Understanding “Value” in Your Practice

April 17, 2017

The most common understanding of a practice’s value is two-fold: the money that you make each year in the form of profits and the value of the practice when you sell it. This is fallacious; as there are really four values in a dental practice.

Operational Value: There are many gaps or, as I prefer to think of them, opportunities, in a practice. The most obvious opportunities are operational leakage; such as hygiene patients that are overdue (re-care) and outdated fee schedules; but there are as many as sixty different gaps that allow leakage of revenue. Proper consulting advice can help to shore up these gaps and produce increases in productivity and profitability.

Transition Value: Within about ten years a dental practice, in most cases, will have reached “saturation”. Saturation means that the doctor cannot treat more patients on a weekly basis without clinical care slipping, or working more hours. This typically occurs when the practice reaches 1,200-1,400 active patients. This is the number of patients that a dentist can reasonably treat in a year; working a four day clinical week (1536 hours per year). Many practices will have 2000-3000 patients after 15 years in practice; which would be the case for a typical 40 year old doctor. This condition of saturation is even more pronounced, as a doctor approaches his 20th year in practice. By transitioning a new doctor into the practice these excess patients can be treated comprehensively; increasing both clinical and hygiene revenue. This transition value often amounts to hundreds of thousands of dollars.

Over time and without a properly designed transition, these excess patients and this hidden wealth will evaporate; as patients will go to other practices that are less busy and can treat them more readily. This is why it is so important that doctors between the ages of 40 and 50 begin their transition planning now and *not* wait until retirement age. These practices have the maximum amount of wealth that can be uncovered for the client and be re-directed into qualified retirement plans, or other vehicles which will accelerate their financial freedom.

Market Value: This value is the most commonly understood and is determined by a proper fair market valuation (FMV). This valuation should be conducted by an Accredited Senior Appraiser (ASA); not on the “back of an envelope”, by a broker. We generate such a valuation in every transition case; in order to determine the buy in or purchase price for both parties. The *really* exciting news is that the two types of value described above (operational and transition), when properly harnessed, greatly leverage the Market Value. This is true because the Market Value of a practice is driven by revenue and profitability and it is revenue and profitability that are greatly increased through proper Operational and Transition Planning.

Legacy Value: This value describes the flow of income that is generated for the former owner of the practice, as he/she continues to work in the practice for the new owner. The proper design of this “Emeritus Partner” Stage can create even more wealth to support the client’s financial freedom plan; while at the same time, transferring the goodwill (patient base) to the new owner in a seamless way.

Understanding the value concepts is crucial. Too many doctors think only of Market Value; or what their practice would sell for. This causes them to think of only “transitioning” until late in life. This causes you to fall prey to brokers, who make their commissions by selling your practice and not by proper transition planning. There is a tremendous amount of wealth that can be captured during your practice years; while still maintaining complete control of your practice.