

T – 10: Preparing for Success in the 10 Years Before Retirement

By Erick Rupprecht, DDS

Hey doctor — you're 55 years old with 30 years of practice experience. Your practice timeline has you 10 years from retirement. So here's the big question: How are you going to maintain the value of your practice until the time comes to hang up the handpiece?

Well, first you have to understand that your practice is worth what someone will pay for it — and what you do over the last 10 years of your practice can affect that price dramatically. Practice values are multi factorial. While you can't control some factors like pandemics, catastrophic illness or accidents, or a local plant closing, you can certainly plan for them. Ideally, you should have a current dental practice valuation to serve as the baseline for your efforts over the next 10 years. Having such a benchmark to measure against can be very motivating when it comes to keeping the worth of a dental practice at its highest.

With the above in mind, here's a useful action checklist for your last 10 years in practice.

1. Act as if you don't have 10 more years! As you read through the points below, please keep this in mind. At this point in your career, many things can quickly force you out of the practice of dentistry. A bad neck, bad back, carpal tunnel syndrome, sudden macular degeneration, a hand injury, a car accident -- all can end your practice career. You have to prepare yourself and your practice *now*. In dentistry, there are few things more heartbreaking than seeing a fine practice fall apart and lose most of its value simply due to lack of preparation. No matter what your age, get a practice valuation and get it updated annually. With a current practice valuation, your practice could go on the market immediately should something happen to you. Think of a current valuation as a safety net for the value of your practice.

Now, think like a buyer. A buyer would like to purchase a practice that:

- Has steady or increasing gross revenue in the last 4-5 years before the sale.
- Has an active patient count that has stayed steady or increased, and has a reasonable gross revenue/active patient ratio.
- Has a fee schedule that has been kept current.
- Has an established brand.
- Has a dynamic website, and is active in social media.
- Has at least the basic technology expected in a dental practice in this era.
- Is in an attractive, modern office.
- Refers out significant dental work.
- Has a staff that will stay on board after the sale.

2) If you are practicing as a "C" corporation strongly consider changing to become an "S" corporation. "C" corporation practices run the risk of being double-taxed on their annual profits, as well as on future practice sale proceeds. In most cases, remaining "C" corporations are better off converting to "S" status, in order to avoid taxation problems. While the built-in gains tax, designed to prevent a quick sale after "S" conversion still remains, recent tax law changes have reduced the waiting period from 10 years to five years before it no longer applies.

3) If you are planning to increase your production/collections, take steps to increase your active patient count. An important number that buyers consider is gross revenue (GR) per active patient. If this ratio increases dramatically, your practice value will likely increase also, but the desirability of your practice may *decrease*, because buyers could deduce that you're doing all of the work that you've been

observing, and that the “the cupboard is being left bare.” Buyers can track how your patient numbers have been by examining your number of hygiene days per week over the last several years. Keep the flow of new patients coming in so that GR per active patient stays relatively constant.

Your production must remain level or slightly on the incline (at least). Your last three years count! Value is based, in significant part, on the trend in gross production. If the trend is downward, value can be (and is) lost. Even a flat trajectory indicates that the practice is holding value. Helping your practice to hold value requires realistic, regular fee increases to at least cover inflationary expenses if not more. Purchasers of practices don't want to purchase a practice and within a short period of time increase fees substantially. Patients hemorrhage from practices in this case.

4) Continue to attract and accept new patients. Use the media presence noted earlier to help you in that effort. A higher patient count and a higher new patient flow both add value to a dental practice. The more patients a dental practice has, the more potential work available for a purchaser. The numbers are very clear; growing, or at least maintaining your patient base supports a solid value for your purchaser. A stable patient base is a definite positive.

As your patient family ages, assure them that you are still accepting new patients. Make a point of asking your existing patients for additional patient referrals. Show them by your words and actions that you are committed to continuing patient care at the highest level. Some purchasers view a decline in active patients as a chalk mark against the value of your practice.

5) Keep your fees current. We've seen dentists who haven't raised their fees for 10 years. When you sell your practice, the buyer is going to ask you (before the sale closing date) to raise your fees to current, reasonable levels. This may be almost impossible to do if your fees are too low. We've seen potential practice sales fail because of this problem.

6) Establish a practice brand. When you sell your practice and eventually leave it, your brand will live on with the buyer. John/Jane Doe, DDS won't have the appeal to buyers that “Deer Park Dentistry” will. An existing brand limits the expense of changing practice names. Practices in your own name will inevitably change names when your practice is purchased. That rebranding adds cost to potential purchasers.

7) Improve your media profile. Have an attractive website. Practices without websites and Facebook pages are virtually invisible to potential patients. Have a Facebook page. Actively manage that page. Activity means current! Ask your patients to review your practice on Google. Google is the pre-eminent search engine. No reviews indicate invisibility, and a practice with less value to buyers. Purchasers don't want to pay as much for a practice that is invisible to potential patients. Instagram and Twitter are yet other sources of building your media profile. Get active and post on social media. A multifaceted media presence will broaden your appeal to several demographics. Even something as low-tech as signage represents your practice to the public. A tasteful sign lets people (prospective patients know your practice is there.

8) Upgrade your essential technology. Practices are much more attractive (read: valuable) to potential purchasers if the technologies are current. Computerize if you aren't already. Look to upgrade to digital technology (radiographs) well in advance of the time framework being complete. This will allow you to get a good return on your investment (plus depreciation), and will allow your staff to be comfortable with the new tech. Scanners, lasers, and cone beams also fall under this category. Technology will help you put your best foot forward to purchasers. The value of your practice will be diminished if it isn't current.

9) Improve your office aesthetically. If you are a cosmetic dentist (and advertise as such) let your office reflect that cosmetic emphasis. Patients often rely on first impressions, and so do potential buyers. Keeping Point # 1 above in mind, this is better done sooner than later. Practices are judged by some potential purchasers in how well they present initially. If your practice makes a poor impression it loses potential buyers and potential value. Keep your office scrupulously clean. Make sure the office is always neat and organized as well.

As an interesting exercise, try walking in the front door of your office and imagine viewing it for the first time as a patient. The results may be eye-opening. Consider a remodel or upgrade in paint and décor with five years to go on your timeline. A fresher look presents a positive image that helps maintain and enhance value. New paint signals to patients that you haven't "packed it in," and it has the added advantage of making your work environment more pleasant for you.

Likewise, with 10 years to go you may want to entertain expansion. More treatment rooms mean more opportunity to produce dentistry. More production or potential for production can increase the value of your practice. Remodels should be done with enough time to recoup/amortize your investment. More treatment rooms also will open the door to some corporate suitors as interested buyers. Those buyers will view the potential of your facility as they weigh whether or not to purchase your practice.

10) Consider moderately enhancing your service mix. Changing your services provided can be a double-edged sword. Increasing treatment services offered can boost your revenue generated, and thus the value of your practice. Determination of practice value takes into account your last three or four years of gross revenue, and the revenue trajectory over those years. Clearly, increased revenue matters to purchasers. However, many potential buyers prefer to find practices wherein the selling dentist does not perform many specialty procedures. Performing a minimal amount of specialty procedures in your practice creates an economic environment where adding procedures will add to the potential income stream for a new owner. Less potential for growth means less value to many purchasers just as more potential for growth would have the opposite effect. Careful consideration of both possibilities is necessary in T-10 scenarios.

11) Cultivate your staff. Invest in them even as you keep your salaries near market level. A professional dental staff that stays when you leave your practice adds value to the sale price. The employees who remain after a transition help to transfer the goodwill and culture of the practice to the new owner. Cross-training your personnel and having a nice blend of staff keeps the value of a practice higher by giving a new buyer more options should some of your employees retire with you. Keep your staff current, and invest in their continued education and training. The knowledge that stays within your practice after you are gone will add to the value a purchaser will realize. The added joy of working with a motivated and educated team will make your last 10 years in practice more enjoyable and profitable.

12) Acknowledge any geographic challenge your practice might have. This acknowledgement is especially important for rural dentists. In smaller cities and rural towns you may in fact have practices that are significantly more profitable than your city counterparts. Despite such profitability, finding a purchaser can prove to be much more challenging for small-town dentists. The pool of potential buyers is much more limited for those practicing in rural setting. As diverse as our dental schools are, that diversity is not reflected in rural Michigan, and in consideration of this a certain percentage of potential buyers are lost to small town practices. Doctors in rural practices need to plan well in advance of leaving clinical practice. Preemptively identifying and cultivating a high school student (or two) who is one of your patients can allow you to act in a mentorship capacity. Identification of future dentists (and dental hygienists) and mentorship is exceptionally important in smaller towns. Once identified, these students can be encouraged throughout their college and dental educations. The hope is (with that encouragement) they can seamlessly integrate back into your practice as clinicians

Recognition of the potential threat to your practice value early and proactive identification future buyers or clinicians will increase your practice viability. Starting this process at T-10 is most appropriate since having no buyer means having no practice value (other than equipment and records).

13) Anticipate gaps in your productivity. Have a plan in place to keep your income stream up even if you need to miss some time. Gaps in productivity have a negative effect on year-end numbers. Build a network of friends and colleagues to keep your practice going should you have an issue that will keep you from practicing for an extended period of time. Know about potential locum tenens help that might be available. Make sure you are properly insured. I reiterate how important the numbers generated in last three years are in determining the value of a dental practice!

T-10. Keep your practice value strong. In 10 years that strength will help propel you to a better life outside of dentistry!

About the Author

Erick Rupprecht, DDS, is a life member of the Michigan Dental Association. He remains active at the MDA serving as a member of the MDA Board of Trustees and as a member of the Board Committee on Finance. Since leaving clinical practice in 2018 he has joined Legacy Practice Transitions as a transitions analyst. He partners with another MDA life member, Kim Sena, DDS, to serve dentists buying, selling, or merging dental practices.

He would like to acknowledge input from Dr. Sena in the authoring of this article.