

# Ask the Broker

## How does ‘goodwill’ affect the value of a practice?

The dictionary says goodwill is:

**“An intangible, salable asset arising from the reputation of a business and its relations with its customers, distinct from the value of its stock and other tangible assets.”**

From an accounting standpoint, goodwill in a dental practice is the difference between the value of the hard assets and the price of the practice. Practice transitions generally allocate goodwill around 70-80% of the practice price. The reality is the goodwill may actually be in the 90% range depending on the size of the practice and the equipment. What does this mean to a seller or buyer of a practice?

Tangible goodwill boils down to what puts the patients in the chairs. Putting ‘patients in the chairs’ may be related to a great web page, marketing efforts, a great location due to foot traffic or terrific demographics. Repeat business from active patients is normally the primary factor that puts patients in the chairs, but it maybe just one component of a developed practice. Many dentists equate goodwill with the length of time the practice has been in business, but I could argue that in some cases after a transition, an older practice based on long-term relationships might suffer more than a newer practice that relies on participation in PPO plans.

The seller has signed a “covenant not to compete” with language that states he will assist with the transfer of the patient base in the practice. Studies have shown that 90-95% of the patients will come back to the office at least one time to try out the new dentist. (they do not want new x-rays!) Keeping the patients in the chairs, or retention of the “goodwill” or patient base then rests on staff relationships and the new doctor establishing trust with the patient.

By definition, many aspects of goodwill are totally intangible. The intangible aspects of how each and every one of us doctors treatment plan and gain patient trust places the burden of determination in the hands of the buyer to assess the intangible aspects of any practice in relation to their own attributes. It is up to each buyer to determine the specific real value of the goodwill on a practice transition to determine if the price of a practice makes sense.

Questions? E-mail [wps@succeed.net](mailto:wps@succeed.net)



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