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Ask the Broker

Want to increase the size of your practice? Consider a merger!

Mergers are unquestionably the best return on investment you can make. The success of EVERY transition or merger is based on the assumption that the vast majority of patients will stay with the practice and transfer to the new practice. This is generally true when the transition is handled properly and both parties understand that the "goodwill" portion of the transaction is the most important aspect. The hard assets, such as equipment, supplies and leasehold improvements have a limited life and will always need to be replaced. However, the patient base is what generates the revenue stream.

To clarify, *chart sales* are not the same as a *merger*.

Chart sales refer to a simple purchase of the physical charts, but not necessarily receiving any additional help in the transfer of the goodwill. A chart sale might not even include the transfer of the phone number from the previous dentist. In addition, true "chart sales" are done at extreme discounts compared to what the price might be in a traditional practice sale.

Mergers, on the other hand, assume that the transfer of the goodwill and patient base will be as successful as in a normal practice transition. With a successful merger, the return on investment is normally double the return on investment from a traditional practice transition because the overlapping expenses such as rent, phone, electricity and roughly half of the staff salaries will be eliminated. Therefore, if a normal dental practice profit is approximately 35% of collections, the profit from a merger can be as much as 70% of the collections. Think about it….if you can add 1000 patients to your existing practice, the only real overhead will come in supplies, lab costs and some staff.

If the return on investment for a merger is twice that of a typical practice transition, shouldn't the price for a merger be twice as much? That would make sense from a business perspective, but the reality is that most buyers feel that they should get a large discount on a merger verses an outright practice purchase. The argument is that they don't need the equipment or the space.

My advice to young buyers or doctors that want to expand their practices is to ***absolutely*** pay the market price or more if you have an opportunity for a merger. This is about return on investment, not equipment. Again, there needs to be cooperation to ensure that the vast majority of patients make the transfer to your location, and when they do, it will be the best return on investment you can make!

Questions? E-mail wps@succeed.net

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