



The
AFFLUENT
Dentist

Your guide to building, growing, transitioning and reaping
the benefits of a healthy, wealthy dental practice

Produced and Edited by PPC LOAN
Authored by PPC LOAN and Members of ADS
With Contributions From Various Others

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Changes, Challenges and Tremendous Opportunity



Few professions can equal the financial and emotional rewards a career in dentistry presently offers. Never in the history of dentistry has there been so much opportunity! In short, it's a great time to be a dentist.

Dentistry is at its peak in terms of:

- *Earnings Power*

Dentistry has surpassed many professions, including medicine and law, in terms of personal annual income. Some dentists earn \$500,000 to \$1 million, and a few earn even more. Moreover, the hourly earnings potential of a dentist is virtually unsurpassed. Even when one considers the technical expertise and non-clinical aspects required to operate a practice, the rate of compensation per hour is exceptional! This is particularly true for practitioners who wish to work on a part-time basis. Dentistry allows dentists the ability to work part-time, earn a great income, pursue other outside interests, and realize options in retirement not available to other less portable careers.

Owning Your Own Practice



Dentists today have a wide range of choices in their careers. Most new dental school graduates who immediately go into practice will become associates in order to hone their dental care delivery skills and to learn the business of dentistry before purchasing or opening their own offices. Some will join the military or go to work as employees for schools, corporations or the government. Others will join a group practice as partners or take the plunge into owning their own solo practices, either by starting one from scratch or purchasing all or a portion of an existing practice.

No matter which of these paths a dentist takes immediately out of dental school, at some point most dentists will take the plunge into practice ownership. When and what option of practice ownership is selected depends on the dentist's personal situation (the circumstances, goals, dreams and other factors that are unique to that individual).

There are tremendous opportunities offered by owning your own practice with numerous rewards. However, the pursuit of ownership should be conducted in a purposeful manner. An informed and thorough approach will lead to success and financial stability, while

Role of Dental Practice Brokers



In most life situations, people use specialists to help them obtain the information or services they need. People go to their dentists to obtain dental care. They seek the services of insurance agents to help design an insurance program to meet their needs. They look to financial planners to help them obtain the financial security they desire. The list can go on and on.

Today, prospective buyers and sellers across the country are using the services of specialists who appraise and broker dental practices. Knowledgeable and experienced practice brokers are able to guide their clients through the complex problems associated with practice transitions and to ensure their clients' interests are well represented. Buying or selling a practice is one of the most important decisions of a dentist's career, so it is essential to have a broker with great integrity, good business judgment and a high degree of competency.

Practice brokers also can provide invaluable assistance when a dental practice owner wants to bring in partners through a fractional sale or when a dentist becomes disabled or dies.

Practice Valuations



To the owner, it may seem nearly impossible to put a price tag on the results of the hard work and careful planning that go into building a practice. However, this is the everyday job of specialists who appraise dental practices and work with prospective buyers or sellers.

The Practice Valuation Process

- All appraisal approaches are based on the premise of reasonable alternatives
- No single method is universally accepted by all appraisers
- No single approach or method is used in all instances by any one appraiser
- Practice valuation, like dentistry, is an art and a science

A current practice valuation is obviously needed when a practice is being prepared to put on the market. There are a number of other situations where it comes in handy. Knowing the real value of the practice is important for planning ahead for expected events like



Seller's Guide

Whether it is for reasons of death, illness, disability, divorce, emergency family needs or simply retirement, nearly all dental practice owners or their estates will try to sell their businesses sooner or later. Unfortunately, most dentists wait until the last minute, or worse, never give serious thought to transitioning their businesses to new ownership. The consequences of this are the loss of practice value and consequent loss of income from the practice sale.

A practice has the most value when it is at its peak of performance. Without proper planning, many dentists find themselves trying to sell their practice during its decline, well after reaching its peak performance. With a proper transition plan, a dentist can achieve top value for his or her practice, and maintain and transfer that value to a new owner for a premium price.

Why Am I Selling My Practice?

The sale of a practice has to be one of the most important financial, personal and professional decisions that dental practice owners will make during their lifetimes. Therefore, it is equally important for practice owners to be able to answer the very important

Associateships and Partnerships



A successful associate relationship can be rewarding for both the practice owner and the dentist hired to work in the practice, and it is particularly rewarding when it results in a qualified and experienced successor for the practice. There are situations that can work against a cohesive relationship between owner and associate, however, and it is helpful if both are aware of the possibilities.

As with a successful associate relationship, a successful partnership relies on the compatibility of the individuals. It is important to find a good fit.

Creating Associateship Win-Wins

Owners generally want an associate to help with an overflow of patients; maintain or expand the days and/or hours that the practice is open for clinical care; generate revenue during times that the owner is away; and increase the profits of the practice. This said, a problem for owners today is that associates are not always easy to come by, and most want to be in upscale city or suburban areas. It's nearly impossible to find candidates for practices in rural communities.

Smooth Transitions



The goal for both parties in a practice transition situation should be a win-win. The seller wants to be fairly compensated for the value of the practice while placing his or her patients and staff in good hands. The buyer wants to pay a reasonable price while retaining the goodwill and support of the seller in transition. The key is for both buyer and seller to identify and remain focused on what is most important and to be sensitive to the factors impacting the other party in the practice transition negotiation.

Respect, Dignity and Goodwill

In the negotiations surrounding a practice acquisition, it is normal for both buyer and seller to strive to obtain the best deal possible. It is critical, however, for the seller to depart the practice with a feeling of respect toward the buyer and with his or her dignity intact. The buyer has nothing if he has not obtained the goodwill of the seller. Therefore, in the transition of a dental practice, the focus must be on striking a balance. In this context, balance means the seller knows that he or she has left the patients and the practice in good and competent hands, and the buyer feels that he or she has maximized the goodwill transfer from the seller.

Winning in Financing



Now that you have decided to own your own practice, how will you pay for it? Few dentists — either new grads or those who have been practicing for some time — have enough spare cash to fully fund the purchase of an existing practice or the equipment and building needed to start their own practice. Most prospective owners will have to finance most, if not all, of the cost of their practice acquisition or startup. Obtaining the right financing can make the difference between a prospering practice and one that just barely makes it.

When approaching the subject of financing, it helps to think that you are essentially purchasing money. The interest rate is the price tag on your loan — and with such a large investment it is crucial to secure the best rate possible for yourself. To win in financing, it is crucial to become educated about the process. Understanding a lender's point of view, and learning what you can do to secure the best interest rate possible, can ultimately save you thousands of dollars.

Still, there is much more to a loan than an interest rate. You will want to find a lender who really understands the dental industry

The Numbers Count



Roughly 110,000 dentists' offices and clinics operate in the U.S., generating annual revenues of \$40 billion, according to the U.S. Census Bureau. The vast majority of dentists are sole practitioners. Of the approximately 150,000 dentists, 80% practice general dentistry, while the rest specialize in orthodontics, oral surgery, periodontics, endodontics, pedodontics and prosthodontics. The average annual revenue per office is about \$600,000, and average personal income for dentists is \$175,000.

The average practice has 4,000 patient visits a year, with an average charge of \$125 per visit. Because of the relatively small charge per visit, and because even a big dental bill is small compared to big medical bills, insurance penetration and the issue of cost-containment have been much lower in dentistry than in medicine. Nationally, more than 140 million people have dental benefit plans. Traditional fee-for-service remains the most popular dental option among employees nationally, while dental HMOs and PPOs are in second and third place, respectively.

The typical dentist office includes dental hygienists and assistants, and office staff. The average office has one dentist and three other

Creating and Realizing Practice Value Through Practice Management



Relative to many forms of business operating in the U.S. today, the accounting and finances of a dental practice (i.e., the debits and credits of payables, receivables, inventory and cash deposits) are relatively simple. However, the business of managing staff, patient flow, scheduling, etc., of a dental business is among the most challenging of any business out there.

Dentists have it tough. They go to dental school to learn how to treat teeth and they get out and realize that they spend more time thinking about business matters such as managing staff, scheduling, marketing the practice and setting up systems than they do about caring for patients.

The human factor looms large in the business of dentistry. Dental practice owners are challenged daily with a complex mix of patient and staff personalities, aspirations, expectations, fears, concerns and general baggage. Yet, most navigate these waters and seem to enjoy their careers. This is because it's also one of the most satisfying and rewarding jobs if approached with the understanding and confidence that comes from a commitment to a solid plan and strategy.

Retirement Planning



Retirement may be the furthest thing from the mind of a young dentist just starting out or a mid-career dentist enjoying the rewards of building a successful practice. Yet, it is a given in the industry that less than 10% of dentists will be able to retire at age 65 and maintain the lifestyle to which they are accustomed. The other 90% may have to push back their retirement date, work part time during their “golden years,” or reduce their standard of living during a retirement phase that could last 30 years or more.

Why do so many dentists lack the wherewithal to retire when they wish? After all, dentists make a relatively great living. Part of the answer is their high levels of annual income are matched by high levels of outgo. Another part is that many dentists do not take a purposeful approach to business and the accumulation of wealth.

Retirement Planning

The cost of starting to save just twelve years later is losing two doublings of your money before you retire! That can be the difference between having \$500,000 or \$2 million!

Death, Disability and Crisis Planning



No one likes to think about an untimely death or disabling accident, but the stark reality is that failing to plan for such an occurrence can leave loved ones in dire straits. Your family should not have to worry about making mortgage payments and paying other bills in their time of grief. Having a solid plan in place will bring peace of mind not only to you but to those at home and in your office.

What Happens When the Dentist Dies or Is Disabled?

When a practicing dentist dies or is seriously disabled, there usually is a brief grace period during which the family, staff and patients are grieving. Then the staff reports back to work and the phones resume ringing. The surviving spouse usually is so caught up in sorrow and handling the funeral or disability care arrangements that it is extremely difficult for him or her to focus on dealing with the many details of operating and selling the practice.

Hot Topics



Marketing Your Dental Practice

Many dentists think their fees stop people from going ahead with treatment. They believe this because those patients who balk at moving forward very often say it's the fee that is the problem. However, in truth consumers want and will pay for value. Cost is rarely a barrier for a committed consumer.

The majority of patients and prospective patients view the clinical skill of their dentist as having a great deal of value and, if committed to pursuing the care recommended, will not quibble over price. However, many of these same patients and prospective patients, if not committed to pursuing the care recommended, will very likely use the price of the care as a cover.

Dentists are making a huge mistake when they use price to sell services. What should be developed and sold is the value offered rather than positioning the practice as the lowest bidder in the market. Leading with price as your value statement reduces your ability to successfully offer (sell) higher-level dental value, which might include comprehensive restorative dentistry. If you are only doing one-tooth-at-a-time dentistry, the reason to build value

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Mr. Brown entered private law practice and handled his first dental practice transition in the late 1980s. Brown entered the private business sector and was involved in the transportation, insurance, finance and medical supply distribution industries. Brown joined the firm of Watson and Associates in 2004.

Mr. Brown has contributed articles to major dental publications, such as *Dental Economics Magazine* and *Dental Entrepreneur*. He is a frequent speaker at the Texas Dental Association's annual event, the Southwest Dental Conference, Houston's Star of the South Dental Meeting, and Baylor College of Dentistry. He currently serves as the president of ADS, a national association of dental practice transition specialists. He has also served as the director of the J. Rueben Clark Law Society Dallas/Fort Worth and director of the B.Y.U. Management Society Dallas/Fort Worth. Brown is a licensed attorney in Texas and Arizona.

Watson, Brown & Associates provides practice appraisals, pre-planning for contingencies, partnership arrangements, brokerage and sales, associate arrangements, and purchaser representation services with a common sense, bottom line approach for dentists.

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John M. Cahill is nationally known as one of the country's premier transition specialists. Western Practice Sales / John M. Cahill Associates has provided quality brokerage services to healthcare professionals for more than 20 years, and is the only brokerage firm that represents sellers and locates buyers throughout California, Arizona, and Nevada from one central office. A member of American Dental Sales (ADS), a regular contributor to *Dental Economics Magazine* and a frequent featured speaker for many dental groups over the years, he brings knowledge, experience and integrity to the transition process with more than 35 years of experience in the dental industry.

Dr. Tim Giroux established his own dental practice in Scottsdale, Ariz., upon graduation from Creighton University, School of Dentistry in 1983. He relocated to Northern California upon selling his highly successful practice after 15 years, Dr. Giroux brings a unique perspective and personal experience in dental associateships, practice start-up, sales, and workback situations to serve and assist practice owners during their business transitions.

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The Clemens Group are dental practice brokers serving the New York/New Jersey area for over 25 years. As transition specialists who deal exclusively with the dental profession, The Clemens Group has unique capabilities to analyze and evaluate dentists' particular circumstances and come up with creative solutions to meet their needs and expectations.

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Guy Jaffe is the principal of ADS Midwest (formerly The Dental Marketplace) in St. Louis, Mo. Mr. Jaffe has been appraising and selling dental practices exclusively since 1987. Previously, he was head of his own commercial real estate development and management firm and has served as director of Community and Economic Development for the state of Missouri. Mr. Jaffe is a member of Practice Valuation Study Group, a national organization dedicated to improving professional practice valuations, and a director of Metropolitan Capital Bank in Chicago. He is past president of American Dental Sales (ADS), the largest network of dental practice brokers in the United States. ADS Midwest serves members of the dental profession in Missouri, Illinois, Iowa and Wisconsin by providing practice valuations, practice sales, partnership formations, associate buy-ins and practice management consulting services.

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Gretchen Ohlmeyer Lovelace is the president and founder of ADS Lovelace and Associates, Inc. Gretchen taught at the University of New Orleans, and conducted research in the Microbiology department at Louisiana State University School of Dentistry before returning to Baton Rouge and obtaining certifications in Financial Planning and Practice Management. She has 29 years of practice management experience and has been a guest lecturer at the LSU Dental School for the past 19 years, as well as at national, state, and local meetings. She is a member of The Financial Planning Association and the Institute of Business Appraisers, and is a realtor, and a notary. Practical, ethical, and professional practice promotion and practice transitions are Gretchen's main interests.

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John F. McDonnell has been working with the dental profession for over 40 years. He is the founder and president of ADS McNor Group, a dental brokerage and transition firm serving sellers and new owners. Mr.

McDonnell currently serves as a partner and principal of ADS McNor Group, which specializes in nationwide practice transitions, including sales, mergers and partnerships. He is a member and past president of American Dental Sales (ADS), representing the Mid-Atlantic region. He is widely published in dental periodicals, particularly *Dental Economics Magazine*, where his articles have appeared on a regular basis. He is a recognized speaker and lecturer on the topic of dental practice transitions.

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HELP Appraisals & Sales, Inc. appraises and sells dental and medical practices, with services including practice appraisals, practice sales, associate arrangements, associate/buy-in arrangements, and practice mergers. Mr. Schaub has personally appraised more than 1,500 health care practices and has been involved in the sale of over 400 practices since 1984. His background includes a B.S. in electrical engineering, a Master of Business Administration, and over 20 years of health care practice appraisal, sale, and transition experience. Mr. Schaub is a member of the Institute of Business Appraisers and chairman of the national Practice Valuation Study Group. He provides seminars and lectures for national dental societies, and has given four Table Clinic presentations at American Dental Association (ADA) meetings.

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Ted Schumann began working with dentists in 1979 and formed Dental Business Services in 1983 for the primary purpose of helping dentists reach their personal and financial objectives. DBS Professional Practice Brokers, founded by Theodore C. Schumann, CPA, CBC, CFP, provides dentists in Michigan with a variety of services, including assistance in buying or selling a practice, associate recruitment, associate buy-in/out, partner searches, practice mergers, facilitating space-sharing arrangements, and facilitating the formation of Mutual Aid Groups. As president of DBS Professional Practice Brokers, Mr. Schumann consults with dentists on accounting, tax and financial planning, and practice management.

Mr. Schumann has been a guest lecturer at the University of Michigan Dental School and an adjunct professor at University of Detroit Mercy School of Dentistry. He has been sponsored for several years by the MDA

as a speaker to senior practitioners. *Dental Economics Magazine* has sponsored Mr. Schumann to speak nationally for two years. He has written for *Dental Graduate*, *The New Doc – the MDA E-Zine for New Dentists*, and a monthly transitions column in *Dental Economics Magazine*. He is also Michigan's only member of the Academy of Dental CPAs, and a founding member and a past president of American Dental Sales (ADS), the nation's most respected practice broker organization.

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After practicing dentistry for 30 years, Dr. Rich Seims co-founded Consani Seims, Ltd., specializing in dental practice mergers and acquisitions. Consani Seims, Ltd. provides brokerage services for dental practices in Washington, Oregon, Montana, Idaho, Hawaii and Alaska. Dr. Seims is a senior broker/consultant and practice appraiser and is recognized as a seasoned facilitator and discreet confidante. He is a member of two nationally recognized dental practice transition organizations; The Practice Valuation Study Group and American Dental Sales (ADS), both acknowledged as leaders in the field of dental practice valuations and brokerage.

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Kevin A. Shea and Shea Practice Transitions are the foremost appraisers and brokers of dental practices in the upper Midwest. Shea Practice Transitions covers the states of Minnesota, North Dakota, South Dakota, as well as Northern Iowa and Western Wisconsin. Mr. Shea is an honors graduate from the University of St. Thomas and a Minnesota attorney. Since 1985, Shea Practice Transitions has brokered dental practice sales, designed and implemented numerous practice buy-ins and buyouts, as well as represented buyers with practice acquisitions. Mr. Shea has

hundreds of hours of continuing education in business formations, appraisals, purchase agreements, estate planning and taxation. His expertise in this area is widely known and recommended throughout the upper Midwest. As one of his colleagues stated, "...Kevin has one of the brightest minds in the country when it comes to practice transitions."

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Tom Smeed is founder and owner of Healthcare Practice Management, Inc., and past president and member of American Dental Sales (ADS), a nationwide, full-service brokering and consulting firm specializing in practice sales, appraisals and practice transition services. Healthcare Practice Management, Inc. provides the business management skills, procedures, training and counseling that augment dentists' professional skills. Mr. Smeed is a graduate of the University of Minnesota with a degree in business. For 20 years, he worked for one of the largest dental suppliers, 14 years as manager of one of its multimillion dollar offices. Mr. Smeed presently works with more than 100 professional offices in a 16-state area and has had clients in Australia. For the past 22 years, as owner of Healthcare Practice Management, Inc., he has helped professionals define and reach their goals in an effort to improve their quality of life. He helps doctors start and develop outstanding practices; buy, sell and transition their practices; set up associateship arrangements; and counsels them on their personal and career opportunities. As a member of ADS, Mr. Smeed appraises and sells dental practices in the states of Kansas, Missouri, Iowa, and Nebraska. He has lectured in the United States and Australia on Practice Management, Staff Management, Self Management, Patient Management, Practice Sales and Practice Transition and contributed articles that appeared in a national dental publication. He also is a member of the Practice Valuation Study Group.

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A graduate of Baylor University College of Dentistry, Dr. Terry D. Watson practiced general dentistry in the Dallas area for more than 24 years. He founded Watson & Associates, Inc. dental brokerage firm in 1992. Dr. Watson remains an active member of the American Dental Association, Texas Dental Association and Dallas County Dental Society, and has served on numerous boards, including the ADA Financial Services, TDA Board of Directors and TDA Financial Services. He is a past president of the Dallas County Dental Society. In addition to his consulting work, Dr. Watson is a frequent lecturer at dental conferences and national seminars, speaking on practice transition and retirement planning, and has published articles on the topic in TDA Journal, *Dental Economics Magazine* and Dallas Academy of General Dentistry.

Watson, Brown & Associates provides practice appraisals, pre-planning for contingencies, partnership arrangements, brokerage and sales, associate arrangements, and start-up services with a common sense, bottom-line approach for dentists in Texas.

Plan well, know the fundamentals, manage intelligently, and enjoy the rewards

Dental practitioners entering the field of dentistry, as well as those who have many years of experience invested in their own practice, finally have one source for practical, expert advice about the business side of dentistry. A collaborative effort with K.M. “Mac” Winston and members of American Dental Sales (ADS) has resulted in *The Affluent Dentist* — a one-of-a-kind guide covering all facets of successfully owning, operating, selling and retiring from a dental practice.

As president and chief lending officer of PPC LOAN, one of the nation’s leading sources of conventional dental practice financing, Winston has over 29 years of banking experience and has specialized in lending to dentists since 1992. The contributing members of ADS represent some of the most prominent and experienced dental practice brokers in the nation with decades of dental practice sales and consulting experience. Collectively, the authors of this book have firsthand knowledge of the value of a dental practice and its tremendous earning potential when managed and operated effectively. They share their years of experience and observations of what works when it comes to the acquisition and sale of a dental practice, the management of a dental business and its staff, and preparation for retirement from a career of dentistry.



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