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Why practice transitions fail

You would be surprised how many practice transitions fail, leaving the new dentist disillusioned and the senior dentist's exit strategy in jeopardy. Here are nine reasons why many transitions fail, and strategies to prevent this from happening to you.

1. No written agreement up front

A verbal agreement is not worth the paper it is (not) written on. Make sure there is a written agreement in place before the new dentist sees any patients. The agreement should cover the initial associate period and address all phases of the transition.

2. No deposit

The fact that the new dentist is committed to the practice means absolutely nothing unless it is backed up by cash. If the issue of a deposit becomes a deal breaker, break the deal! Never enter into a transition arrangement without receiving a

good-faith deposit of 10% - 15% of the practice value up front.

3. Associate is asked to purchase own production

Asking the associate to pay for his own production is a great way to destroy the practice transition. An associate will not become an owner if asked to purchase the practice at a value that includes his significant contribution to the gross production. This becomes an issue when the associate has been with the practice for more than two years and has made significant contributions to its success. Don't penalize the associate for being successful by asking him to pay a higher price.

4. Practice is unable to support another dentist

This is a problem for stagnant practices. Co-ownership transition is only worth considering if the practice generates at least \$650,000 annually.

Dental market heats up

The bidding war by eager prospects is not confined to the sizzling housing market. With a large number of dentists looking for practice ownership in desirable locations, such as the Lower Mainland, it should come as no surprise that some dentists have really cashed in by selling their practice for more than the asking price. Certainly most deals are closed with only a small discount off the vendor's valuation.

Here are some factors that fuel the demand for B.C. dental practices.

- Many young dentists who have been starving themselves through their years of dental school are eagerly looking forward to the big pay cheque, which only comes from practice ownership.
- The option of starting from scratch is virtually non-existent unless you

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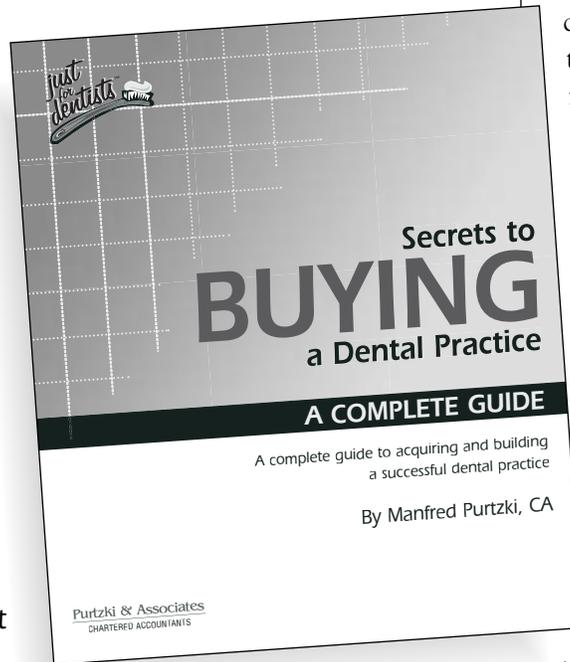
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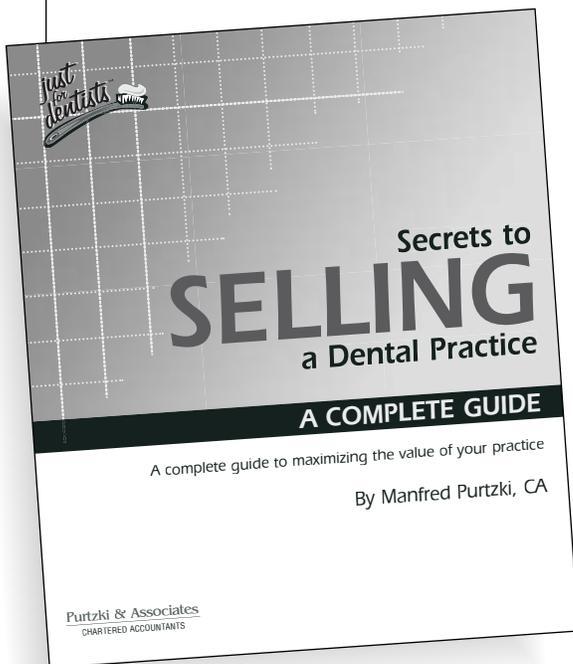
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- ✓ Implement the right transition strategy
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5. Inflated asking price

Don't expect a huge payoff at the end of your career just because you have invested 30 years of blood, sweat and tears into your practice. Remember the uncontrollable law of supply and demand. You also need to consider the purchaser's ability to pay. No matter how large the practice, it is difficult to sell when the asking price is more than \$400,000.

6. Vendor unwilling to share practice management responsibilities

If you are selling a portion of your practice, you must be willing to share a proportionate amount of the practice responsibilities with your new associate.

7. Differences in philosophies

Relationship challenges most often arise as a result of incompatible practice philosophies. Ensure you have thoroughly discussed practice philosophies with interested individuals before you enter into business together.

8. Too many "can-dos" and not enough "must-dos"

When you design a transition plan, don't put too many forks in the road because you may end up going nowhere. Make sure the associate has obligations, rather than options. Firm up your transition plan.

9. Too many lawyers involved in negotiations

If you involve lawyers in the early negotiations of your practice transition, it may be doomed from the start. For a transition to be successful, you first have to create a great personal relationship—don't talk to each other through lawyers.

Winning strategies for transition to group practice

Many transition specialists will tell you that the failure rate of ownership transitions in group practices is as high as 80%. This certainly reflects our experience, as well.

Why do so many transitions fail, and how can you increase the chances of a successful relationship in your group practice? Here are three critical elements that contribute to a successful relationship.

Shared values and philosophies

In my opinion, the number one reason for a failed transition is conflict over personal values and practice philosophies. These values are reflected in how dentists meet professional standards and integrity in their work, how they maintain relationships with patients, and how they deal with staff.

If you start to lose respect for your colleague who is working in the next operatory, if you are concerned that he has let his technical skills slip, shows a lack of concern for patients, only meets minimum continuing education requirements or generally has lost interest in dentistry, then you know it is not worthwhile pursuing the transition to co-ownership.

Written agreement first

Make sure there is a written agreement before you start your associate-ship. The agreement should cover the initial trial period and address all phases of the transition process, including exit strategies for the senior dentist.

It is absolutely vital that the purchase price is determined at the be-

ginning. Many a transition has derailed because the price has not been set at the start of the relationship. Associates are understandably upset when the purchase price is based on a practice valuation prepared after the associateship. The valuation includes the production of the associate, which means that the associate is purchasing goodwill for patients whom he brought into the practice.

Unconditional withdrawal

It is critical that you have a three- to six-month withdrawal provision in the agreement that will allow you to withdraw from the practice without any restrictive covenant or any other commitments.

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are willing to move to an under-serviced or a rural practice.

- Many dentists from the Prairies, in particular Alberta, are moving to B.C.
- Banks are keen to finance practice purchases. The monopoly of the Scotiabank is being challenged by the Royal Bank and BMO. It is now a very competitive market, judging by the unveiling of the banks' own professional programs at the last dental conference.
- The low interest rates have made the purchase of even the high-end practices affordable.

Now is a great time to sell your practice, or to find a young dentist for the associate-to-ownership transition, so that you can get a return on your precious equity.

Practice Opportunities

Campbell River, BC

This well-established, modern, 6-operator clinic, situated in a great location, is seeking a full-time associate. Partnership opportunity is available.

E-mail: dentist@purtzki.com

Victoria, BC

Well-established family practice with 3 operatories; low overhead; excellent location; owner retiring; great value.

Fax: (250) 753-9702

E-mail: victoria_practice@yahoo.com

Ortho Practice Vancouver Island

5 chairs; great location; attractive price; owner will stay to assist in transition.

E-mail:

orthopractice2005@yahoo.ca

Periodontal Practice Metropolitan area

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