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Ask the Broker

I am 13 years into my career and need to do a remodel on my practice. What factors should I consider to get a maximum return on my investment as I am starting to also plan for retirement?

I was recently published in a national dental journal addressing this issue. If you have eight or more years to practice, I believe it is always a good idea to invest in your practice. Of course, various equipment and leaseholds have different lifespans, but since we spend a huge portion of our lives at work, we deserve to work in an environment which we enjoy. A good environment with ergonomic equipment can help us enjoy working more years with greater satisfaction. Update your basic equipment and leaseholds on a routine basis. Substantial investments such as a Cerec machine or a 3D cone beam unit should only be purchased if it increases your return on investment. *It should be utilized enough to offset the expense. Don't assume that it will expand your practice. Be sure you have the patient base to support your investment. This is not like the famous line in the movie that states "if you build it, they will come!"

Generally speaking, if you only have five to ten years remaining in your practice, simple and inexpensive leasehold upgrades are definitely worth the investment. However, high-end equipment expenditures will generally not return the investment through an increased sales price of your practice. Practice value is typically based predominantly on your collections or net profit. Upgraded equipment and leasehold improvements may only increase the practice sales price nominally. With three or more remaining years, the one item I would encourage any dentist to invest in is Digital X-rays. Most recent graduates have never even seen an x-ray processor!

However, my crystal ball for the future tells me that once the baby-boomers start to retire, you might need an updated office with newer equipment in order for it to be competitive with the other practices on the market. Having said that, practices which are collecting less than $400K to $500K might be better merger opportunities as the average debt loan of a recent graduate is approaching $400K. Those smaller practice owners may need to position themselves with shorter term leases to be able to move their patients into another office. Therefore, equipment and leasehold expenditures would definitely not be warranted. When you are five years out from your planned retirement, speak with your advisors to determine whether your best exit strategy is keeping your practice in its current location or leaving the opportunity open for a buyer to purchase your patient charts and merge them into another practice.

In summary, capital expenditure decisions are dependent on: 1) the time remaining before you retire, 2) the possible return on investment for new technology, and 3) the size of your practice and likely model for your specific transition requirements.

Questions? E-mail wps@succeed.net

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