Volume 8, Issue 7

July 2016

Ask the Broker

Dental Mergers: A guide to your personal ATM machine

Mergers are unquestionably the best return on investment you can make. The success of EVERY transition or merger is based on the assumption that the vast majority of patients will stay with the practice and transfer to the new dentist. This is generally true when the transition is handled properly and both parties understand that the “goodwill” portion of the transaction is the most important aspect. The hard assets, such as equipment, supplies and leasehold improvements have a limited life and will always need to be replaced. However, the patient base is what generates the **CONTINUOUS** revenue stream.

To clarify, chart sales are not the same as a merger.

Chart sales refer to a simple purchase of the physical charts, but not necessarily receiving any additional help in the transfer of the goodwill. A chart sale might not even include the transfer of the phone number from the previous dentist. In addition, true “chart sales” are done at extreme discounts compared to what the price might be in a traditional practice sale. **Mergers**, on the other hand, assume that the transfer of the goodwill and patient base will be as successful as in a normal practice transition. With a successful merger, the return on investment is normally <u>double</u> the return on investment from a traditional practice transition because the overlapping expenses such as rent, phone, electricity and roughly half of the staff salaries will be eliminated. Therefore, if a normal dental practice profit is approximately 35% of collections, the profit from a merger can be as much as 70% of the collections.

<u>Think about it:</u> If you can add 1,000 patients to your existing practice, the only overhead will come in supplies, lab costs and some staff. This revenue is ongoing year after year and the reason why a merger is like having your own ATM cash machine!

If the return on investment for a merger is twice that of a typical practice transition, shouldn’t the price for a merger be twice as much? That would make sense from a business perspective, but the reality is that most buyers feel that they should get a large discount on a merger verses an outright practice purchase. The argument is that they don’t need the equipment or the space.

My advice to young buyers or doctors that want to expand their practices is to **unquestionably** pay the market price or more if you have an opportunity for a merger. This is about return on investment, not equipment. Even if you took every piece of equipment to the junk yard, it would still be worth paying over the market price for a merger opportunity. Again, there needs to be cooperation to ensure that the vast majority of patients make the transfer to your location, and when they do, it will be the best return on investment you can make!

Questions? E-mail wps@succeed.net

Timothy G. Giroux, DDS is the Owner & Broker at Western Practice Sales and member of the nationally recognized dental organization, ADS Transitions. A graduate of Creighton University School of Dentistry (1983), he and his wife, Mona Chang, DDS (LLUSD 1984) were in private practice together for 15 years in Scottsdale, AZ, before establishing their home in Northern California.

800.641.4179 | westernpracticesales.com