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# 6 mistakes to avoid when buying a dental practice

Buying a dental practice could be the single most important decision of your career. Yet many buyers continue to make the same fundamental mistakes when assessing practices. **Shane Conroy** reports

**S**imon Palmer from specialised dental business brokerage, Practice Sale Search, and Scott Hutchinson from independent medical finance company, Credabl, reveal six common mistakes buyers make when purchasing a dental practice, and how to get it right.

## Missing the easy wins

While the financials of the practice you’re considering buying are certainly important, there is more to assessing value than the numbers on a profit and loss statement. It’s important to understand how the practice is currently being run, and where there are opportunities for you to add value.

“There are often some very easy wins that a buyer can introduce that you won’t necessarily see on the profit and loss statement,” says Palmer. “For example, a dentist towards the end of their career may not be offering the range of services they once did and could be referring out a lot. Bringing those services back in-house could give you an immediate revenue boost that you would miss if you’re only looking at the existing numbers.”

## Overlooking your lender

Locking in finance for your new practice shouldn’t be an afterthought. Rather, taking some time to build a relationship with a specialist lender

will serve you well when it comes time to sign on the dotted line.

“Buyers need to understand that financing the purchase of a dental practice doesn’t work the same way as a standard home loan,” says Hutchinson. “That is, the amount you can borrow is not linked to your current income like a home loan. It is linked to the revenue potential of the practice you’re considering buying.”

That means lenders will be much more interested in your potential as a business owner than how many zeroes are on your current pay cheque.

“It’s more than a tick-box process,” he explains. “Get to know your lender and show them you have a strong vision for

the practice and the soft skills required to run a successful practice.”

### Running from competition

Palmer says buyers can often be put off by practices that are in areas with high competition. However, seemingly under-performing practices surviving in the face of strong competition can often be hiding unfulfilled opportunities.

“You’ve got to look for low-hanging fruit,” says Palmer. “For example, I recently sold a practice that was doing decent numbers in a very competitive area. A lot of buyers were put off by the competitive environment, but they missed the fact that this practice was doing those numbers with no advertising and no website. So, to be holding its own in that competitive environment with no advertising showed that it was a stronger practice than the numbers suggested.”

### Undervaluing goodwill

Goodwill essentially refers to the value of a practice’s brand name and the loyalty of its existing customer base. While the intangible nature of goodwill makes it tricky to accurately measure, it nonetheless contributes significantly to the overall value of a practice.

“Goodwill is extremely important,” says Palmer. “There is often a component of it attached to the existing dentist and the relationships they have built with their patients over time. Keeping the selling dentist on staff for a period of time will go a long way to ensuring you get the value of that goodwill.”

That’s why it’s important to keep the vendor on your side during the negotiation process. Offending them with low-ball offers, publicly criticising their business or clinical decisions, or being otherwise antagonistic could erode the goodwill that transfers to you post sale.

### Ignoring renovation costs

It’s not just the purchase price of the practice your lender will be interested in. You’ll also need to know how much you have to spend on the practice to get it up to your expectations.

“Will you need to renovate the practice to get it up to scratch? How much will you need to spend? How old

is the equipment? When will it need to be replaced? Do you want to bring in new technology? Answering questions like these will show your lender you have a strong vision for the practice and have thought about how you’ll bring it to life,” says Hutchinson.

Doing your homework here will help to win the confidence of your lender, and ensure you’re not over-capitalising on a practice that risks becoming a money pit.

### Losing out on location

Location is an important factor for all businesses, and dental practices are certainly no exception. But Palmer says buyers can run the risk of being too short-sighted when assessing the location of a practice.

“Of course, getting great exposure on a busy street is a big win for any dental practice, but you’ve also got to consider how the location will evolve in the coming years.”

A new shopping centre, train station or major residential development can completely transform a sleepy location into a vibrant hub within a short period of time. Doing your research here can return big dividends. Look into any development applications that may be in process in the location you’re considering. Rising residential property values can also be an indication that the area is changing.

“You’ve got to see the value that’s off the page,” says Palmer. “It’s not just about what is there right now, but what could be coming around the corner.” **Bite**



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