



Word Of Mouth



PRACTICE OPTIONS

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(Part 2 of 3)

Part two of this article examines the options of purchasing an existing dental practice as a possible means of starting up a private practice.

II. PURCHASING AN EXISTING PRACTICE

The purchase of a dental practice is obviously an important business decision. For this reason, it is imperative that proper decisions are made through sound analysis.

Prior to the purchase of a practice, the buyer should evaluate the locations of interest, the amount of capital and financing available, the type of patient mix desired, and the procedures which will be performed versus those which will be referred to specialists.

Next, the prospective buyer should develop a comprehensive business plan of his or her "ideal" dental practice. The business plan should realistically indicate to the dentist what his or her capabilities are in terms of productivity, the amount of effort, and the expense required to achieve the desired level of success. Included in this plan, should be the number of patients to be seen per day, the procedures performed, the average patient charge, the patient mix, the number of treatment rooms, all capital budgeting expenses, and all monthly operating expenses which will include a budget allocation for personnel.

Usually the seller will have the practice appraised prior to any attempted sale. Considering that it costs the price of a valuation fee to have the practice appraised for the buyers benefit, it is wise to initially compare the practice valuation which the seller had completed against the business plan done by the prospective buyer. If the practice appears to have potential for purchase after evaluating all of the practices for sale in the desired locations, then the purchaser should consider having an independent valuation or appraisal completed.

Practice appraisals are done for several reasons. The sale of the practice is only one. Generally, where the sale of a practice is contemplated, the fair market value is used rather than replacement value and book value.

The community where the practice is located and the demand for services has a great deal to do with the value of the practice. For example, if a practice produces a high gross volume in an area where there is a shortage of dentists, it makes more sense to establish a new practice than to pay a substantial price for an existing practice. On the other hand, if an area is saturated with dentists, the existing practice's value is high because it may be difficult to establish a practice.

The variables to consider in valuing an existing practice are as follows: dental equipment, supplies and instruments, office furniture and equipment, professional office building, accounts receivable, real property, leasehold improvements, cash and cash equivalents, and intangibles such as "goodwill" (charts

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Practice Management Part II cont...

and x-rays, trained personnel, the volume of patient recalls, the seller's reputation, and location).

Perhaps the most enticing feature of purchasing a practice in today's market is seller assisted financing. Although the buyer must generally provide a down payment, he or she can at least obtain the remaining financing from the seller.

Seller financing can also be a good investment for the seller. In many cases, it isn't necessary for the seller to receive all of the proceeds from the practice sale in one lump sum. In fact, it is many times a disadvantage for the seller. As a result, seller assisted financing can be a benefit to both the buyer and the seller.

For more about purchasing a practice call, Wickens, Herzer & Panza at: 216-447-4418

Next Issue: The Establishment Of A New Practice

swivel, and accepts any standard luer-lock cannula.

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