



Ask the Broker

**I am buying a practice, but now my dentist friend says it is priced too high.
What do I do?**

Great Question. I firmly believe that only *YOU* can determine if it is priced too high. At first glance, that may sound ridiculous as you should have input from consultants and friends on this important decision, but let me explain.

PRICE : Price is generally a function of the local marketplace. A friend of mine recently purchased a 1,500 sq ft home for \$1.1m after looking for more than a year. Someone from Kansas would think this is absurd. However, this house was in Marin County and truly might have been a great buy! The same holds true for dental practices. The price is usually dictated by the market. In an active market, this number usually falls into a “rule of thumb” range.

PRICE IS PROBABLY THE LEAST OF THE FACTORS THAT DETERMINES SUCCESS!

VALUE: The buyer’s perception of value vs. price makes the practice either a good or poor decision for him/her. That value can ultimately only be determined by the individual buyer and is specific to that buyer. (Therefore generic PROJECTED incomes for the practice are worthless unless they are done for a specific buyer and his/her skill set). Of course, the buyer needs to do all the due diligence necessary to determine the value for his/her unique circumstances. The buyer also needs to understand exactly how the practice generates its revenues and determine how the practice might perform in their own hands. If they determine that they fall short on “filling the shoes of the older dentist”, then they need a plan on how to deal with that. This could include working more hours, offering later appointments, signing up for more plans or a host of other ways to generate additional revenue. This is a long-term decision which needs to be addressed in a larger context.

IT’S NOT ABOUT THE PRICE - IT IS ABOUT THE OPPORTUNITY

I have seen practice transitions that were resounding successes even when priced well over 100% of gross receipts. In one particular case, the buyer’s accountant and friends even advised her not to buy. However, she doubled the size of the practice in the first year! I have also seen practices fail that were practically given away and everybody thought it was a steal. So what’s the difference? Your advisors and friends may not be aware of what kind of dentistry the Seller was doing. In addition to that, they may not know what type of dentistry you are capable of. You might hear of a dentist’s horror story on a transition or a scratch start. In another dentist’s hands, the result might have been totally the opposite.

CONCLUSION: Price will be dictated by the market. Value or opportunity is in the eyes of the beholder.

Questions? E-mail wps@succeed.net



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