

“SUSTAINABILITY” AND THE DENTAL PRACTICE

BY STEVE WOLFF, DDS

I was recently asked to serve on the “sustainability task force” at my church. Many organizations are asking members and constituents to sit down and focus on what factors may influence the long-term survivability of their organizations, and to make plans and recommendations to deal with those issues. This trend is not so much about organizational goals and mission statements as about the ability to physically survive into the future. Maybe the recent pain of the recession taught us a few lessons.



It occurred to me that dental practices could certainly benefit from a similar introspective process. I have two views of sustainability in a dental practice. The first centers on the career of its current owner, and the second, the focus of this article, has to do with the ability of the business to be transitioned to the next generation.

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. Further complications may arise if the seller owns the real estate. The location of the building may no longer be desirable, which will drag down practice value or (darn the luck!), the value of the building may have gone up so much that the new practice owner simply cannot afford the value of the land. Remember, the overhead percentage of a general dental practice for space cost should be in the 5% to 8% range, so it’s pretty easy to calculate what the buyer can afford to pay.

Patient base and new patients – Practices that do not have an adequate number of patients and an ongoing stream of new patients to replace those lost to attrition will have a hard time being transitioned to a new owner.

Physical facility – Dated and dirty practices with antiquated equipment will have a hard time attracting a successor. If you don’t have digital technology in place, it is almost a direct value deduction. Likewise, curb appeal matters, as today’s buyers have little appetite for taking on rehab projects.

Staff – Without a trained and affordable staff ready and willing to assist the new owner, your practice is basically a client list and a building full of used dental equipment. Treat team members as a valuable asset by keeping them well trained and productive, but be careful about letting them become an unaffordable percentage of your overhead.

Location – This is a tough one in that you can’t do much about it. If you have an otherwise marketable practice in a rural area, I’m sorry to say there is a good chance that no buyer will come along before you decide to just lock the door and leave.

Revenue – Of all the factors we’ve discussed in this article, this may be the gorilla in the room. In our Midwest market, if you are a solo practice general dentist, and your collections are less than \$400,000 annually, your practice may not be sustainable into the next generation. Below this level of revenue there is simply not enough money in motion to pay the overhead, taxes, student loans, and acquisition debt and still have money for the buyer to cover living expenses. If there are enough other positives about the practice, it can possibly be sold as a satellite location or a merger target. When we’ve seen buyers struggle with their new practices, the problem generally stems from them getting a bargain price on a practice that is just not big enough to sustain them.

You should begin now to maximize the positives of your practice and minimize the shortcomings in order to move closer to successfully trading the practice in for cash. If the 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. **DE**

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