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Practice Management Articles

Alternative Ownership Considerations for Dentists

- Lisa Philp, TGNA

A multitude of Canadian dentists are reaching out to us at Transitions Group, with questions, inquiries and seeking confirmation regarding the myths and rumors about the term "**Corporate Dentistry.**"

My goal is to clear up the confusion by outlining the options of a seller to transfer ownership, categorizing the choices of Corporate or "Alternative Ownership Transfer" models available with the questions to ask to choose the right fit and key considerations of self- analysis to decide if it is the right time.

The most common theme of questions and comments about this topic have come in from a range of dentists who have taken the plunge to sell and are looking to share their experience, wondering what optionsare available in the current seller's market, boomer dentists who want or need to continue to work but don't necessarily want to deal with the headaches of the business of dentistry, and current practice owners who have chosen to not progress with the creative ownership transfer choices available in Canada today.

These questions include:
— What does "Corporate" mean?
— Is this the best time for me?
— What changes if I sell and stay on?
— What is the right buyer model?
— How is "alternative ownership model" a win-win?
— Why would I sell my equity now and lose profits of my future?

Some comments from those who have sold to alternative ownership models are:

• "Selling the practice for someone else to manage was the best thing I ever did."

• "I am rejuvenated to come and go to do dentistry and not have to worry."

• "I sold too soon, wish I waited a few more years"

• "I was a rural practice and would not have found another buyer."

• "I needed the lump sum NOW for personal issues and debt pay off."

• "I didn't plan for my retirement, so having money now to invest elsewhere and staying on works for me."

A successful solo practitioner who is 48-years-old, didn't feel like it was the fit for him and sent me this response:
"The corporate model is not right for me, it is essentially an advance of four to five years of hygiene revenue (profit), all while keeping the risk, guaranteeing the revenue and loss of ownership authority and autonomy."

The challenge for all of us who support, advise, consult, and coach you in dentistry is that there is NOT one right answer for everyone.

Each dentist, ownership set up, wealth accumulation plan, practice culture, operational output, demographics, and geographical setup is unique to each individual practitioner. It is important to take the time for you to assess:

(1) Present — where you are today
(2) Future — choose what you want for a new, different and better future?
(3) Past — Decide what part of the past needs to be let go and what you want to bring with you.

Once you are clear, your team of experts (accountants, lawyers, wealth managers, insurance, consultants and coaches) can support you with a customized solution that is the right fit at the right time for you.

Meanwhile keeping in mind a key "dental practice owner fundamental fact" as stated by David Lind, President of Professional Practice Sales, one of Canada's leading dental brokerages:

"Frankly, from a purely financial point of view, the best strategy for all dentists is to work in and own their practice as long as they can until illness, disability or death." Although this is ideal financially, we all know that dentistry has many other facets to consider of when to transition ownership. Things to consider are: stage of career, level of the provider's physical health and fatigue, the need for work/life balance, mental exhaustion of management, and loss of desire to lead the people or the business.

If keeping your practice ownership and continuing to work as a dentist until the end is not a plausible option for you, there will always be the traditional model available of "sell and go" or "sell and stay with reduced hours". This process involves evaluation, listing and sold via a broker expert. Once the sale happens, the previous owner leaves, retires or stays on with reduced part-time hours to support the new owner.

One other option available for the dentists who still want to practice dentistry is the "Alternative Ownership Transfer" or what most call "Corporate Dentistry." These models and companies are distinctively different and geared for the dentist who wants to stay to deliver dentistry, give up ownership now and have an offsite company take over the non-clinical responsibilities. This option may be enticing to many due to the regular comments we hear from dentists at all stages of career.

- "If I could just be the dentist, I would be much more patient centered and productive."
- "It's not the dentistry and patients that are the issues… It's all the other stuff!"
- "I just want to do the dentistry with no headaches." Would hiring an office manager solve the issue? Possibly.

For simplicity purposes, I have categorized the hundreds of different buyers for alternative ownership in Canada into three key categories.

1. INVESTOR

The buyer is an individual investor who wants to own more than one location with the seller staying on so they can have multiple locations to operate. They are usually lone rangers who are purchasing based on solo funding from lending institutions, up to a maximum amount of $5-6 million.

2. CONSOLIDATED GROUP

This type of buyer is two to ten dentists who have joined together, leveraging their combined funding power to purchase practices. This group generally has less than 25 locations nationally, and has sometimes risen outside capital.

They are not quite big enough to carry the overhead of a full functioning centralized head office. Their management infrastructure is often one of owners or office managers who travel to various locations for management support. Their expectation is for the seller to stay on as an associate dentist, and to maintain their production with a hope of growth, mainly due to changes in focus (just doing the dentistry) while being released of the other non-clinical facets of managing their practice.

An example of one of the dozen choices of a consolidated group is Fine Touch Dental.
Andy Valliant, principal of Fine Touch states:
"Groups like Fine Touch Dental allow dentists to work the same way they always have for as long as they want. Why not take advantage of high market rates and premium working conditions without worrying about the day to day issues that are part of running a practice?"

3. CORPORATE MANAGEMENT COMPANY

This type of buyer is a combination of dentists and business professionals who have set up a large corporate infrastructure with deep pockets of outside funding dollars. They have more then 40-50 locations nationally, and are currently privately owned. Their business model is large enough to support a centralized head office with an
executive team. This team handles: human resources, bookkeeping, financial reporting, industry relations, branding, and operational ideas, with some form of business intelligence solutions.

Examples of companies like this in Canada are: Altima Dental, and the newly formed Dental Corporation. The alternative ownership transfer/corporate models are seeking dentists who just want to practice dentistry and are okay letting go of ownership perks, leadership, authority, drained by the human resources team, daily management, payroll, lack of growth with new patients, or have challenges making tough decisions about business.

All models require two key realities:

1. The seller must be at the prime of his/her career and continue to produce chair-side dentistry while maintaining the historical production purchased in the value and intention that growth will occur due to a refreshed narrowed focus on restorative procedures and hygiene exams.

2. The seller is ready to let go of their ownership, responsibility as a boss, human resources, expense management, marketing, technology, compliance, business intelligence and operational management.

Regardless of your situation, some key questions need to be asked about which buyer's model is the "right fit" for you.

Consider the following:
— Which model of the three matches you the most?
— Who are the principals involved in the new company?
— What's their understanding of dentistry as a health care niche?
— Who is/are the owner Dentist?
— What is the company's purpose and vision?
— What is the amount they will pay you today for value?
— What are the expectations of you in the future?
— Are you accountable if revenue declines and how?
— What HR and management structure do they have in place?
— How will they help you manage the "change" process?
— What happens to the team members?
— Who will the team report to for answers?
— What will change for the practice brand?
— What will change for patients? (Facility hours, financial policies etc.)
— What does 5-8 years from now look like?

Once you learn about the options available, it is then time to see if it is the “right time” by analyzing key considerations that involve: knowing the Canadian dental market with a current oversupply of dentists, saturation of urban centers and reduction of patient to dentist ratio.

Analyze your current financial situation of personal cash flow needs, practice value amount and your current net worth. Consider your plan in place for retirement as the national statistics show that 60 percent of business owners aged 55 to 64 have yet to start discussing their exit plans with their family, business partners and professional
trusted advisors. (2012 CIBC report authored by CIBC deputy chief economist Benjamin Tal.)

Trust and estate practitioner and expert,
Peter J. Merrick, BA, FMA, CFP,TEP, FCSI, president of Merrick-Wealth.com, an exit planning firm in Toronto, states:
“The stakes are too high from these findings for us to bury our heads in the sand. If these businesses don’t receive the proper leadership and stewardship in their succession planning, we could witness as much as a 25 per cent contraction in our economy.”

Other considerations involve asking, “Are you ready to let go of the helm of what you’ve built? Are you open to changes that are inevitable? How will ownership transfer impact the team, patients and facility?”

This is and will be the biggest decision a dentist makes in their career and deserves much thought, analysis and planning to make sure you make a choice that is the “right fit “and “right time” in alignment to your customized situation.

Accompanying this article is our “Alternative Ownership transfer” worksheet covering all questions and critical considerations before making the decision, email us at info@transitionsonline.com or call our office at 1-800-345-5157.
We look forward to supporting you with finding your “right fit.”

Lisa Philp is President of Transitions Consulting Group, a full service coaching company

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