seller’s market. For every good practice that is listed there are multiple interested and qualified buyers. The competition for those practices is fierce, and your odds of getting it are low unless you are prepared well in advance. Here are several things you can do to improve your chances:

Know what you want – Carefully consider what you are looking for. Where do you want to live? What kind of hours do you want to work? How big a financial risk are you prepared to take? If you want to purchase in a major urban area, you’ll most likely be spending more to buy the practice. Major urban centres are highly competitive, meaning you’ll pay more for staff, pay more for your lease, pay more for marketing, and usually end up working at least some evenings and weekends. Practices in smaller centres and rural practices are usually better investment and business opportunities, but may or may not suit your lifestyle objectives.

Know your strengths and limitations. Are you as good a manager as you are a dentist? If you are considering buying a large practice, do you have the managerial aptitude to make it work? Do you bill enough per hour to sustain the revenue of a large practice?

These are but a few of the questions you need to ask yourself. A key element of your preparation needs to be a clear understanding not only of what you would like, but what you will settle for, and where you would draw the line.

Follow the market – Long before you want to buy, start following the market in the areas you would like to purchase. Keep an eye on how many practices are listed. How long do they stay on the market in general? What are the asking prices like relative to what you would be getting? By following the market prior to actively seeking a practice, you will refine your objectives, and be a lot more confident in the decisions you’ll need to make when the right practice comes along.

Build a team of experienced professionals – Buying or starting up a dental practice is a major financial undertaking and a very complex process. The agent representing the vendor is working for them Ð not you. You need to surround yourself with a team of professionals who you can count on for great advice. Initially, you are going to need a banker, an accountant and a lawyer. Having them all lined up before you start to seriously look at potential purchases is key, or you likely won’t be able to move fast enough to get the practice you want.

When building your professional team, it is imperative that you find professionals with a lot of experience in dental practice purchases. This is not the time to count on a relative or your father’s fishing buddy. While you may be able to trust them implicitly, they simply don’t have the expertise to put you on an equal footing with the other potential purchasers. Nor will they have the knowledge to advise you on whether the price is a fair one or how to structure the deal in a way that is fair and properly protects your interests.

Finding the Right Banker/Leasing Company – The simple fact is that dentists make great clients for financial institutions. Defaults and bankruptcies are very uncommon, so they make great loan clients. And over their lifetime, most dental clients will use a much wider range of financial services than most other business people. This means that you can usually get much better terms and less onerous conditions than most other businesses. But you need a banker or leasing agent with the experience both to work their institution’s processes to your advantage, and to provide you with the advice you need.

So, if you don’t already have one, how do you find the right person? Referrals from colleagues who have already bought a practice are a good start. Or call us and we’ll be happy to recommend several you can choose from.

Finding the Right Accountant – Is much like finding the right banker. You need to find one with a large dental client base. Any accountant can prepare your financial statements and file your income taxes, but only an accountant with a lot of dental experience can be an effective advisor for you. The right accountant will help you assess the appraisals for the practices you are looking at. They will be able to advise you on the price, the risks, how to structure the deal and what questions you need to be asking. And once you have your offer accepted, they will need to work closely with you and the vendor’s accountant to complete the due diligence.

As with finding a banker, referrals from colleagues who have already bought a practice are a great start, or let us know and we’ll put you in touch with several accountants who really know dentistry.

Finding the Right Lawyer – By now, you clearly understand our main theme when it comes to selecting your professional team. Everything we’ve said about bankers and accountants is equally true when it comes to selecting a lawyer, but there can sometimes be a complication. A lawyer will not be able to represent both sides of a deal, so a lawyer who is acting for the vendor will not be able to act for you. Fortunately, there is not a lot for your lawyer to do until you are ready to make an offer, by which point you will know who is representing the vendor. So having a shortlist of qualified lawyers is often a necessary step. The vendor’s agent can likely give you some names, or we’d be happy to if you contact us.

Understand the value of good advice – On the plus side, you’ll actually get better terms and advice from your financial institution than most other business people would, simply because you are such an attractive client. However, when it comes to a dental accountant or lawyer, you may end up paying a premium for their specialized knowledge. In both cases, the amount you might save by going with a less experienced professional will only be a small fraction of the total cost of the practice you are buying, and the annual operating cash flow. In our experience, the dentists who save a bit in this fashion, risk a lot. A dental practice purchase is a major undertaking. It is worth it to pay for good advice.