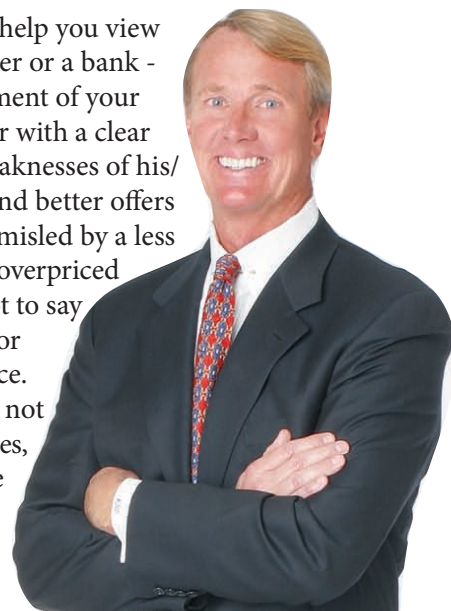


# YOUR PRACTICE PRE-SALE TO DO LIST

It is important to keep in mind the fact that your practice, which has numerous personal components, is a business – an economic venture – that has a value based upon what it is today and not what it might be tomorrow.

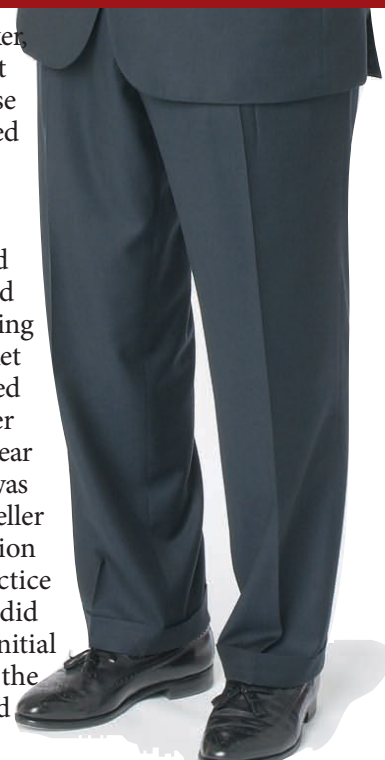
The checklist following is intended to help you view your practice in the same way as a Buyer or a bank - as a business first and a personal testament of your dental skills second. An objective Seller with a clear understanding of the strengths and weaknesses of his/her practice will always receive more and better offers than an unrealistic Seller that is being misled by a less than reputable practice broker that has overpriced the practice to get the listing. This is not to say that there is not a significant personal or personality component to every practice. There is, but to the extent that we have not yet figured out a way to clone personalities, we must rely upon the tangible and the objective representations that are the consequence of your dental skill and your personality – the business.



## TIPS FOR SELLERS

*As a dentist, you work hard and juggle an enormous number of responsibilities, both clinical and entrepreneurial. You are intimately involved with every aspect of your practice. This can create a distorted perception of what is realistic regarding the ultimate sale of your practice.*

In my 30 odd years as a dental practice broker, I have seen many dentists suffer significant financial loss and personal indignity because they selected a practice broker that overpriced the practice only to ultimately sell the practice a year or more later below market value, because the practice earned the reputation as an overpriced lemon. A good example is a dentist, in his 70's, that wanted to retire. The broker gave him an initial asking price that was at least 50% above the market value. The Seller made it clear that he wanted to sell as he was tired of working. The broker assured him that the practice would sell. A year and two price reductions later, the practice was now at fair market value, but because the Seller was slowing down and the market perception was that there were problems with the practice (because if not, it would have sold), it still did not sell. Two and one-half years after the initial broker's listing another broker finally sold the practice for the value of the equipment and nothing more.



The total value of the practice had been lost due to a broker's misrepresentation of the value and a Seller that sought an unrealistic selling price.

It disturbs me to see hard working doctors endure such avoidable losses... even more so when their retirement plans bear the brunt of the damage. You must be grounded and get honest, objective advice regarding the value of your practice. This article is intended to help you avoid those losses.

The following suggestions are by no means the textbook for all practice sales, but each one will help you to focus on the business aspects of your practice and help you enhance those components by clearly representing them. The goal is to make your practice as financially strong and “funding friendly” as possible.

**1** If you have multiple practices and do not intend to sell them all at the same time, separate the practices by creating distinct corporations and keep the income and expenses for each office strictly separated. Do this at least one full tax year, if not two, ahead of your anticipated sale date.

**2** For at least the last full tax return prior to the anticipated sale of the practice, keep your non-practice expense deductions in expense categories that can be readily identified as not related to expenses required to generate the income shown. Have your accountant or, using your Quick Books/Quicken program, clearly show every check in each such category in your general ledger to allow for easy verification.

**3** Maintain your bank statements for at least two full tax years prior to the anticipated sale date.

**4** Make sure that there will be a lease available to a buyer with at least a five year term as of the sale date. This does not mean that you should sign such a lease, as to do so will, in most cases, result in you becoming a guarantor of the buyer’s performance of the lease obligations. If your landlord requires you to

sign a new lease or there is an expectation that the landlord would seek to sign a new lease with someone else for your space, then sign the lease with a conditional release provision that in the event of the sale of your practice to a buyer reasonably approved by the landlord that you will be released of all future liability for the lease.

**5** Hire and maintain staff that will remain with the practice after the sale. Specifically, if your spouse works in your practice, replace them with someone that will be trained in those duties and will stay



with the buyer. If you have a small staff, it is always a good idea to have personnel cross trained so that if one leaves the other knows how to perform the other’s job. Staff retention is important as the staff can make or break a smooth transition; however, outrageously overpriced staff are a drain on profit and will be difficult for a buyer to retain.

**6** Maintain your production. Practices are valued based on an income stream. If the “stream” becomes a trickle, the sale price will be equally diminished. Do not slow down in anticipation of retirement. Keep the production up, but do not over treat or over diagnose either. Big spikes in production/

collection figures in the year before a sale are viewed with great suspicion by buyers and lenders alike.

**7** Keep accurate records of the number and nature of any referrals to specialists as this will allow a buyer to determine the potential for additional income if they perform those specialty procedures. Keep good records of the number of new patients per month and the source.

This is a good idea even if you are not planning to sell as it gives concrete feedback as to the effectiveness of any marketing.

**8** **If you have a single hygienist**, especially one that has been with the practice a long time and is older, consider offering a bonus to that person for staying a minimum of six months with the buyer after the closing. Hygienists often have the closest relationship with the patient after the dentist. They can be critical to patient retention after the sale.

**9** **If you have a high accounts receivable balance**, work on getting the past due accounts collected or write them off. High account receivable balances indicate a poor collection history or negligence at the front desk, neither benefits a sale.

**10** **To minimize ordinary income taxes**, sell earlier in the year rather than later in the year.

**11** **Consider cosmetic improvements to your office**. Do not invest in new equipment as the cost will not be recaptured in an increased sale price, but if your office could use a fresh coat of paint or new carpet do it before listing the practice. Also, if your dental chairs or reception room furniture looks tired, have them reupholstered. These are inexpensive items that enhance the appeal of the office and show buyers that you care. You might also notice that your staff and patients will feel the same way. It may sound simple, but brightening the appearance of an office makes everyone feel better, including buyers.

I have built my business with the same approach as my father before me – on honesty and integrity. I appreciate the fact that dentists will rely upon the information that I provide to guide their retirement planning and life style post-dentistry. I try to be as objective and realistic in advising them as possible. I would far prefer to have a Seller be thrilled because they received the higher end of the price range that I gave them than to have them complaining about how they were misled about the value and ended up selling well below the value they expected.

The phrase “win-win” is overused, but I believe that with the sale of a dental practice it is possible. With my background in psychology, I think that I am better equipped to match buyers and sellers than any other dental practice broker working today. The successful pairing of buyers and sellers is critical to a mutually beneficial practice sale and transition.

If you are looking for a cheerleader to pump up your ego to make you feel better about yourself and your practice, I am not that guy.

*If you want straight talk about what you can expect from the sale of your practice and a broker with a history of over 1,800 successful practice sales to date (and not one lawsuit even threatened in the bunch), call me. Performance speaks volumes.*



Kurt Skarin has been the president of Lee Skarin and Associates, Inc. for thirty years. He received his doctorate in psychology from Tulane University in 1976 and his law degree from Loyola University in 1983. He has, personally, completed over 1,800 dental practice sales and has been qualified as an expert in dental practice sales in the Superior Courts of Los Angeles, Orange, San Diego, Riverside, San Bernardino, Ventura, Santa Barbara and San Luis Obispo Counties. Lee Skarin and Associates has been assisting dentists for over fifty years, designing offices and selling equipment in the 1960's and selling dental practices in the 1970's and beyond.



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