ADA American Dental Association®

DentalPracticeSuccess™

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Startup vs. acquisition

Discover your best option for practice ownership

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Dentists considering practice ownership are often faced with the complex choice between a startup practice and an acquisition.

Many young dentists don't want to remain associates for their entire careers. They recognize that there may be opportunities to create more control, income, and independence through practice ownership.

As we compare startup practices and acquisitions, consider how attention to these topics will better prepare you for an enjoyable and fulfilling career without the unnecessary mishaps of certain practice failures. Many practice owners would agree that practice ownership was the best choice of their career, granting them freedom and control with both clinical and personal rewards.

So, which option is better for today's dentist — startup or acquisition? We'll examine both options.

Startup practices — opportunities and pitfalls

When starting a practice from scratch, dentists experience a once-in-a-lifetime process. They must customize the practice to meet their own personal standards, visions, and goals. From location selection to floor plan design, branding, marketing, team development and all other processes, the practice is built from the ground up incorporating the values and personal touch of the owner.

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Do you have a plan for making 2017 your best practice year ever? Please share your New Year's dental practice success resolution with the ADA for a chance to be featured in an upcoming issue of Dental Practice Success.

Dental Practice Success will feature results from this survey in the Winter 2017 issue, coming to you in mid-January 2017.

Share your resolution by Friday, Dec. 9, 2016.

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It can be a fulfilling process of imagining a successful practice and then seeing it come to life on your own terms. However, there are important considerations.

Long gone are the days when a startup practice could expect success by haphazardly choosing a location and hanging a shingle. Fortunately, when a location is chosen using precise demographic data and proper real estate negotiations, the right location can help propel a practice to tremendous growth in its first year.

There are many decisions to be made regarding practice model, demographics, taxation and business systems. All of these issues make following the proper planning stages more important than ever before for dentists considering a startup.

Six key elements for startups are:

1. Proper analyses of current-day demographics studies;

2. Floor plan layout alignment with your clinical standards, not equipment sales;

3. Real estate selection that is functional for a private practice;

4. Negotiations for equipment and construction;

5. Banking and profitability planning with a business plan customized to meet your vision;

6. Tested marketing and hiring processes to grow quickly.

Wayne Gretzky, arguably the best professional hockey player in history, said much of his success was due to his uncanny ability to "anticipate where the puck is going." Such forecasting and anticipating growth can make you the Gretzky of dentistry. Or, in other words, startup practices, when planned properly, can experience growth that is smooth and predictable.

Floor plan design is also a unique experience for startup practice owners.

Floor plans, when created well, significantly increase productivity. (Acquiring a practice may trap you in a practice designed in the days of film dip tanks.) Startups, however, benefit from one-of-a-kind custom designs that help your practice stand out among competitors. Floor plans affect practice efficiency using all the modern advances in technology, practice flow patterns, and custom ergonomic preferences. As an added benefit to startups, "line of sight" spatial planning concepts and creative design touches can be used to highlight your personal values.

Office protocol and systems are also designed from the ground-up in startups. This concept of smooth running office systems is of high interest to dentists who are turned off by changing dysfunctional, deeply ingrained processes found in some older practices.

What about profitability?

Many dentists express concern about reaching profitability with a startup. With a full, legitimate business plan that incorporates precise demographics, staffing plans, business protocols, and financial projections, many startup practices tell of reaching profitability within their first six to nine months.

A major regret of many startup practice owners is the failure to follow proven planning stages, leading to drastically higher costs and much lower profits.

Acquisitions — concepts to consider

Acquisitions can create success by allowing for the purchase of an existing patient base, systems, staff and equipment all at once. Ideally, you can acquire a practice that you can

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own, run, and profit from, beginning on your first day of ownership. When the right practice is acquired the right way, this is possible.

However, it is important to point out two deeply misunderstood concepts about acquisitions.

1. Buying a practice is very different from buying a successful practice. In other words, ownership should not be your goal. Buying a practice that will be successful is the goal. A proper analysis will reveal this. Don't settle for an acquisition for the sake of being a practice owner. Dentists who make that mistake regret it for many years.

2. Acquisitions should not be assumed to be "low risk." Many new dentists incorrectly believe acquisitions are inherently low risk. Nothing could be further from the truth, no matter what any vendor in the process tells you. Thorough analyses from unbiased parties should always be the top priority in this process, as should performing scrupulous due diligence on the practice by hiring your own attorney or broker. It is recommended that you avoid interactions with and opinions from the seller or the seller's broker. Those who take this lightly often find themselves with very expensive, very messy surprises.

Seven surprises that buyers find out after the purchase are:

1. Large volume of patient loss — you should expect at least 10 to 20 percent;

2. Staff turnover — you can expect at least one key employee to leave;

3. Unplanned repair costs — remember, older equipment is costlier to repair;

4. Poor business systems — an older practice run with old systems is harder to transition to newer systems and technology;

5. Undesirable patient habits — case acceptance rates need to meet your expectations and needs;

6. High dollar costs to improve the facility — construction needs, and updates to the clinical portion of the practice;

7. Problems with landlords — lease terms need to protect you.

Any of these surprises can be devastating financially and emotionally. And many dentists find themselves in need of a part-time associate position to afford the costs of loan payments, although they were told

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Startup Pros

- Customized practice from a clean slate
- One-of-a-kind floor plan for efficiency
- Development of systems from a clean slate
- Culture — your vision for your practice culture is custom-created, not inherited
- Patient demographic is preselected
- Technology is new
- Real estate — leases are negotiated on your terms, not inherited terms; ownership of real estate is possible without a down payment

Startup Cons

- Debt of $400,000 to $700,000
- Proper business training education
- Cash-flow planning requirements for a 6- to 12-month profitability plan
- Case acceptance can be lower until rapport is built with patients
- Clinical standards — developed by you
- Necessity for a proven process in a complex treatment environment
- Coordination of dozens of vendors

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their acquisition was low risk. (If a dentist chooses part-time employment as an associate, he or she should be aware of noncompete clauses).

Dentists should be trained and adequately prepared for practice acquisition well before beginning their search. Doing so will help them avoid these common surprises. But far too few new dentists are properly educated about the costly and high-stake world of practice acquisitions.

Acquisitions can be wonderful and profitable. Ownership can happen almost immediately and growth will occur if planned properly. An important piece of early growth hinges on the transition from seller to buyer taking place smoothly. But acquisitions are also a costly process with a level of inherent risk that many buyers wish they had taken more seriously before closing.

Regardless of the type of practice ownership you choose, having creative control over how you want to practice is a game changer. Rightly so, practice ownership can be a major motivator for young entrepreneurial dentists."

The ability to build a relationship-based practice versus a typical transaction-based practice is something that big-box dental corporations cannot compete with.

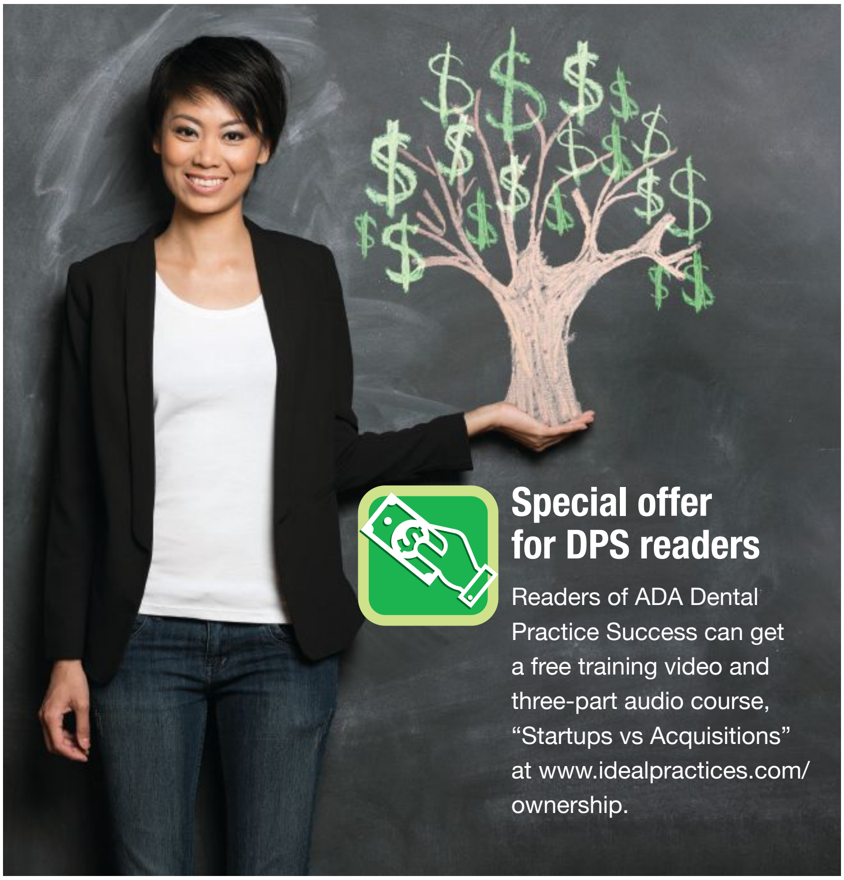
In fact, when done properly, both startups and acquisitions can lead new dentists to transform into more confident, bold, and accomplished practitioners. Owning a practice that represents your clinical standards creates pride of ownership and fulfillment unlike any other part of dentistry.

Acquisition Pros

- An existing patient base
- Inheriting staff
- Immediate cash flow when purchasing a profitable practice
- Systems already in place
- Less debt than a startup

Acquisition Cons

- Outdated floor plan, facility, and equipment
- Inheriting staff
- Aging and distressed demographics
- Dysfunctional systems
- Difficulty changing the vision and philosophy of patients and team



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