



# Ask the Broker

## Should there be a reduction in the value of a “Delta Premier only” dental office?

First, Let's define the problem, as there is a great deal of misunderstanding on this issue. About four or five years ago, Delta decided that all new contracts with dentists would include both the Premier and the PPO contract. There was no choice on the matter from the dentist. On face value, this did not seem like a big deal in practice transitions as the assumption was that the buyer would keep all the “premier patients” on the higher fee schedule and that he would acquire many more new patients on the PPO fee schedule, albeit at a lower fee schedule. In fact, it seemed like a good way to grow the practice after the transition.

The first time we discovered this assumption was incorrect, was upon listing a practice that voluntarily added the PPO product to his office. He also assumed that his current “Premier” patients would keep their fee schedule. He soon found that Delta was paying 25 to 30 percent less on about 90% of his past Delta Premier patients. However, he finished off that year with his highest production ever, due to the increased patient flow!

What we did not fully comprehend is that Delta has not really sold any new “Premier” plans for many years. Each year, the percentage of Delta Premier patients is reduced compared to the PPO plans. Currently the percentage of Delta Premier patients is approximately 7%. Today's current “Premier Only” doctors normally do not realize that as much as 93% of their “Delta Premier” patients are really what we refer to as “PPO Plus”, meaning that Delta has agreed to pay the Premier fee schedule for the time being, but any change in the contract will reduce all of these patients to the standard PPO fee schedule.

We have also witnessed transitions over the years where the practice's gross receipts did suffer after the buyer was forced to take the lower fee schedule. However, since 2011 when we began following this phenomenon, I can say that there is no direct correlation to declining revenue *just because* of the Delta fee change issue. We recently sold a predominately Delta practice that had 1.7 Million in gross receipts. We expected this practice would suffer as this practice did not need to grow their patient base with the additional PPO patients. Six months after the sale the monthly collection numbers were actually greater!

It is imperative that buyers understand this issue and find out how much of the revenues are generated by a “Delta Premier only” office. However, it is just one of the many variables a buyer should understand in making a good decision to purchase a practice.

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



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