Explanation of Buying a Practice – A Case Study

There are four files related to "Buying a Practice." This is a case study about buying a dental practice. This is a relatively simple transaction on the spectrum of dental practice transitions. A sole practitioner is selling a small practice to a new dentist. We see the average fee collections of a solo practice are about $800,00 - $900,000. The national average may be lower. The fee collections of the small practice in this case study is about $600,000. For most new dentists interested in buying a practice, this is about the right size. You will likely see and may be tempted to buy a larger practice. CAUTION – the larger the practice you try to buy the greater the risk of having problems. Practice complexity is not linear but exponential. You double the size of a practice and the complexity roughly goes up by a factor of four or more. You do not want to find yourself in a situation where you buy a large practice that is over your head and it shrinks down to your size, because then you have a small practice and small cash flow with an oversized debt on it.

The first file "**Case Study – A General Dental Practice**" lays out the basic facts about the practice. In this case study we've kept it very simple. Normally you will receive a fairly comprehensive packet of information from a practice broker that includes basic information about the practice including copies of financial statements, copies of tax returns, copies of fee schedules, demographic reports, leases, office schedule, financial policy, reports showing the number of procedures done per provider, and occasionally an appraisal.

The second file "**Case Study – Questions**" are a list of 20 discussion questions. The questions are designed to raise your awareness of the issues in buying a practice and many are open-ended. It's unlikely that you will be able to answer all of the questions. The questions are intended to stimulate your thinking, not so you can rattle off a canned answer.

The third file "**Dental Financial Statements – For reference Purposes Only**" is to provide you a simple set of financial statements as they should be. There are three basic financial statements:

- Statement of Assets, Liabilities, & Equity
- Statement of Revenues and Expenses
- Statement of Cash Flows

The financial statements that you will receive in most small practice purchase situations will be of poor quality as in this case. The benchmark overhead percentages that you should know are as follows:

- Wages as a percentage of net fee collections – 25%

- Wages PLUS payroll taxes, workers' compensation, uniforms, staff meetings, retirement, continuing education, and health insurance as a percentage of net fee collections – 30%
- Clinical wages as percentage of doctor production - 10%
- Ratio of hygiene production to hygiene wages – 2.5 to 3.0 (depends upon geographical location; for example, 2.5 in the San Francisco Bay Area, 3.0 in other parts of the country like Michigan or South Carolina)
- Dental supplies as a percentage of net fee collections - 6%
- Laboratory as a percentage of net fee collections – 7-10% (if office uses CAD/CAM technology 4-5%)
- Office Rent as a percentage of net fee collections - 6%
- Practice Profit (Net fee collections less operating expenses) – 35%

These percentages are simply benchmarks which signal whether further investigation is necessary. You need to understand the practice and what's happening behind the numbers and percentages. Do not blindly come to conclusions from overhead percentages alone.

The fourth file is the **New Practice Checklist** – This new practice checklist by the ADA covers a lot of issues that you need to address when buying or starting a practice. As a dentist and member of the ADA you can enter the ADA web site and access the latest edition of this checklist. There is also a Guide for the New Dentist available to members at the California Dental Association web site http://www.cda.org/member-resources/recent-graduates