

Adding Value to Your Dental Practice – Especially If You Are Thinking About Selling

By David J. Goodman, CPA, Partner, Dental Practice Leader

Transitioning a dental practice to a new owner is the most financially advantageous way to be compensated for the value of your practice. Almost all dental practices have tangible and intangible assets which can be sold for a price. Buyers can take multiple forms from a single dentist to a venture capital firm. The price is what a buyer is willing to pay and the price at which the seller is willing to sell.

Sellers of dental practices should be looking to receive the maximum value for their practice. Enhancing the value of a dental practice does not happen quickly. A three-year horizon is the minimal amount of time to allow for building value which can lead to a higher selling price. If a dentist has the opportunity to plan ahead, here are some ways to build the value of your dental practice:

Practice Overhead

On average, a dental practice should provide about 35% of collections to the owner and associates. This includes benefits like health insurance, retirement plan contributions and other discretionary expenses. Buyers will pay a higher price for practices that are more profitable. Dentists should consider comparing overhead expenses to dental practice benchmarks to find out if there are overhead items that are higher than the benchmarks. Resolving inefficiencies in spending in these categories can make a practice more profitable and valuable.

New Patient Flow

It is estimated that a practice will lose about 15% of its patient base each year. There are many reasons for patient loss including relocation, death, change in insurance, not getting reappointed or unhappy with the practice. In order for a practice to maintain its active patient base, lost patients need to be replaced each year. And for a practice to grow, additional new patients need to be added to the practice.

A practice with 1,000 active patients will lose about 150 patients a year. This would require about 12 to 13 new patients a month to maintain status quo. At a 5% growth rate per year, new monthly patients should be about 18 to 20 new patients a month.

A new patient would be defined as someone seen in the practice in the last 18 months and was eligible for hygiene. This would exclude out-of-town patients in need of emergency care. Your practice management software will not distinguish between an out-of-town patient and a patient eligible for hygiene. It may be necessary to manually track new patients as defined above.

The Dental Team

The most valuable asset in a dental practice after the patients is the team. A passionate cohesive team is critical to the success of a practice. The patient experience with the practice is led by the team. A positive patient experience is a key to retaining patients.

It is the dentist's responsibility to build a culture of passion for patient care in the practice. As the leader of the practice, the dentist vision of patient care and practice success is achieved when sharing this with the team and constitutently reinforcing this behavior.

A practice with an underperforming team member sends a message to the other team members that not working to potential in the practice is acceptable. A team with all team members functioning at their highest potential leads to a more profitable practice and improves practice value.

Fee Increase

Each year practice overhead will increase. A good example is that almost every practice will increase team member compensation annually. Along with other expenses, the annual increase in practice overhead will reduce practice profitability. If no action is taken, the dentist will need to work more hours to add additional revenue to pay for the overhead increases or earn less income. These are not good options when trying to maximize practice value.

The easiest way to make up for the increase in overhead is to increase fees. A small percentage increase typically based on the Consumer Price Index can create enough increase in collections to cover the overhead increase and possibly improve the owner earnings. Improving earnings increases a practice's value.

If fees are substantially below the average fees where the practice is located, consider increasing fees every six months to catch up. Increasing hygiene fees every six months is not recommended as patients would experience an increase with every visit.

If the practice participates with managed care providers, some providers may increase fees if they are contracted to reimburse a dentist for fees at a certain percentile in the area. For example, if the fees submitted to the insurance company start to increase, the insurance company may be required to increase their reimbursements to meet the contractual obligation of paying in the 70% percentile of fees for the area.

Practice Management Software

Having reliable data about a practice can help not only with improving practice performance but can be relied upon by a buyer when it is time to sell. Most dentists do not realize the amount of information available in the software to assist with enhancing practice value.

Practice management software provides data on practice collections. A practice should optimally collect 100% of fees for services. Collection of about 97% of net production is considered excellent. It is important that a practice have collection procedures in place and that the collection procedures are being followed. Having a high percentage of net production being collected results in higher collection and improved practice value.

Practice management software provides information on procedures being performed in the practice. A review of these procedures on a daily or weekly basis can help identify miscoding or unbilled procedures. This can help identify overlooked revenue for the practice.

The software also provides data on active patients, new patients, patients in recall and patient zip codes. All this data is helpful to taking steps towards enhancing income and building practice value.

Closing

Maximizing the value of a dental practice is a key consideration when deciding to transition a dental practice. It takes time to grow the value. Implementing the suggestions above can lead not only to improved practice value but also improved profitability for the owners.

Contact Us

If we can be of assistance to your dental practice with practice management consulting, transition services and/or accounting, auditing and tax services, please contact the partner in charge of your client account or:

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