

# “Sustainability” and Dental Practice Transitions

Provided by Dr. Steve Wolff, DDS

I was recently asked to serve on the “Sustainability Task Force” at my church. It seems many organizations are asking shareholders to review factors which may influence their long term survivability. It occurred to me that dental practices could benefit from a similar process. I see two views regarding sustainability in a dental practice – the first centering on the career of its current owner and the second, the focus of this article, the ability of the business to be transitioned to the next generation of ownership.

## Real Estate

In its simplest form, a prospective buyer must be able to get a market rate lease or purchase price on the practice space. If the landlord will not offer the buyer a suitable lease, your practice value may evaporate. Complications may also arise if the seller owns the real estate. The location of the building may no longer be desirable, which will reduce practice value. We find, too, that buildings purchased or built in the last fifteen years are often not worth what the owner paid for them and an “upside down” mortgage is tough to swallow for a prospective buyer. Finding out that their building is not worth what they had projected has caused more than one doctor to take the practice off of the market. Ultimately, the space cost overhead target for a general practice should be in the five to eight percent range.

## Patient Base and New Patients

Practices that do not have an adequate number of loyal patients along with an ongoing stream of new patients to replace those lost to attrition may have a hard time being transitioned to a new owner. We like to see somewhere around fifteen percent of the active patient base coming into the practice as new patients.

## Physical Facility

Dated practices with antiquated equipment are a tough sell. If you don't have digital technology it is almost a direct deduction in value. Likewise, curb appeal matters. Today's buyers have little stomach for taking on rehab projects.

## Staff

Without a trained staff to assist the new owner, your “practice” is basically a client list and a building full of used dental equipment. Your staff is a valuable asset and should be kept well trained and productive – but be careful to maintain a balance between affordable overhead and the possibility of jobs having to be eliminated.

## Location

This is a tough one. The current reality is that practices in metro areas are more desirable and will sell in less time. Even if you have an otherwise marketable practice in a rural area, there is a good possibility that no buyer will come along before you decide to just lock the door and leave. Sorry. There just are not enough new docs to replace all those from the large UMKC and UNMC classes of the 70's who spread out across the rural Midwest.

## Revenue

Of all the factors we have discussed, this may be the 800-pound gorilla. In our Midwest market, if you are a solo practice, general dentist and your collections are less than \$400,000 annually, your practice as you know it may not be sustainable into the next generation. Below



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this level there is simply not enough money to pay the overhead, taxes, student loans and acquisition debt and still have money for the buyer to cover living expenses. Today's transition sweet spot seems to be in the \$600,000 to \$800,000 range. For those not reaching this figure, if there are enough other positives about the practice, it can possibly be sold as a satellite location or a merger target. When we have seen buyers struggle with their new practices, the problem generally stems from them getting a bargain price on a practice that was just not big enough.

You should begin now to maximize the positives of your practice and minimize the shortcomings in order to move closer to the day when you successfully trade the practice in for cash. If the harsh reality is that it cannot be sold, you should do what you can to get the most out of your efforts, make solid retirement plans and enjoy it while you can.