



# Buying & Selling: Past & Present

When asked at a recent ROI Corporation retreat what aspects of buying and selling dental practices had changed the most, everyone unanimously agreed on one thing: the process has become much more sophisticated! Here is a list of the top five reasons contributing to the increased complexity of dental practice sales:

## 1. The Baby Boomer Mentality

Baby Boomers — those individuals born between 1946 and 1963 — seem to be a more educated group with respect to business than the previous generation of clients. They have greater access to information, including dental journals, and the Internet and are generally better informed. However, we also agreed that this easy access to seemingly unlimited quantities of information may be causing confusion among our clients as to the quality and nature of the advice they've received. We are continuously observing an emerging client base of Baby Boomer dentists who themselves may be attempting to learn too much, too late, about the rapidly evolving business of selling a practice.

## 2. The Rapid Increase in Sale Prices

During the period 1974 to 1994 practice sale prices nearly doubled, and during the period 1995 to 2005, prices doubled again — but in just half the time! The emotional aspect of the transactions has become much more intense, given the magnitude of some of the numbers involved, and we assume that higher sale prices are adding to the length and the style of negotiations. When younger dentists are being forced to pay these escalating prices, without having received much in the way of formal business training, it's easy to see why they are more reluctant to enter ownership.

## 3. The Involvement of Third Party Advisors

Most dentists seek advice from a trusted advisor — it's prudent to do so. Our former clients usually turned to such an advisor to help them through the process. Now, due to changing legislation and regulatory issues, the increase in sale prices and the intensity of the transactions, a dentist is quite likely to turn to several third party experts for advice. While we, as a third party ourselves, appreciate this trend, we have also noted that the use of a single trusted source or specialist, familiar with dental practice sales, has diminished, and many of the newer advisors are not experienced in the unique nature of dental practice sales. This unfamiliarity means that some dentists are reluctant to act decisively, something you must do when negotiating. The addition of more third party advisors to a transaction will usually increase the time needed to complete negotiations and often increases the costs for all parties. Occasionally, this "too many cooks in the kitchen" scenario may reduce the likelihood of success.

## 4. The Focus is on Staff


The No. 1 issue that concerns dentists who are buying or selling is the employees. My father, Roy Brown, (founder and chairman emeritus of ROI Corporation) mentioned that in the 1970s dentists felt more in control of staff and rarely feared retributions when selling. Today, it's rare that we do not spend considerably more time discussing the Employment Standards Act (ESA). Most dentists have a serious concern that they could be accused of wrongfully dismissing staff. We now advise our clients to consult with an employment law expert before committing to any actions regarding their employees.

## 5. The Desire to Continue Practising Part-Time

Many of our clients inquire about practising part-time after a sale has been completed. They ask about locum or associate opportunities on an increasing basis. We suspect this may be due to the declining age of the dentist when selling, especially when many are in their fifties and simply wish to exit ownership, not dentistry. Accordingly, they would be happy with a part-time position. Not all of our clients will retain their license after the sale, but more and more are doing so.

In the typical sale, the buyer will ask for a restriction as to the location in which a seller may practice. This is fair and it is customary for most business sales. However, we notice that some wish to sell, and then continue to work in close proximity to the former practice — thus causing a buyer to be very concerned for the continuity of the patient base being acquired. We submit that it's fair for a seller to continue in dentistry but that he or she must be prepared to work well outside of the previous community in order to sell for the highest fair market value. Most transactions contain a restrictive covenant of five to 25

kilometres from the location being sold, depending on the population size and demographics of the community. If a seller wishes to work within these customary ranges he or she should be aware that a buyer may offer a considerably lower price. This is what the market dictates.

In conclusion, when planning the purchase or sale of a dental practice, my father, my associates and I agree on one final piece of advice: plan ahead by one to three years and know what all the parties to the transaction expect. The process of selling has become far more sophisticated over the past 10 years and the many third parties who are active in this market have a longer learning curve to develop expertise in the art of selling a dental practice. You must do your homework! 

*Timothy A. Brown is the President & C.E.O. of ROI Corporation & ROI Capital, companies that specialize in dental practice appraisals, brokerage, consulting, locum placements, associate-ships and practice financing across Canada. Timothy may be reached at 905-820-4145 or [timothy@roicorp.com](mailto:timothy@roicorp.com).*