

Do You Need to Transition Your Practice?

The simple act of selling your dental practice will absolutely not be an option for thousands of dentists over the next five to ten years. The historical sequence of events that has lead almost every dentist to retirement in the past, will not work in the future. In fact, parts of that familiar process are starting to fail right now. Many will incorrectly view this changing environment from a perspective of fear and concern rather than as an opportunity to explore new and rewarding options. The new language of practice succession is being lead by the word “transitions.”

Very simply, a practice transition is a series of events sequenced in a way that results in the transfer of equity from one dentist to another. This article will explore the concept of practice transitions and explain why it will become a part of every dentist’s vocabulary over the next few years

In order to understand the “transition” phenomena it is necessary to understand a few things about practice transitions. First, it is important to understand why having a transition strategy is going to be vital for financial success over the next five to ten years. Second, it will be important to understand what transition strategies are, when they work, and when they do not. Simply selling the practice will not be an option for a huge number of dentists.

Why Selling Your Practice May Not be an Option

Fact One: As a business, the profession of dentistry is changing. The supply and demand for dentists is changing. The lifestyle expectation for many dentists is different today than it used to be and the economics of day to day life have changed. All of these factors and more have altered the possibilities for dentists wanting to “sell” their practices.

Statistics suggest that in the U.S. over the next five to fifteen years there will be 25,000 more dentists retiring than there will be dentists graduating. Divide that number by 10, and you have the Canadian statistic of a 2,500-seller surplus. The first huge wave of the ‘Baby Boomer’ generation is now 55 and will reach their peak saturation within fifteen years. What this means is that over the next fifteen years beginning today, every Baby Boomer dentist will be somewhere between 55 and 70 years of age and will want to retire. What really makes this a problem is that the educational system will not be producing replacement dentists at anywhere near the same rate; in fact graduating classes in the US are shrinking. There simply will not be enough buyers to purchase all of the practices that will be for sale for the next fifteen years.

Fact Two: The net worth of most professionals is significantly lower today than it was two years ago. Until recently, practice value was not necessarily a big consideration for most dentists because their portfolios were bulging. Many dentists actually accelerated their retirement plans because of the growth of their stock portfolios. Unfortunately, many of these doctors are now looking for associate or

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locum positions. Hopefully, what has happened to most portfolios is just temporary, but what if it is not?

What you should not overlook is that as a dentist your best investment continues to be your dental practice. A properly valued dental practice will provide the owner with a 25% to 35% return on investment in addition to an imputed associate compensation of 40%. The economics of today emphasize that your practice has become a complicated, but very valuable, component of your net worth capable of providing substantial income and capital value. Reliance on the income and capital of the practice, and the maximization thereof, may be more important than ever for the dentist thinking of retiring over the next five to fifteen years.

Fact Three: The lifestyles of today's Baby Boomers are different than those of their predecessors. Many professionals entering the retirement zone are not financially ready for a whole variety of reasons and will need to work longer. Working longer is fine but it comes with risk. Health issues, competitive issues, patient attrition, loss of stamina and focus are only a few of the factors which contribute to the risks of practicing significantly past one's prime. Professional practices tend to build during the practitioner's thirties and early forties, they coast from then until the mid fifties, and then they start to decline. Hanging on too long because of lifestyle requirements, without an effective transition strategy, invariably means a reduction of income and practice value at the very time when both of these resources need to be maximized.

How the Right Transition Strategy Can Help

From the vendor's perspective a transition strategy has two principal objectives:

1. To allow the owner to maximize his or her earnings over the last several years of practice.
2. To allow the owner to realize the maximum capital value of his or her practice.

A transition strategy is usually a progressive process of transferring equity from one individual to another, while at the same time, allowing both parties to be earning an income or sharing in the profits from the practice. The process from beginning to end can take minimum three to four years, maximum ten years, and can progress through several different mixes of ownership. A transition strategy may involve recruiting an associate who at some stage becomes a partner and ultimately the sole owner. A transition strategy could involve an owner merging his patients into the facility of a colleague and working first as partner and then as an associate after selling his practice to his colleague. The nature of a transition strategy should be determined by both the needs and the imagination of the dentist and his or her advisors.

The real magic of the transitional approach is rooted in the concept that the whole is greater than the sum of its parts. A typical example; take the stable but idling foundation offered by a senior dentist who is in, or about to enter, the

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declining years of his career, and marry that to the energy of a younger dentist who is in the growth years of his career. The result will be beneficial to both parties. The senior dentist will enjoy higher income and capital appreciation from his practice and the younger dentist will also enjoy faster growth and a better return on his investment than would have been the case in most simple sales.

Well-planned and executed transition strategies have the effect of reducing, if not virtually eliminating, risk. The biggest unknown in any investment is the risk factor and by reducing risk the opportunity to create a win/win scenario is greatly increased. Risk usually exists in the sale and purchase of a dental practice for two reasons; there is a risk that the patients will not stay with the new owner and there is a risk that the new owner will lack the management skills necessary to successfully operate the practice. Most transition scenarios are structured in such a way as to virtually eliminate any major risk. The overlapping involvement of the two parties virtually ensures that no patients leave because of any perceived change in ownership and also allows the younger dentist a period of management mentorship during which he or she may learn the skills necessary to assume ultimate control of the practice.

The synergies of a transition flow only if the parties are able to work effectively together. Both parties must share a common perspective on a lot of basic “core” values, including such things as: attitudes towards staff and patients, quality of care, and money and personal lifestyle, to name a few. If there is not a synergy of core values, the relationship will eventually break apart. The use of an advisor who can quickly determine whether there is a good core value match between two potential “partners” is a key element in the success of any transition.

There are also times when a transitional approach probably will not work. In situations where one party needs to absolutely be in control of every aspect of their practice and has a very difficult time delegating any responsibility, a transitional approach may be futile. In situations where the transition process would be very quick, for example less than two years, it may be more effective just to sell the practice. If the time frame of the whole process is short and no synergies are realized, then both parties just end up with more aggravation and bigger legal bills.

How Do You Know if You Need a Transition Strategy?

Ask yourself the following questions. If you answer yes to more than one question, you should definitely think about an alternative to just selling your practice.

1. Will the sale of your practice be an important part of your retirement plan?
2. Do you plan to retire in the next 5 to 10 years?
3. Will you need to work longer than you would like?
4. Do you have associates?
5. Do you feel you have an unusual practice for any reason?
6. Do you feel your practice is very similar to those of your contemporaries?

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The implications of the above questions are fairly obvious with the possible exception of question six. For many dentists, however, this may be the most important question. If your practice is no different than most of the other practices that will be coming to the market place, how can you be sure that there will be a buyer at a time of such a sellers' surplus. The dentists that start planning early will be the ones who will have the practices that will yield them the greatest return.

How do You Start Planning a Transition Strategy?

There are a number of fairly simple steps that can get you started on the path to developing a good transition strategy.

1. Assess and identify where you are financially; what you have and what you will need to "retire" comfortably.
2. From a financial and professional perspective, determine what your ideal working scenario and timetable would be.

Once you have honestly assessed your answers to these two questions it is time to get some professional advice. If your financial situation is such that you can realize your ideal retirement timetable, then your strategy should be easy. If the two questions above are not mutually supportive then your strategy will be more complex. You will need advice from a variety of sources including your accountant, financial planner and someone familiar with developing practice transition strategies.

The good news in all of this is that with the proper planning the personal, professional and financial rewards can be significant. Ten years ago a prevailing thought was that dentistry was a dieing profession. Today dentistry is more vibrant than it has ever been; it is just a little different than it was. The same will be true for practice "sales." Notwithstanding the coming buyer's market, with a little planning the practice succession process can lead to vibrant conclusions.

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