Dental Economics
The Nation's Leading Business Journal for the Profession

Benefits of a practice merger

John M. Cahill, MBA

For most dental practices, bottom-line profitability is at risk as one of the longest growth periods in the United States economy has begun to falter. Let's address two issues that the average dental practice faces: increased staff costs and rent.

Even though the economy has slowed, unemployment still is low. Finding qualified, experienced staff at a reasonable cost is difficult in many areas of the country. Other types of businesses are competing for the same pool of employees. To be competitive, doctors have had to consider increased salaries and/or benefits.

At the same time, building rents in some areas have skyrocketed. Rents have not changed significantly with the faltering economy. Many medical/dental buildings are finding that other industries are willing to pay higher rent than the average dental practice can afford.

Many practices are caught in the difficult position of deciding how to absorb the rent increases. Certainly, some dentists can trim expenses and/or increase fees moderately. But most of the rent increases affect bottom-line profitability dramatically and will come directly out of the doctor's net pay.

The good news is that a practical solution to this problem may be right in your own back yard. Determine if any colleagues are retiring, relocating, or reconsidering their career paths. If you find such a practice, think in terms of purchasing it and merging it into your current practice.

Doctors often pass on such opportunities. They will think that they are too old to assume new debt, it takes too much time to merge with a practice, the staff resists "working harder," or their physical facility is not large enough.

Here are several reasons why this route just might be the right solution for you:

- **Source of experienced staff:** In many cases, experienced staff is immediately available, including hygienists (who are becoming a rare commodity). The expensive cost of finding, keeping, and/or replacing staff is resolved.
- **Higher profitability:** Many of the fixed costs (rent, insurance, staff salaries, computer expenses, etc.) already are being paid for through your existing practice. Without these costs — and with the addition of new patients — a merger can immediately translate into higher profit margins.

For example, if you are operating on a 60-40 percent expense-to-profit ratio, the reverse probably would be true in a "merged" practice. Your expenses would be 40 percent and profits 60 percent, including debt service. Adjusted expenses in rent (6 to 8 percent), insurance (2 percent), and salaries (15 to 20 percent) added to adjusted net income (35 to 38 percent in an existing practice) would reflect a 58 to 68 percent profit margin on the new production.

Even when you factor in debt service of 9 to 11 percent, your profit margin is still 49 to 57 percent vs. 35 to 38 percent.

- **New-patient inflow:** All patients coming with the "merged" practice are considered new patients. In most cases (especially if the selling doctor is retiring), many of the patients have been in a "maintenance" stage for several years. With the right patient education and care, the merged practice production could double within 12 to 15 months by providing additional necessary treatment on existing patients. Compared to the cost involved in finding and cultivating new private-pay and insurance patients, you'll find this is a practical and inexpensive way to expand your practice.

Now is the time to reflect on where you want your practice to be both in the near term and long term. If you are in a growth mode, consider merging other practices into your existing one.

John M. Cahill, MBA, has over a quarter century of experience in the dental industry, which includes all aspects of appraisals, sales, and purchases in connection with dental transitions. He is a member of American Dental Sales, Inc., and can be reached at (415) 468-3880 or john@ccasf.com.

Reprinted from the June 2001 edition of **DENTAL ECONOMICS**
Copyright 2001 by PennWell Corporation