

Ask the Broker

September 2012

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Is the number of “Active Patient Files” an important issue in a practice purchase?

Great Question!!! My answer is emphatically YES!

When you buy a practice, you are paying mostly for the “book of business” generally referred to as “goodwill”, “cash flow”, profitability, etc. What you are actually buying is the opportunity to meet all the patients of the practice and win them over to continue their treatment in that office. Unfortunately, there is no single definition of what constitutes an “active patient”. In a recent situation, the Seller’s patient count was 1800, while my count was 1500 and the Buyer’s count was 450 patients. Amazingly, the Buyer actually increased the practice production in the first month of ownership! Obviously the Buyer’s definition of an “active patient” was much more stringent than the Seller’s, but the actual number did not matter as the Buyer proved to be much more adept in treatment planning the existing patients.

Of course, it is up to the Buyer to determine if they can fill the shoes of the Seller, or continue to perform as well with that “book of business”. The problem is that if we put a patient in the middle of 10 dentists, we might get 10 treatment plans that are light years apart. This could even happen with 10 classmates from the same school who respect each other! Conclusion: 800 active patients (whatever the definition) in one doctor’s hands might yield a \$1 million practice and the same patients in another doctor’s hands might yield half that amount. In the case of a practice where a classmate who is a conservative treatment planner buys out the more aggressive treatment planner, chances are that this buyer may go broke as he will never produce what the Seller produced. Result: Lawsuit, name calling and finger pointing, regardless of the patient count! Reverse the scenario and the result will be a buyer who doubles production in the first year and the Broker is a genius!

I recently had a buyer’s attorney remove the contract clause that took the responsibility of the patient count out of the buyer’s hands. While that might help the Buyer if a lawsuit ensues, all parties lose if poor due diligence results in a bad transition and a lawsuit. All Buyers need to do a chart review themselves and confirm that they are capable with their own skill set and/or agree with the philosophy and treatment being prescribed to that patient base.

The best way to prevent a misunderstanding or poor result in a transition is to make sure the Buyer does his own due diligence concerning the practice’s philosophy of treatment planning. A patient count, whatever the definition, is important, but should not be used as ammunition to defend poor due diligence.

Questions? E-mail wps@succeed.net

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