Practice Transitions Made Perfect™

Newsletter Article Reprint

Practice Values in Decline?

June 2009

A persistent conversation with dentists looking to sell or buy a practice is where the market for practice sales stands considering what we've all lived through for the last few years. While in some locations, like rural areas or in the hardest hit urban areas, practice prices have certainly been depressed, in many areas nationally and in Florida, values have tended to be stable and often still remain on the higher end of the commonly cited spectrum of price to production/collections percentages. Why is this the case? Sure it may seem counterintuitive at first glance, but looking a little deeper there may be a strong rationale to purchase a practice now at (relatively) whatever cost is required.

Let's consider a few points integral to any practice purchase, but under the premise that practices are less valuable right now or that now is not the right time to buy.

Practice Revenues are in Decline

It is true that in many areas, practice production and collections are down across the board – most commonly five to fifteen percent (higher in very specialized cosmetic and some ortho and perio practices). This is not a local or state phenomenon, but a national one felt coast to coast, with some areas experiencing even more drastic declines than the range just provided. The best practices right now are stable.

In most times, declining collections would throw up a red flag, and rightfully so. Why would you buy, particularly for full value, a practice seemingly in decline? Looking a bit deeper at a practice right now may yield some important information though.

The Trending of Active Patients

A close examination of the practice you are in, and most specifically any practice that may be on the market will most likely yield significant information. Patients are not necessarily leaving practices. Your active patient base, and the patient base of most practices, remains fairly stable. Sure, new patient flow may be down slightly, but in many cases the numbers are still showing enough new patients to not only sustain a practice, but keep it within the range that would be expected for an established (non-growth) practice – approximately one new patient per day, on average.

But why are the numbers stable? Generally speaking, patients leave when they're upset. Sometimes it may be because of changes in the acceptance of their insurance plan or the plan itself, and there is the normal attrition from relocation or death, but for the most part, a mass exodus or decline only comes from something going wrong in the office.

So, if patients aren't actually exiting, that leaves us with the task of reconciling this with a ten or fifteen percent decrease in production/collections. In good times, this indication may be that the practice is in maintenance mode where treatment is being performed as normally expected. But let's consider another more probable possibility – patients are opting to delay treatment.

The Trending of Denied versus Delayed Treatment

With the constant news of recession, personal incomes decrease and the propensity to spend does too. Patients feel that they need to keep more money in reserve for the unknown expenses of the next few months. Patients with insurance will more closely monitor their insurance benefit limits often putting off whatever treatment they can until the next cycle begins and their benefits are renewed. In extreme cases, patients may even delay their next hygiene appointment.

> So what does all of this mean? It is important to note that this discussion revolves around “delayed treatment” which is vastly different from “refused treatment”. Refusing treatment is an unwillingness of the patient to accept the advice or treatment plan as it is offered, whether the refusal is for the work itself, the associated costs, the projected timeline, or something else. Delayed treatment on the other hand, carries an implicit acceptance of the work that needs to be done and the associated costs, just not the timeline for whatever reason. You now have an excellent opportunity to determine the obstacle to case acceptance and possibly achieve a resolution with third party financing such as Care Credit / Capital One, internal financing, a reworked timeline, or some other individualized solution. To a purchaser though, the reality remains that the outstanding need for treatment to be completed is still in the practice. Treatment planned and accepted is built-in income. The ‘sale’ has already been closed with the patient, now the work just needs to be completed within the time parameters that accommodate the patient’s overall needs. What could be easier than picking up the ball on extensive crown and bridge work that does not carry the need of selling the dentistry? Even more enticing, as personal income starts flowing again, so will the demand for accelerated completion of the outstanding work as the patient now feels comfortable paying for it.

But outside of the practice metrics, there are other points to consider with respect to a purchase.

General Scarcity
Most practices that are sold are the product of a dentist who is ready to slow down or retire all together. Right now, those doctors that would normally be considering retirement have put that decision off for a year or two, maybe even five, buying time until they feel that they will be stable in retirement with enough money to fund their, even decreased, lifestyle. They, like most invested Americans, have lost a great deal of their retirement funds from the sharp decline in the stock market and real estate investments over the past year. Accordingly, they continue to work not only to sustain their current lifestyle, but to rebuild at least some of what they lost.

With this delay is the reality that there are currently fewer practices for sale that can be comfortably financed and transitioned (good net income, active patient base, new patient flow, etc). The practices that fit into this category should be considered a ‘safer bet’ and therefore more valuable to acquire.

Associate Job Security
The story from current associates, particularly in private practice with a senior doctor or partners, is generally consistent throughout any slowdown – they’re the first to take the hit. With little or no responsibility of ownership or for the overhead of the business, associate doctors everywhere are feeling the pinch; so if this sounds like you, you are not alone. At some point though, associates are forced to look elsewhere to earn enough to pay the bills at home. Not every associate will be fed enough patients during the valleys of the cycle, and the last associates into the market or those less willing to take the responsibility or risk of ownership may be the ones hurt the most as either the most viable practices will already be transitioned or, if they wait long enough, possibly finding themselves swimming in an oversaturated market of purchasers once the economy has rebounded. While some might surmise that there would be a concurrent saturation of sellers, the statistics still strongly point, particularly in Florida, to a sustained higher level of purchaser demand over seller availability with no real end in sight.

Overall, these are just a few of many factors to consider. The market for practice sales is still strong and financing is still readily available for purchasers with good credit history. Dental practices have been recession-proof over the long term as dentists provide services that not only cover cosmetic needs, but healthcare needs as well. Owning a practice not only provides job security, but a business that has inherent control, lifestyle and economic benefits that do not come with working for someone else.

It is still important to do your ‘due diligence’ when purchasing a practice; and as the current economy causes things to tighten all around, it becomes even more important to really look and ask questions to not only find out the basic information about the practice history, patients and staff, but also consider what it will take to maintain the inherent strength of the business itself. Are you purchasing an ongoing stable practice that will provide you the necessary income in today’s climate? If you are looking at purchasing a practice with declining or stable practice revenue, it is reasonable to seriously question a purchase price predicated on projections showing consistent three, five or ten percent growth over several years, or a deal that requires longer financing terms (10, 15 or more years) for it to be reasonable profitable to you. A practice that is an historic producer that is on track or slightly dipping this year may be that safe bet for at least stability, if not future growth, even if only from the pent up need to complete accepted treatment, and isn't everybody looking for the safe bet?

So, if you can have the job security of working for yourself in a practice that has historically produced verifiable production with a good patient base, quality staff and comfortable working environment, it becomes quite risky to consider the reality of a possible personal income decline or actual job loss, or the potential of an oversaturated market in the future, and not take advantage of purchasing a quality practice now.