



YOUR BRIDGE TO A SUCCESSFUL TRANSITION

Are You Ready? A Guide for Sellers

You have been practicing dentistry for thirty-some years and have built up a very nice practice. Your staff is the way you want it, you have the confidence to do most every procedure you encounter, and you are really enjoying your practice.

Although everything is going well, you know that you cannot practice forever. So when should you start planning to transition out of your practice?

It is sooner than you think, So let's look at the factors you should consider when planning when and how to transition. We suggest you begin the process five to seven years prior to the date you are planning to retire.

-Psychology of Selling: We have worked with many, many sellers, and a common theme is: so now what do I do? You might be sixty or sixty-five years old, but you certainly may not be ready to settle into the old rocking chair and live out your remaining years.

We suggest you sit down in a quiet room and think about what you want to do after dentistry. Do you want to stay in the profession? If so, there are many opportunities such as working for dental supply or manufacturing companies in sales, marketing, research, etc. Or maybe you want to teach at the dental school you attended. Possibly some outside lecturing or consulting work to some of your younger colleagues. One thing we suggest you do is to walk the aisles of the state or national dental convention. Instead of looking for the best impression materials, look at the businesses that are exhibiting and see if any of the things they do interest you. Also talk to some of your colleagues who have transitioned as to what they are doing.

We had one client who sold his practice and chased his life-long dream of working for a company that arranged world-wide golfing travel packages. He was an avid golfer, they liked him, and now he is working in their sales department (and occasionally gets to sample the trips they are promoting). So think about how you are going to feel not being the boss, not seeing your patients and possibly working for someone else. Your heart will tell you what to do.

-Your Financial Plan: Remember that for thirty plus years you have supported your family from the profits of your dental practice. Now those revenues are gone. You need to be able to pay your bills with your savings or income from other work (see above).

Also remember that for years, you may have been paying some bills that were possibly more personal in nature through the business. For example, many dentists tie their annual vacation to a continuing education course which is paid through the business. If you are no longer in practice, you will have to pay for this personally. You need to calculate not only what you are going to need to pay your bills, but also add to that whatever is being paid through the practice (i.e.-life and health insurance, automobile expenses, etc.) that will no longer be paid once you sell your practice.

So how do you know if you are financially ready to retire? You need to have saved (if you plan on spending all of your time in the garden or on the golf course and not earning any more money working) enough money to pay your personal bills. The rule of thumb goes like this: Take the amount of money you need annually to live on and pay your taxes and multiply it by twenty-five and that is how much money you need in savings to be able to retire. The amount you need annually to live on can be reduced by any passive investment income (rental income from properties, social security income, etc.) that you are receiving as well as the amount you are earning from working.

Here is an example: Dr. Smith is fortunate enough to have paid off his home, as well as his two children's college costs (they are on their own, or as we parents say "off the payroll"). He and Mrs. Smith determine that in order to pay their personal expenses and their income taxes they need \$12,500 per month or \$150,000 per year. Using my rule of thumb you would multiply the \$150,000 by twenty-five which gives you \$3,750,000. If they had \$3,750,000 in the bank, most financial planners would suggest having you take out 4% of the principal which would allow for estimated 6-8% growth less provision of 2-4% for inflation. \$3,750,000 times 4% is \$150,000.

Now this seems like a huge amount of money. This can be supplemented by you working two days a week earning say \$50,000 per year and maybe receiving \$25,000 in social security benefits. This would then reduce to \$75,000 the amount you needed which under the twenty-five times rule requires you to have \$1,875,000 which may be more attainable.

It is suggested that you sit down with a qualified financial planner and determine when you are going to be ready. Art Wiederman is a certified financial planner and would be happy to have a complimentary consultation with you to help you make this determination.

-Get a Physical: Dentistry is a physically demanding profession. Physically demanding on your hands, neck, shoulders and back. We are finding that in many cases doctors between the ages of 55 and 65 in many cases are beginning to develop physical problems relating to the many years they practiced dentistry. We would suggest you meet with your physician and discuss what you can do to prolong your career physically. One of the most disappointing phone calls we get comes from the dentist who is at the prime of his or her career, love their practice but just cannot practice any more.

-Make Sure your Disability Policy is a Good One: This is not only for dentists planning to retire in the next five to seven years, but for all dentists. Make sure your long-term disability policy is top notch. We have individuals who we work with who can do that for you. If you are one of the unfortunate ones who becomes disabled, and you have a policy that for example, does not pay for partial disability, you could be in a world of hurt. Or if you have a policy that is not for the occupation of dentistry you could also be in trouble.

-Clean Up your Books: We have sold many practices and have also evaluated many practices for buyers through the CPA practice run by Art Wiederman. We know that many dentists (and it is not just dentists, but small business owners in general) run items through their profit and loss statements that are not exactly 100% ordinary and necessary expenses.

We suggest using the “you may lose a battle but you have won the war” theory. If for thirty or so years you have been “aggressive” on your tax returns, we suggest backing off the last two or three years. This is so your practice shows the maximum profit for a buyer and will bring the maximum price. We work with sellers who say “yes, I know the practice net is only \$81,000, but there are add backs of another \$125,000 so the real profit is \$206,000”. That may be true, but both the buyer and a financial institution may very well tell you that because your net profit is low on paper (even though the add backs are legitimate) your practice is worth less. Having a higher net profit could bring you tens of thousands of dollars in increased sales price and less headaches and questions.

-Make Sure your Office Looks Modern: Most of you reading this article have either bought or sold a home or two or three in your lifetime. When you sell, the realtor tells you to make it look as clean and modern as possible. As a buyer, many times your first impression goes a long way to determining whether or not you make an offer.

It is the same way with a dental practice. Of course if you are deciding to sell today or in the next twelve months, putting \$150,000 into new equipment and furnishings is not generally a good idea. However, if you are five to seven years away, doing a makeover of the office might just be a great idea.

We have seen that digital x-ray in each treatment room is becoming the standard of care for many practitioners. If you are five to seven years away, digital x-ray is a great way to market your practice and is a great diagnostic and sales tool for your patients. You could increase new patient flow and help solidify the value of your practice. Also, consider some new dental chairs and units as well as bringing in an interior designer to help make your office look as desirable as possible. Again, this is a concept we can discuss with you.

These are just a few ideas as to how to prepare for transitioning your practice. Please feel free to call us and we would be happy to come out and discuss these issues with you.

-Arthur S. Wiederman, Broker

Wiederman & Potter Premium Practice Sales