

WHAT YOU NEED TO KNOW ABOUT TODAY'S TRANSITIONS



WHAT DOES A TRANSITION MEAN TO YOU?

If you're like most dentists, transitions means buying in when you're young and selling out when you're ready to retire.

IS THE OLD WAY ALWAYS THE BEST WAY?

Times have changed, and as far as transitions are concerned, they've changed for the better.

Today, the old concept of a practice transition has been expanded by leading practices to include mid-career "value" transitions. While traditional transitions deal with transferring practice ownership, the new concept of value transitions is all about accelerating and leveraging practice growth and opportunity.

WHAT CAN A VALUE TRANSITION DO FOR YOU?

With a value transition, in as few as five years, a practice can integrate an associate, create a partnership, almost double in value, and unleash an economic windfall for the owner doctor as high as a million dollars in some cases!

The new doctor coming in joins a dynamic practice in its prime, is supported by a team motivated to ensure success, incurs significantly lower debt and can end up owning a practice worth hundreds of thousands more than the cost.

Patients benefit too through continuity of quality care by providers they know and trust. This isn't just win-win. It's unbelievably win-win-win!

NOTHING STAYS THE SAME – INCLUDING PRACTICE VALUE

Your practice is the single most important asset you own – not for its "sale value" but as an economic engine. No other business in America gives the same levels of income and lifestyle to a single owner-operator. Yet, the magnitude of this asset is so undervalued it is almost laughable. If you broker your practice today, what would it be worth?

- A) 200% of annual revenues
- B) 150% of annual revenues
- C) 100% of annual revenues
- D) 50% to 70% of annual revenues

The answer for most practices is D – somewhere between 50 percent and 70 percent of annual revenues. This works out to be the equivalent of only two, or maybe three, hygiene appointment fees for each active patient you have.

The reason for the diminished value in dental practices is that we don't look at the value the right way. The traditional definition of value is based on selling at the end of a career when we just want out. By that time, we have aged, our team has aged, and our patients have aged. Often we have cut back on our time in practice and slowed down. The bottom line is that the practice is producing well below capacity and sells at a discount.

Consider how much "unused" value was allowed to escape in the preceding years before retirement. Value transitions allow dentists to capture that value and stop it from slipping away.

What today's most successful practices have mastered is two things: the idea that practice value can only be optimized if the intensity and focus are there to keep it moving forward, and that a value transition is an ideal way to make this happen.

These doctors aren't even thinking about retirement yet – they are doctors in their forties or thirties, and even some in their twenties. They've learned that a transition is right for the practice when the value is right, regardless of age, community, practice type or size.

CAN A VALUE TRANSITION WORK FOR YOU?

Transitions are not "one size fits all" because every transition opportunity is unique and depends on a variety of considerations. But there are clear signs that tell you when you have an opportunity to leverage value through a transition. If any of the following signs apply to you, you may be due (or overdue) for a transition.

TRANSITION SIGN #1: CURRENT PRACTICE VALUE

New dentists face unique challenges: they can't work as fast as senior doctors because their clinical skills have not yet been tempered by experience. They can't get the same case acceptance because their people skills have not been honed. And they are in debt, often well over \$100,000.

This reality means there is a practical limit to how much they can afford to spend to buy (into) a practice. The typical new dentist today can't afford to buy outright any practice worth more than about \$400,000. That would mean a \$4,440 monthly payment over 10 years at 6 percent.

If you have a million dollar practice, or any practice with annual revenues greater than about \$650,000, who is going to buy it? The practice value you have worked so hard to create could very well be lost when you try to sell at the end of your career unless you capture it through a value transition. By the same token, any new dentist who is ambitious and wants to establish himself in a highly productive, leading edge practice needs to be looking at value transitions.

TRANSITION SIGN #2: SATURATION

The most limiting factor to the growth of any practice is your time. After a certain point, you become too busy to keep up with the needs of all your patients. Take a look at this example:

NO. OF HYGIENISTS: 2

NO. OF HOURS WORKED: Four 8-hour days/week

TOTAL AVAILABLE HYGIENE HOURS PER YEAR: 3,072

NO. OF HOURS OF HYGIENE TIME REQUIRED PER PATIENT: 1.5 hours per year (2 appointments/year at 45 minutes per appointment)

LIMIT TO PRACTICE GROWTH: 2,048 patients

If the maximum number of active patients your practice can handle is 2,048, then beyond that point, for every new patient you receive, one is walking out the back door because you can't handle the volume!

Once you are saturated, every new/lost patient is a daily reminder that your practice's opportunities for growth are being limited. In practices that choose to have fewer than two hygienists, saturation comes even sooner.

The solution? Another provider to support the practice's hygiene team and capture the value that is otherwise slipping away.

TRANSITION SIGN #3: FREEDOM

Even before the point of saturation, many doctors make choices about the direction of their practice that reduce its value. Usually, their choices are about creating more freedom in their lives. Freedom can be in the form of:

- Reducing the amount of time in the practice (i.e., slowing down). This has the same effect as prematurely saturating the practice. Without another provider, the overall value of the practice diminishes. The biggest risk of such a slowdown is that the value of the practice may decrease to the point where nobody wants it.
- Choosing to limit treatment. Many doctors reach a point where they want to focus on certain cases (for example, esthetics, implants or comprehensive care).

How can doctors reduce their time but still provide the same level and access to care for their patients? How can doctors prioritize the type of cases they work on but still ensure existing patients' everyday needs are being treated? In both cases, a value transition that allows another provider to come into the practice and build productivity from the excess ensures the responsible transfer of care and value.

PULLING IT ALL TOGETHER

Done right, a value transition can occur at any time in practice. It cannot be overemphasized that this is a strategy for capturing value, increasing practice growth and practice development, not just an exit plan for retirement.

Even for retiring doctors, a value transition creates a structured approach to stepping down that has many advantages including team and patient continuity, and economic benefits that far outweigh the return from a brokered sale.

This is not to say that there is no place for brokered practice sales. In some cases, this could well be the most appropriate approach for a retiring doctor. But a value transition should always be investigated for potentially higher benefits.

For dentists who want to capture the full value of their practice, a value transition demands investigation. It is not about retirement. It's about ensuring that the value of the practice is never so low that no one wants it and never so high that no one can afford it. It's about keeping the practice in a dynamic phase of growth and success for your entire career!

Best of all, once your future is secure, the real pleasure of practicing dentistry becomes your daily experience. You don't work because you have to; you work because you want to. And what can have higher value than that?

Mercer Transitions is dedicated to improving practice success for dentists – enhancing the patient experience and practice lifestyle – through the revolutionary OnTrack system, dental practice transition planning, or both. Our results are proven, and our passion will inspire you. Mercer Transitions offers comprehensive practice transition planning services to support dentists at any appropriate point of their careers – practice transition is not just an exit strategy, it can be a practice growth strategy at any age! In providing these services for thousands of clients over more than 20 years, Mercer Transitions has a reputation for excellence.

For a complimentary initial one-hour phone consultation, contact Mike Elster, National Manager, Mercer Transitions–Patterson Dental, at 800.444.6162 or practicetransitions@pattersondental.com.



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