IN SEARCH OF DENTISTRY’S HOLY GRAIL

Most dentists search for it all their lives… BUT unfortunately only 5 out of every 100 will ever find it!
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INTRODUCTION

Since 1988, PARAGON consultants have worked together to analyze the needs of dentists and provide assistance in the area of purchasing, selling, merging and consolidating professional practices. PARAGON’s other unique services include appraisals, contract services, equity associateships, partnership buy-ins, and other co-ownership and office sharing programs.

PARAGON recognizes that a professional practice is a unique entity... a reflection and extension of the personality, philosophy and methodology of the owner-practitioner. Locating the right party, to replace or to closely work with the current owner-practitioner, requires a special understanding and sensitivity of the needs of the profession.

Attorneys, accountants, business brokers and other “advisors” have little, if any, experience in handling the complexities involved in the sale or merger of a dental practice, nor do they have access to the various programs that PARAGON has worked with over the years. PARAGON consultants identified the market need years ago, developed the unique concepts, programs and the expertise necessary to complete a successful practice transition, both short and long-term.

The adversarial posture assumed by the parties in the process of negotiations typically results in failed attempts to transfer ownership in a professional practice. The “Win/Lose" philosophy almost always prevails. It is our belief that “fair" can be determined by a knowledgeable, objective third-party representing both parties to the transaction; BUT fair can not be reached through “negotiations.” The true nature of negotiating is that one party is trying to achieve a financial advantage at the expense of the other party. Negotiations means “Win-Lose.” This has always been unacceptable to PARAGON and was responsible for PARAGON developing its consulting business based on the philosophy of “Equitable Transactions through Dual Representation”.

PARAGON adopted this equitable philosophy as the cornerstone of its business. It is our honest belief that most healthcare professionals want to conduct business in a non-adversarial, fair environment that results in both parties completing an equitable transaction. Unfortunately, prior to having access to this fair and equitable concept, doctors were forced to hire attorneys to “defend them” against being taken advantage of by the other doctor’s attorney. Of course, the typical legal posture of the best defense is an offense was taken so both attorneys would come out swinging at each other until one got the advantage over the other. Incidentally, the attorneys get paid regardless of which side wins. This adversarial posture is just not acceptable to PARAGON. The sale of a dental practice is all about relationships... not “bricks and mortar”. The negotiated process is too expensive and offers only limited results. Experience reveals that less than 50% of negotiated deals actually close!

PARAGON believes that both parties in a practice transition simply want to feel confident that they are represented competently. We believe that both parties
honestly do want a transaction to result in both parties achieving an equally fair, win-win situation. Unfortunately, it is our experience that this equitable result is rarely achieved when the transaction is left in the hands of attorneys and accountants. We believe that achieving an equitable transaction can be better served by having a well-informed, vastly experienced and competent third-party representing all parties for the sole purpose of completing a successful transaction. A PARAGON transition consultant is trained to be that unbiased third-party.

PARAGON's "Dual Representation" approach coupled with our vast experience have enabled us to develop a tremendous reputation for professionalism, fairness and positive financial results throughout the dental profession. Our closure rate since 1988 has been virtually 100%!

The following fairly describes our base philosophy and the positive results achieved.
THE HOLY GRAIL

The Holy Grail of medieval folklore was the sacred cup which Christ used at the last supper, and which Joseph of Arimathea later brought to Britain. It was believed to have mystical powers, and its exact whereabouts was unknown; thus the Grail became the object of a life long pursuit by British noblemen. Obtaining it was the consummate reward for a pure life. In the legends of King Arthur, we find the Knights of the Round Table charged with the mission of seeking the Grail. Their quest would not be easy, as only one who was totally pure in heart, one who had lived a sinless life, would be able to win the prize. Of all those who embarked on the journey, only the noble Sir Galahad proved worthy to eventually obtain the Grail and experience its wondrous powers. One by one, the others wearily made their way back to Camelot, wiser perhaps, but discouraged and worn out from the difficulty of their journey.

After many years of counseling with dentists, we are struck by the parallels between a career in dentistry and the legendary quest for the Holy Grail. There are so many young doctors with such high hopes and dreams, such noble aspirations, yet the path to realizing those dreams can at times seem so very difficult, and so very few actually make it happen. At the other end of the journey, we see far too many dentists unable to retire financially; hanging on emotionally and physically; telling themselves if they can make it just one more year; then they'll quit and really start living. Some of these guys never do; they die first. The irony of it all is that the difference between those who make it and those who don't is really quite simple; so simple, perhaps, that many dentists never see it.

In suggesting that there is in fact a Holy Grail for dentistry, I do not presume to define it in terms other than the manifestations that naturally arise in the lives of those who obtain it. Those who find it know they have found it, however their individual descriptions of it may vary widely. Typically, however, these dentists live rich and fulfilling lives of both service and achievement. They are at peace with their decision to become a dentist. They experience a continually renewing interest in their skills and the human beings on which they ply those skills. A productive and harmonious staff of like-minded and committed people surrounds them. Their practices abound with quality patients who are drawn by the eminence of attention, care and respect. These select few dentists also experience a rare level of financial and economic stability as well as a sense of freedom. They therefore continue their labors in dentistry in their later years for no reason other than that they truly enjoy it. When they no longer enjoy it, they have the wisdom, strength and financial wherewithal to move on to the next phase of their lives.

These highly successful dentists have valuable options, and with these options come peace and real control over the future. You were not born a dentist, and you do not have to die a dentist. The pursuit of dentistry's Holy Grail is the quest to someday get out of dentistry alive... with your marriage, your finances, and your health intact. It is an unfortunate reality that far too few dentists actually obtain the Grail. This publication sets forth the premise that every dentist is in his or her own personal search for that
elusive cup, and that there are but a few narrow paths that lead to it. Dentists who
discover those paths (either by chance or with guidance from others) will find joy and
satisfaction from their career choice as well as peace and harmony in their personal
lives.

Dentistry is a very tough profession! Probably the toughest I have ever been associated
with. Dentistry can also be an extremely rewarding profession for those who uncover
the right path to financial and emotional freedom. This publication is simply an attempt
to help maneuver the young dentist in the right direction so he or she does not have to
make the same mistakes that others have already made. Mistakes are costly both from
a financial and an emotional basis. The information contained herein is the result of
over a decade of working closely with thousands of dentists and gaining a real
understanding of their problems, their successes, their joys and their frustrations.
IF I WERE A DENTIST

I am not a dentist... and I will likely never be a dentist. But, in my consulting business I too have experienced my own personal search for the Holy Grail. All businessmen and women do, even if they don't recognize it as such. They may call it the "Pursuit of Excellence" or "What They Never Taught You At Harvard Business School", but all these approaches are variations on the same familiar theme: people want to create and work in an environment in which everyone shares the bonds of a common purpose, a place where they can have their personal and financial needs met, while serving their customers in the very best manner possible. Making that actually happen in real life is unfortunately rather rare. The Grail is an exceedingly slippery object. That's why people like Tom Peters, George Gilder, Stephen Covey and others have made huge amounts of money writing and lecturing about those select few who really have achieved the dream, and how they did it.

I must admit that although at times I feel like we are in possession of the Grail here at our company, there are other times when it seems like a distant dream (I suppose some of us are never satisfied). But having caught just a glimpse of the Grail from time to time, I understand what it means to actually realize the quest for meaning and fulfillment from one's labors, and for the present context, it helps that I also know something about the business of dentistry. Not long ago, one of my clients approached me with some questions about his career path once he gets out of school. He said, "You run a fairly large service business, and you have said your work is similar in many respects to that of us dentists, so tell me, if you were a dentist, what would you do? How would you manage your career?" I thought that was a pretty good question. What would I do? I discovered in my response to him that placing myself directly in his shoes was a useful metaphor through which I could present a lot of information in a concise and straightforward manner. After all, I constantly hear dentists bemoaning the fact that they are not good businessmen, and that they have no real business training. So why not simply respond as a businessman looking through the eyes of a dentist?

If I were a young dentist, I would first seek to understand the big picture. The entire dental industry is but a fraction of the 14% segment of our total economy known as healthcare. As we saw a number of years ago when the Clinton administration attempted to reform the healthcare system, there are often forces much larger than any dentist or group of dentists that have the potential to dramatically impact the future of every dentist in America. I would therefore try to become more aware by asking what macroeconomic forces are at work today that will impact the future of dentistry? Should I be concerned about them? What will practice be like in the next century? Is it reasonable or safe to assume it will be like it is today ten years from now?

On a different scale, I would try to get very clear on exactly what business I was in. It has often been observed that the railroad companies would today still dominate our transportation industry if they had viewed themselves as being in the transportation business and not the railroad business. By narrowly defining themselves and their
primary functions, they missed major opportunities in trucking and the airlines. In the process they sealed their fate. So I would ask, what is dentistry, really? Is it a profession? Is it a business? Can it be both? How should I think about my work and my practice? What kinds of services can I deliver that will distinguish me from my competition? How can I let people know how special we are without sounding like all the rest? I would wonder if there is anyone out there paying attention to these things? Is there anyone who knows the answers?

Once I had a clear understanding of the big picture, I would use it as a context or framework in which to plan out my career. From my inquiries I would come to understand that dentistry is in fact a business, a business that will get very good in the years ahead for those who plan and position themselves for the changes that are coming. As with any business, I will need more than just a location, more than just the right equipment; I will need customers who will pay money for my services. I will need to take in money, pay my bills, and make a profit. Yes, I am about to spend my life profiting from the oral cavity misfortunes of my patients. Eventually, I would come to understand that by acknowledging that reality, I don't diminish in the least my stewardship as a professional. This is true because I know I can make a difference. I can actually make people feel and look better. I would come to know that I could, as a businessperson, still serve my patients in a caring and loving manner, while at the same time paying my bills and making a profit to support my family. It really is OK for me to tell patients exactly what I would want done in my mouth if I had their situation, and it is OK for me to charge enough to make a profit on that service. As a dentist, I would marvel at the number of my colleagues who never quite come to grips with that issue, and by failing to deal with it, consign themselves to a daily torment of anxiety and guilt.

So, gradually I begin to understand that I may have gone to dental school to become a dentist, but I graduated to become a businessman or woman. Once I get over the trauma of realizing that I know virtually nothing about running a business, I begin to realize I may need to rely on others to help me find the way. The first thing they will do is help me define what kind of a dental business I wish to have. This is where I begin to ask questions like where I will get my patients. What kind of patients (fee-for-service, PPO, capitation, etc.) do I want to work on? What kind of a staff do I want? How much money do I want to make, and what price am I willing to pay to make it? What are my services really worth? What is my time really worth? Etc. Etc. This is where I come face to face with the stark reality that if I really want to make the most of my time in dentistry, I will need fee-for-service patients, and lots of them. This is also the point when I realize that fee-for-service patients are indeed a precious commodity and I can literally waste years accumulating these quality patients one by one. If I want to be the dentist of choice for a large group of people who desire the kind of dentistry I wish to provide, I will have to first receive permission from those who control the access. I will have to acquire an established practice.

Purchasing a practice is a story in and of itself, and it will be the focal point of a good portion of this book. But, one thing I would learn very early on would be to get good advice from people who really know what they are doing. There are just too many
business, legal and financial issues which, as a dentist, I simply do not understand. Unfortunately, I would soon realize that my attorney and accountant don’t understand them all either. They know some things, but they cannot tell me how to keep over 95% of the patients coming to the practice after the sale, or whether certain members of my staff are really doing the job. They really can’t tell me what I want most to know—Is this a good deal for me, and should I do it? That is a question that requires direct experience in the field of buying and selling companies. That is the advice I need most. After all, the best businessmen in the world hire outside investment banking expertise when they buy or sell their companies. They would never dream of going it alone.

Why shouldn’t I do it right? Can I really afford a $200,000 mistake?

Once I have acquired a practice, I find I am immediately confronted with issues for which I have little experience and virtually no preparation. Motivation, leadership, vision, expectations, OSHA, taxes, marketing, depreciation, amortization, FICA, FUTA, case presentation, recall, liability, pension plan, restrictive covenants, rollovers, etc., have now become part of my dental vocabulary, along with handpiece, amalgam, and occlusion. Some once familiar terms take on new meaning. When someone says overhead I no longer look up. And I learn that the most important impressions are not necessarily the ones I learned to take in dental school. When a government inspector shows up one day and levies a fine for noncompliance with ADA regulations, I learn that ADA doesn’t just mean the American Dental Association. It is a bewildering amount of information and skills that I must master. Now I am beginning to understand why so few of my classmates will ever make it through emotionally and financially intact. I begin to realize how much I don’t know. I begin anew to seek someone who has been there, and who can provide clear and meaningful guidance and direction. As a businessman, I would look for someone or some organization that had a verifiable track record of success in teaching dentists like me how to find the Grail.

Once I found that person or firm, I would cultivate a relationship with them whereby I could derive every last ounce of information possible that they possess. I would learn not only what to do, but why it works better than what we used to do. What is not self evident, I agree to take on faith and try it anyway (as long as it isn’t unethical or immoral). Eventually, I see why some approaches work so much better. As I learn to build trust and loyalty among my staff, they too would experience a sense of renewal, and become focused on our common purpose. Over time I would come to realize the true value of the mentoring and consulting I received. This value is not measurable in cold hard numbers (even though the numbers have dramatically improved), for who can assess the value of achievement, of harmony, and of the shear joy and satisfaction that I now feel.

As the years pass, I begin to make some additional observations. I have peaked out, emotionally and financially. My revenues are good, but they reached a plateau long ago. My goals have become responsibilities. Now the responsibilities are running my life. Is this all there is? Is this what I am going to do now for the next 15 or 20 years? I just performed my 10,345th MOD, and frankly, it wasn’t the same thrill as it once was. My
neighbors who likewise own their own businesses seem to be able to take more time off. They actually take vacations without fretting over the loss of revenue. Somehow they have figured out how to be independent of the revenue producing functions in their business. But alas, as a dentist I am consigned to make my living with my own two hands. I have to be there to produce the income, or it just won’t happen. As a businessman, I begin to ask questions. Is there any way to make money in dentistry without being in person to do all the work? Has it ever been done? Does anybody know?

Then one day I get a call from a classmate. He says his income has practically doubled in the past year and he isn’t doing any more dentistry now than before. He claims to be taking home 70% of what he produces. I say I’ve never heard of anyone taking home that much. He says he bought a practice and merged it in to his. The older doctor brought all his patients and does the work just like an associate. The excess income from these additional patients makes my classmate extremely profitable on the work he does on his patients. He can take more time off now, because someone is still there generating income. And when the older dentist is ready to retire in 3-5 years, all of those patients stay with the practice. He says that buying a practice was his insurance against the inroads of managed care. With the stroke of a pen, he will add over 1,500 fee-for-service patients to his practice, yet from the very first day he will earn a sizable profit from the acquisition. Could this really be? Is this really possible? Is this one of the secrets to success that less than five percent of all dentists ever understand? But, I already bought a practice? Why buy another one? Maybe I’m the one who should sell my practice and become the associate? Again, I search for someone who can help me decide what to do and how to go about it.

If I were a dentist, I would focus on acquiring patients through practice mergers. I would find someone who could help me acquire these patients and merge them into my practice… and I would do this every chance I got. In over 15 years of financial consulting, I have yet to find a safer, more profitable investment than a dental practice. Not in high tech growth stocks. Not in pharmaceuticals. Not in real estate. But in dentistry! We presently have dentists who have purchased two, three, as many as four practices and merged them together into very profitable enterprises. They consistently experience the same kind of results described above. Practice mergers are absolutely the best-kept secret in the business of dentistry.

I am constantly amazed at the way in which dentists will brag about their investments in real estate, or gold futures, or mutual funds which have yields in the 10% - 20% range, yet turn their nose up at an opportunity to acquire and merge a practice with a return on investment in the neighborhood of 150% - 200%! Moreover, they have virtually no control over the outcome of their passive investment portfolio, yet they can have a tremendous impact on what happens in a practice acquisition.

At such time as I could determine that I had more potential in my practice than I alone could handle, I would hire a consultant to help me bring in an equity partner. I would have nothing of uncommitted associates in my practice. As a businessman, I
understand that the responsibilities of ownership bring with them a commitment and sense of duty that no associate can comprehend. I would treat my new partner fairly, and I would make sure he or she knew of my commitment to them and their success.

Eventually, I would sell the remainder of my practice to my partner, as previously arranged at the time we entered into our initial agreement. I would then continue to treat my favorite patients, working when I wanted to, doing as much production as I desired, until I was ready to move on. When I hung up the handpiece for the last time, it would be without regret. That’s what I would do if I were a dentist.

As dentistry moves rapidly into the next century, many things will change. The one thing that will surely happen is that fee-for-service (FFS) patients will become more scarce and more precious because of managed care. I expect every practice to continue to experience a contraction in the number of fee-for-service patients in the years ahead. However, the higher quality patients will not tolerate the capitation experience for long. They will eventually seek a new practice to visit. There will be a growing need for some dentists to remain available and focused on rendering only the finest possible service to these patients.

Of course, some dentists will elect to jump on the managed care bandwagon, and they too will carve out a niche wherein they can survive. If the medical field is a leading indicator, more dentists will band together to form group practices, just as their medical counterparts are doing today. The old paradigm of the independent solo practitioner will begin to fade, and new methods of delivery and compensation will arise. Those who prepare now by shoring up their patient bases through mergers and acquisitions will be those also in position to prosper in the new environment… whatever its final form eventually becomes.
THE SEARCH

This year another set of fresh faces will obtain diplomas certifying them qualified and competent to practice dentistry. To this new phase of their journey they bring energy and enthusiasm, hopes and dreams. Most have high expectations of earning substantial incomes, working four day weeks, being their own boss, and finding joy and satisfaction from their service to others; something we like to call the Holy Grail of Dentistry. All of them arrive in the wet finger world of private practice with certain expectations about what it will take to achieve their goals and obtain the Holy Grail. But sadly, as with the fabled knights of King Arthur's court, many of them are soon disillusioned, and only a few will actually obtain the prize.

Look around you at the day-to-day real world of dentistry. Notice the number of other dentists; each of them vying for his or her piece of the dental pie; each of them a small little island in the vast ocean of commerce, striving to attract new patients, keep existing patients, ward off PPO's, HMO's and capitation plans, keep their staffs motivated and satisfied, and make enough money along the way to support their family and put something aside for the future. As independent (and often isolated) businessmen and women, dentists don't always know how or why a few of their colleagues succeed at this real-world challenge better than others. They marvel that some of the lesser students from their graduating class now have incredible practices, while they, despite all their best efforts, continue to struggle.

If we survey graduates in the same class from any dental school in the country we find this same phenomenon. Seventy-five or eighty dentists with the same degree, from the same school, doing much the same clinical work, working about the same amount of hours, yet some are earning over $250,000 per year while others are barely making $75,000. As early as three or four years out, some of these young dentists will already own substantial practices with plenty of fee-for-service patients. Their incomes will be well into six figures, and they will have time to travel, to golf and to spend with their children. They will already be setting aside significant amounts of money for their future, and by the time their incomes and interest in dentistry peak out in their mid to late 40's, they will be financially free to pursue a wide variety of options. But they will be the minority.

The ADA reports that only about five percent (5%) of dentists are able to retire comfortably by age 65. Years after graduation, most dentists from your class will still be wondering how the others do it. Four or five years out, many will still be gutting it out in startup practices, hoping patients will show up before their bank line runs out. Most will still be associates, hanging on and waiting until their host decides to let them own a piece of the pie; waiting for their turn to get back as much as they have put into their career.
Why does this happen? Why are some dentists so much more successful than others? After almost fifteen years of first hand experience, we can summarize it in just two words: willingness and knowledge. And in that order.

Willingness is an attitude. It is what we call an enabling or empowering attitude. It is that quality which allows for everything else to happen. Willingness is being willing to accept the possibility that you don’t really know what to do. It is being willing to accept guidance from others. It is being willing to accept and take risks. It is being willing to make and keep commitments. Yes, willingness is an attitude. It is the attitude of success.

Contrast that with the young doctors that come out of school thinking that somehow their dental diploma has someway imbued them with the answers to life’s great questions; who inwardly believe that they are different than their predecessors; that the business part is easy or just plain common sense; that their particular abilities will allow them to beat the odds. They really believe that their associateship will actually work, because they alone know the secret to structuring the world’s greatest associateship; they know how to build the perfect practice from scratch in less than three years; they know just where to go for financing; and finally, they know the secret to attracting and keeping vast numbers of quality fee-for-service patients. They, of course, know so much that they don’t need anyone else to show them.

This latter description is also attitudinal, and to one degree or another, it plagues way too many in the dental profession. If we really want to know why so many dentists wallow around in mediocrity, it is because so many of them suffer from this mental malaise. However, those who are willing to be open minded; who are willing to be instructed in the art of business as well as the art of dentistry; who are willing to reach and stretch beyond themselves; they are the ones who will make it through to the other side with their lives, and their families, and their finances intact. They are the ones who obtain the Holy Grail. Willingness is the key.

Let’s suppose for a moment you are willing to do whatever it takes to make your career in dentistry the very best it can be. The question now becomes, “What does it take?” We know from experience that there is virtually no correlation between clinical perfection and practice success. Some of the best clinical dentists we know experience high stress, continual staff turnover, and low productivity. When they get together at the dental society meetings they stand around bemoaning the difficulties and pressures of private practice, and the fact that they can’t make any real money in dentistry. Listen closely to what they are saying: “there are just too many dentists, too many cut-rate dental plans, too much advertising, too few patients who appreciate their work, too few patients willing to accept treatment, too many whining staff members, too many government regulations, too few hygienists, blah, blah, blah.” Poor fellows.

Down the street, their colleague (who graduated in the bottom half of his class) is experiencing something much different. His same staff has been with him for years; ever since he bought the practice from Dr. Smith (or Dr. Jones or Dr. Whatever). They are friendly, motivated, and extremely good at what they do. They really enjoy working
together and share a common vision of why they are there and what they need to do to meet the needs of their customers. Last year each staff member received just under $5,000 in bonus income, placing each one’s individual compensation well above the industry norms. Nevertheless, the doctor took home over 45% of his practice collections. That came out to just under $250,000 working the same 32 hour week as his neighbors up the street. This doctor earns enough to set aside a significant amount toward savings and investments. By the time his practice earnings peak out in his mid to late 40’s he will be financially free.

Let’s see, here we have a clinically average dentist who somehow has plenty of fee-for-service patients, a motivated and happy staff, works a four day week, earns a net income in the top 4% of all dentists, and will be set for retirement before he turns 50. If there really is a Holy Grail in dentistry, this guy has found it. Sounds like a very successful dental practice, wouldn’t you say? Does it sound like yours? Does it sound like something you would like to have? You can have it, if you are willing, and if you know what to do to get it!

What kind of knowledge is required? First, how to acquire and retain large numbers of fee-for-service patients. Second, how to acquire and train a motivated, topnotch staff. Third, how to treat and serve your patients so well that they will never leave; not for a PPO, not for another dentist, not for anything. That’s it.

That’s it? Yes, that’s it. Are you surprised? It sounds awfully simple, doesn’t it. And in a lot of ways it is simple. Simple stuff that anybody ought to be able to do - right? So why then don’t more dentists have practices overflowing with happy staff members serving loads of fee-for-service patients? Maybe it’s not so easy after all. Maybe things get confused in the vast gulf of reality between talking about it and actually doing it.

No doubt some dentists just don’t know how to actually implement those simple things in the day to day workplace. Others just aren’t willing. Either way, their failure to create the best possible environment for their patients and staff can literally cost them millions over their careers. It can also mean the difference between working at something you hate because you have to, and working at something you love because you want to.

So what is the first key to any successful practice? It all starts with patients. Without patients you have nothing but equipment and a lease on some real estate. (Read O-V-E-R-E-A-D) I am always amazed at how many young dentists think that because they have a location and some equipment they have a practice. Wrong. Those things can be had just about anywhere. They are commodities which can be acquired anywhere, at any time, from any vendor or leasing agent. In a way, patients are also commodities, only they are not so plentiful, and are much more precious, as any practicing dentist will tell you. Nevertheless, fairly large groups of quality patients can be acquired. Sometimes they come with equipment, a location, and a staff. Sometimes they even come with a doctor willing to do some of the production. Sometimes they come with only their charts and a letter of endorsement from the one guy they have trusted for
thirty years or more. Amazingly, over 95% of them will typically show up to let the new doctor treat them. (If the proper steps are taken, of course.)

So if you are not making the kind of money you deserve to make in dentistry, perhaps you need to acquire more fee-for-service patients. How many patients do you need to have the kind of practice I described earlier? About 2,000 would be a good start. If you average just $300 in collections per active patient per year (the national average is just under $300), then you would have a practice grossing in the $600,000 range. Most of our clients collect $500 or more per patient per year as we take them closer and closer to the Holy Grail.

Some dentists already have the patients in their practices. They just don't know how to properly diagnose and prescribe treatment in a manner in which patients will readily accept it. This takes some special skills on the part of the doctor and the staff. If all the pieces are not in place and working in sync, it won't happen. How efficient are you and your staff at this? It is relatively easy to ascertain. Simply divide your annual collections by the total number of active patients (those who have been in for treatment during the past 24 months). If that number is anywhere below $300, you seriously need help. If the number is below $400 you still have a lot of room for internal growth. Just like the doctor below, you may well be sitting on a gold mine and not even know it.

Not long ago, I sat down with a 50 year old dentist who had experienced a surprising $100,000 increase in gross collections during the past year. When I inquired as to what had happened, he said his front desk person had quit and he had replaced her with someone new who had been trained in certain management techniques. That's it. Just one new staff member who knew a little about what to do. The patients were the same. The doctor didn't do anything differently. The rest of the staff remained intact. His experience is not at all uncommon. I estimated that his former staff member had cost him well over $700,000 in lost production during her five-year stay. The doctor didn't have a clue anything was ever wrong. Even this past year, his collections per active patient were just $236. He has a long way to go, but it is his staff that will get him there once we show them the way. After quality patients, a well-trained and motivated staff is the next essential ingredient in the successful practice.

Building the right staff takes time and patience. It requires many things, but most of all it requires leadership from the doctor. At some point you may have to let someone go who you happen to like personally, but who just can't seem to work as part of the team. There will also be times when you will have to confront a member of your team who is not carrying her share of the load, or who is causing strife among other team members. What do you say? How do you say it? How will you know what the right thing is to do? How can you provide direction without coming off like a dictator and demoralizing the troops? How can you hold people accountable without causing mistrust and resentment? These leadership skills are without a doubt the most difficult thing we have to teach in our consulting firm, and yet they are the very things which dentists need most.
Let's assume we can help you find enough patients (our consultants have been successfully doing this since 1988), and through our practice management affiliations with nationally recognized practice management consultants that we can also help you pull together and train a wonderful staff. Let's further assume that you are willing to provide the necessary leadership. The only ingredient missing is the knowledge of what to do, and a proven system for holding people accountable for doing their part of the process.

The essential knowledge of what to do, what to say, how to build a team and how to lead that team is all part of the comprehensive practice management programs that we offer our clients through affiliations with these nationally recognized practice management consultants. These practice management consultants have spent years focusing on the development of essential tools and techniques to help dentists get the most from their practices and their careers. Whether you are in need of more patients, more production per patient, or a complete overhaul of systems, staff, and patients so that you can begin to enjoy yourself again, we know how to get you where you want to be. We know how to find the Holy Grail of Dentistry.

All you have to do is be willing to make the journey with someone who knows the way. Just remember that most of your colleagues will seek dentistry's sacred Holy Grail, yet few will ever find it. Now you know why.

Remember, for the noble Knights of the Round Table, the requirements of success were virtue, humility and the sinless life. For dentists, they are willingness and knowledge.
“CAVEAT EMPTOR” (BUYER BEWARE)

Most young dentists recognize that by far the best way to jump start their career is to purchase an existing practice. They realize that patients are the key to the success of a dental practice. However, the question on the minds of many prospective buyers is how to find just the right practice at a fair and reasonable purchase price. Unfortunately, finding the right opportunity isn’t always as easy as it seems.

One young dentist fresh out of dental school spent several months negotiating to acquire a practice and was greatly relieved to have finally come to terms with the seller. The buyer was delighted that his attorney was obviously a much better negotiator than the seller’s attorney because the buyer felt like he had won on every issue. The price was reduced and the terms of the sale were definitely weighted in the favor of the young buyer. The buyer’s attorney had also drafted the purchase and sale agreement between the parties. Unfortunately and unknown by the buyer, the seller felt he had been pressured into giving the practice away, and said as much to a few of his staff members. One week after the closing, the entire office staff submitted their resignations and went to work for a dentist down the street. Patients soon followed the staff down the street. The purchaser barely survived. Caveat Emptor

Another dentist spent over $20,000 in legal fees and another $3,000 in accounting fees negotiating with the seller’s attorney and accountant over the final terms and income tax allocations of the transaction. At the last minute the seller decided that he needed $60,000 more or he would not sell. Extremely angry, the buyer walked away from the deal. Unfortunately, the buyer’s legal fees and accounting fees came due and payable anyway. He spent over $23,000 for absolutely nothing! Caveat Emptor

A seller in a large metro area sold his “list” of patients to a nearby dentist colleague. Several months later this same seller sold his patient “charts” to another dentist along with some equipment. The second buyer never thought to ask whether anyone else had access to the seller’s patients of record. They also never bothered to draft a contract for the patient chart sale transaction. After six months, this second purchaser had seen less than 3% of the patients in the patient charts he acquired. The first dentist who purchased the patient “list” is seeing the other 97% of the patients. Caveat Emptor

A seller in a small town had an illicit drug addiction. The staff knew, and so did many people in the town. The practice was put on the market. Eventually it sold to a young buyer who didn’t know to ask, and no one offered to tell him about the seller’s drug issues. Four hours after making a $90,000 down payment, the seller informed the purchaser that he was being admitted for rehabilitation. The purchaser was irate and fired the staff for not telling him. When patients called the former staff to find out about the new doctor, they told them they had been fired. Production fell off 80% from the seller’s prior production in the very first year. Caveat Emptor
His 3,000 patients loved old Dr. Smith. None of them knew he was a terribly inept dentist. His practice was not OSHA compliant. His equipment was turn of the century. He still did standup dentistry. Four young dentists looked into purchasing old Dr. Smith’s practice. Three quickly passed on the opportunity. "Too much money for just a bunch of charts," said one. "Too many patients with serious dental problems," said another. "Staff is all retiring and the patients won’t be far behind," said the third. The fourth dentist bought the practice and replaced the staff and the equipment. With the full support of the seller, the patients remained with the practice. The first year was exciting but also exhausting. There was so much work to be done. Some weeks the purchaser worked six full days. Now in his third year, the purchaser works just four days per week, and has taken home an average of $350,000 in each of his first two years. No word yet on how the other three dentists who passed on this opportunity are doing. Caveat Emptor

Each of the above case histories is true. The sad part, however, is these few case summaries don’t even begin to tell the whole story. Each year thousands of young dentists innocently venture out into the world of practice acquisition. Some of them get burned badly. Others get so put off by all the unforeseen obstacles they encounter that they simply give up the search. The vast majority flounder around looking at one practice after another, never knowing what questions to ask or what a really top-notch opportunity even looks like. After a while, they get so confused that they aren’t sure whom they can trust.

You can trust PARAGON. We know exactly what to ask. Since 1988, we have developed and refined a highly specialized and unique process for the successful valuation and transition of a dental practice. The in-depth practice financial analysis report we present to each of our buyers is unmatched in the industry. As a result, an extremely high percentage of our purchasers now own practices that rank among the most productive and profitable practices anywhere in the nation!

How do we know? We stay in touch with our clients and even monitor many of these practices on a monthly basis so we can compare results to both published industry standards and our own practice performance indicators.
In Search of Dentistry's HOLY GRAIL

A BETTER WAY TO BUY A DENTAL PRACTICE

At some point in your career as a dentist you will discover that gaining access to fee-for-service patients will play an important roll in your quest for the Holy Grail. Of course, you could spend money on advertising, or you could wait around for patients to filter in from referrals, but these methods are excruciatingly slow for building the right kind of practice. By far your best option is to simply purchase a large group of patients all at once from the dentist who controls access to them.

You may wish to do so in order to get your career off the ground, to enhance the revenues and income you derive from your existing practice, or as insurance against the inroads of managed care on your present practice. For whatever reason, the acquisition of an existing dental practice will be one of the most profitable and rewarding experiences of your life.

You should know, however, that purchasing a practice is a complex process that unfolds over several months (or years), and is not simply a matter of finding a practice in the classifieds, negotiating a "good deal", and living happily ever after. Purchasing a dental practice is not like buying a new car or a piece of real estate. In a very real way you will be acquiring a whole set of new relationships with people who don't know you and who may not trust you as their new dentist or their new boss. You won't be able to see or touch most of what you are paying for until long after the ink is dry on your contract. If this sounds a bit scary, it should. The dream of owning your own practice can become your worst nightmare. There are innumerable ways to foul things up, and many of your colleagues out there on the cutting edge are finding new ones every day.

At PARAGON we call the process of acquiring a practice a transition... a word that stresses a sense of both time and change. The word transition further highlights the fact that we are dealing with a process, not an event. Over the past decade, we have dedicated ourselves to understanding what really takes place during transition, and how to make the process better, smoother, and far more profitable for our clients. Our experience in hundreds of dental practice transitions around the country has allowed us to develop and refine a truly superior method of transitioning professional practices. Once you understand it, we think you'll agree.

At PARAGON we call this process Dual Representation. Our track record is impeccable. We have a virtual 100% closure ratio on all deals that go to contract, yet, amazingly there are still those who maintain that it is "impossible" to represent the interests of two "opposing" parties in a transaction. What matters most is that the two sides achieve their long-term objectives. We have found that Dual Representation allows that to happen in a powerful way.

Of course, skeptics maintain that unilateral representation has worked very well in real estate and other "brokerage" businesses for many years. To that we simply say that...
purchasing a dental practice is not like purchasing a piece of real estate. When a buyer and seller sit down to hammer out a real estate transaction they can posture and cajole and play real hardball. After all, the property itself has no life of its own and will be the same whether the purchaser is a “White Knight” or “Attila the Hun”. The two sides certainly do not have to live together in the house after the sale. They don’t even have to like each other. Surely, no tenant will leave because the landlord didn’t get a fair shake. Not so with a dental practice. Damage done during arduous negotiation eventually comes home to roost. Staff members are usually the first to pick up on it. Later it makes its way to the patients, who begin to leave for unexplained reasons. Sometimes the seller himself lets the word out. Other times it is a single remark to a staff member at a stressful moment that takes on a life of its own and makes its way back to the patients. Either way, the paradox remains -- the more a deal is negotiated... the more everyone loses.

Dual Representation dictates that we develop and maintain a client / consultant relationship with both the buyer and seller in every transaction. For the seller, this means that we take the time to understand his or her objectives and that we not allow those objectives to be compromised. After all, it is the seller that has a lifetime of toil and effort at stake. For the buyer, this means that we develop a keen awareness of his or her goals and aspirations and that we do everything in our power to assist in accomplishing those goals. After all, it is the buyer who will put his future on the line to acquire a practice. It also means that we take great care to make sure that the two clients in a transaction have compatible goals and objectives. This concept is totally foreign to brokered transactions where virtually any warm body is a candidate to buy. Whenever we work toward a transition with our clients, the question is always, “Are the needs and objectives of these two individuals sufficiently compatible to allow a true Win / Win transaction, or will someone need to compromise their objectives in order to get a deal done?”

Whereas Dual Representation may appear on the surface to be a serious conflict of interest, it is in reality a mechanism for bringing integrity and discipline to the sale process. As an intermediary expert with fiduciary responsibilities extending to both parties, we must make sure that the transactions we do are absolutely appropriate and fair to all concerned. We must be prepared to recommend that a deal be passed rather than forced, because with Dual Representation we live or die by the success of the deal. Dual Representation forces us to be long-term goal oriented about our business, and to only do equitable transactions. Brokers, on the other hand, can walk away with their fee and always blame the buyer or disclaim any responsibility for fouling things up if the deal goes bad.

In his best-selling book, Seven Habits of Highly Effective People, Dr. Stephen Covey describes the true nature of a Win/Win transaction as the only viable option in business deals. The alternatives of Lose/Win, Win/Lose, and Lose/Lose, are all unacceptable in the long run because they will all eventually lead to undesirable results. As Dr. Covey so aptly states, "There's no way to achieve Win/Win ends with Win/Lose or Lose/Win means." - precisely what the traditional methods of unilateral representation in practice
sales have in common. It is critical to understand that we are not dealing in a zero-sum game where the pie is only so big with the reality that for one side to get the other side has to give. No one party has to gain at the other’s expense. In fact, just the opposite is true. If both parties become sensitive to the needs of the other, and if they can clearly see that the realization of their individual goals and objectives are intertwined, then the synergy that results can propel the practice and the doctors to a far greater degree of success than they ever dreamed possible. That is why at PARAGON it is Win / Win or it is NO DEAL.

There is something else you should know if you are about to buy a dental practice. It is the fundamental truth that what really matters is not how much you pay for the practice itself, but what you actually get for your money. I remember a client who passed up an opportunity to acquire a beautiful practice grossing $400,000 per year in the best part of town. He was contacted by a broker who offered him a "deal" on another practice grossing about the same as our opportunity. The broker's deal was priced $100,000 less, so he passed on our practice and bought the other. We later sold our practice for its full value. Three years later the purchaser who got the "good deal" came up to me at a dental convention and told me of his experience. The past three years had been a living nightmare, and survival was day by day. What he thought was a good deal was in reality a carefully disguised disaster. On the other hand, our client who had purchased the original practice for $100,000 more was now earning well into six figures with no concern at all for the future. It's not what you pay, but what you end up with that matters. And what you end up with is largely a function of the process you go through to acquire it.

If you remember nothing else we have said in this publication, remember that everyone really can and deserves to win. You just have to decide you want it that way and then it happens!
THE PARAGON SOLUTION

Since 1988 and after dealing with literally thousands of dentists, PARAGON’s transition consultants have seen and heard an awful lot. I would dare to say that we have seen and heard it all, but just as soon as you think you have... something that you never considered comes along. In the course of all this vast experience, we feel we can honestly tell you why our clients chose PARAGON to handle their special needs. The following is a list of 12 basic reasons why dentists prefer to select a PARAGON consultant for their practice transition needs.

1. We take the time to find out what you really want from your practice and your career. There are a tremendous number of ways to earn a living as a dentist. Your knowledge of these options and opportunities and your decision about which way to go will make a huge difference in your career satisfaction and financial picture. It will also determine the quality of your life, and how many years you have to spend at the chairside. Sometimes you just don't know for sure which way is best. We are there to talk through the options and focus in on the best alternatives for your particular needs. Our consultation begins with an extensive interview of each doctor before they become a client. That way we can get to know you better and can talk you through some of the available options. During our consultation, young doctors benefit greatly from our experience with dentists in the latter stages of their career, and we can provide a unique perspective on how to someday get out of dentistry with your marriage, family, finances and sanity intact (don't take that statement lightly. Far too many dentists never get out alive; still married to their first wife; with their mental and physical health intact; or they get out so late they really don't have a life).

We don't try to sell you anything. Our role is to help you make informed decisions about the most important and largest single transaction of your life. You have to want it at least as much as we want it for you, therefore, there is no need to pressure you into something. If it's right, you'll know. The practice opportunities we present should feel like incredible opportunities for you and your career. If you don't feel the rush of enthusiasm for whatever options are laid before you, then perhaps something isn't right or you need further clarification.

2. We do not accept just anyone and everyone who wants to become a client (buyer, seller, associate or host). Yes, we discriminate against anyone who proves to be dishonest, unwilling to be fair, untrustworthy, un-teachable or incapable of owning and operating a successful practice on their own.

3. We encourage the involvement of your spouse in the decision process. Your career decisions will impact your spouse and children for many years to come. It is very important for them to know and understand the same things we have
discussed with the doctor, as they will be asked to be supportive of some important commitments.

4. We have the quality practice opportunities. We cannot overstate the importance of this. Each week we speak with numerous young dentists who have been shopping around and are at some stage of discussion with sellers whom we have declined to represent for one reason or another. These buyers are typically frustrated because the seller is not disclosing everything, or is asking too much money, etc. We know. That's why they're not our clients, and are going it alone or through a practice broker.

Remember, we retain the quality practices and we send the others away. Our outstanding reputation for performance and quality service attracts the more successful dentists. These are the dentists who have typically paid their dues. These doctors know their limitations, and appreciate the value that outside experts can bring to the transition process. As businessmen, they realize that the fees they pay for professional guidance will come back to them many times over in the course of a successful transition. They often consider themselves among the very best in their profession, and they refuse to settle for anything less from those around them.

Contrast that attitude with the mindset of Dr. Do-It-Myself. This guy resents having to pay money to someone to do something he thinks he can do himself. (And he wonders all his life why his patients resent paying him.) In his mind, the process is like selling a used car. Pick a price. Run an ad. Let the lookers in for a peek. Find a fish who bites. Dicker. Sign a simple agreement, and pick up a check. He reads a magazine article and becomes an instant expert in dental practice valuation. Of course, the article told him how to overvalue everything so as to position him for some good old fashioned dickering. After many months, he wonders why no one calls back from the parade of young dentists looking at his stuff. Why don't they believe him when he tells them his is the best practice in the area? Why don't they trust him when he says he only wants to be fair?

Quality sellers come to us because of our philosophy of fairness and equity. They truly want to be fair to a young doctor and they expect him or her to be the same with them. Sellers who feel the need to try to sell their practices for more than they are worth or on unrealistic terms simply go elsewhere or go it alone. Caveat Emptor (buyer beware)!

Quality sellers are generally quality people. They have discovered how to develop quality practices, with quality staffs and quality patients. They are more likely to be selling their practice for all the right reasons. Their practices are healthier and easier to transition to another quality dentist. Quality sellers are far more likely to disclose everything, because they have nothing to hide.
They are more likely to tell you the whole story, not just the part they want you to hear. We prefer doing business with quality people. We think you will too.

Quality sellers know we have the finest young dentists as our clients. They know of our reputation and commitment to win/win transactions. Look at it this way, if you were looking for a quality young doctor to buy your practice, and if you were going to effectively lend this young dentist $150,000 or more, where would you go? Who would you turn to for advice? A professional dental practice consultant with the reputation to back it up or a dental supply salesman.

5. We can provide you with the opportunity to earn a substantial six-figure income working just three to four days a week. And we can begin whenever you are ready to get serious about your career. Dentists who earn more don’t work harder - they work smarter. They don’t work longer hours - they work more efficiently. They don’t try to do everything by themselves; they find the highest and best use of their time and focus on it. They surround themselves with committed and cheerful hands that graciously handle the details. We can teach you their secrets. After all, many of them are already our clients.

6. We actually do represent the purchaser. Brokers may say they do but they don’t. They will try to sell you on some deal they have. They may smile and say a lot of nice things, but just like real estate agents, THEY REPRESENT THE SELLER. So what, you ask? Well, what if you and your advisors fail to ask just the right questions? Does the broker have any duty to disclose something that may definitely affect you or the transition if he doesn’t represent you? Does he have to tell you about the other set of books the doctor keeps? Does he have to tell you of the insurance fraud? Will he tell you of the seller’s affair with the hygienist? How about the fact that the major employer of patients in the practice has quietly announced that it is switching to a capitation dental plan? And who is going to tell you about the seller’s drug dependency? Or the fact that the seller sold the “list” of his patients to another doctor several months ago, but now wants to sell you the “charts”? Obviously those are but a small sampling of the issues involved, but would you have known to ask such questions, or how to even begin verifying the answers?

And don’t think for a moment that your attorney or CPA will know what the right questions are either. They don’t. Of course, they will never tell you they don’t really know much about the nuances of practice transition, and unfortunately, that lack of knowledge and insight will divert your attention from the areas of greatest importance. For example, many CPAs will want you to pay them to audit the seller’s financial statements, or his bank statements. At first glance, that may sound like a very rational thing to do. But is it really? Think about it. Once you have the tax returns, you know the gross revenues. And that number is the most important thing to know. Have you ever known anyone to OVERSTATE his or her gross revenues to the government? So why go to all the
trouble to check the daily deposits over an entire year, cross-reference them with the day sheets, and then verify them on the bank statements? This process can take many hours, costing you hundreds or even thousands of dollars, and we have yet to see it turn up anything of consequence.

We once received a four-page demand letter from a purchaser's attorney asking for the following information on the Seller:

- The past five years audited financial statements, with all accompanying depreciation schedules, asset lists, bank statements, and work papers.

- Any and all communications ever entered into with any governmental agency, including but not limited to the Securities and Exchange Commission, the Environmental Protection Agency, the State Employment Commission, the Equal Employment Opportunity Commission, OSHA, the Department of Defense, the Department of Health and Human Services, and any other state or local government agency.

- The name, address, and telephone number of any and all patients of the practice who have received treatment by the seller for the past five years, including how much treatment they have received, how they paid for it, and whether their payments for said services were made in a timely fashion.

We aren’t making this up, honest. There are, of course, several problems with this. First, since 1988 and several hundred practice valuations, we have never seen a dentist with audited financials. Ever! Second, of what relevance is communication between a dentist and the SEC or the Department of Defense? Third, why would a seller provide a prospective purchaser with the name, address and vital information of all of his patients prior to closing? Yet, the game gets played over and over again with each transaction as each new set of “experts” grope around for something to do to look good and justify a substantial fee.

Some attorneys will try the same thing at the contract stage. When we get to the contract stage, one of two things usually happens. Either they read over our agreements and call us with their compliments and minor modifications or suggestions, or they write us a multi-page document itemizing all of the alleged deficiencies in the agreement. Often they conclude that the only hope to save the transaction is for them to redraft the transaction from scratch (of course, it is of no consequence to them that very similar documents are being used throughout the country every day with total approval of the attorneys). You see, the more they sweat the small stuff, the more they can get you to see how valuable they are in ferreting out all the pitfalls of the situation. Just remember that if you rely solely on these advisors for guidance, you might get stuck. And
when several hundred thousand dollars are at risk, you can't afford not to have the very best advice possible. However, they do have an important role to play, but their involvement will come after the major issues are addressed. There is nothing to be gained by having advisors who are paid by the hour involved in a transaction too soon or for too long. There will be time enough to get the full benefit of their input prior to closing.

In our unique position of representing both parties in a transaction we must disclose anything and everything we know about the practice and the practitioner. And while this doesn't ever relieve the purchaser of his due diligence duty to fully investigate the representations of the seller, the fact that we have thoroughly looked at the practice should truly be a comfort to any purchaser seeking full and accurate information about the largest single transaction of his life.

7. We save you time and money. We save you time because we don't waste it trying to sell you something that isn't right for you. We also know where the quality transactions are, where the flaky deals are, and how to tell them apart.

We save you money because we do not allow our sellers to overstate the value of their practices because they are emotionally attached. It is not uncommon to see practices for sale by owner or through brokers that are initially overvalued by 20-35% or more. This is because they expect you to negotiate the price down. The only problem is that you will never know when you've negotiated down to a "fair and equitable" price. How do you really know what a practice is worth, anyway? This whole process makes our purchaser fee the best money you will probably ever spend.

8. We carefully structure each transaction with customized contracts from the best legal minds in this field. How much do you think it would cost at $375 per hour for your contract attorney to produce the same quality documents with all the same issues addressed from scratch? It took almost fifteen years and the input of literally thousands of attorneys to get these documents where they are today. When we surveyed several attorneys and inquired as to the cost of replicating these contracts from scratch, their estimates ranged from a low of $8,500 to a high of $35,000! That's just for providing contracts. Of course, if they were to help negotiate the transaction, there would be additional time and expense (by the way, most of their time was not allocated to actually drafting the documents, it was to researching all of the complex issues surrounding the sale of a professional practice! i.e., They would like you to pay for their legal education). Oh yes, and their fees are due and payable whether or not the transaction ever closes! Incidentally, PARAGON purchasers pay an average of only $1,000 in total outside legal and accounting fees.

9. We do a more thorough and comprehensive analysis in our practice valuation and financial analysis. We value each practice as if we ourselves were going to
be the purchaser. Our market valuation represents the price and terms on which we would willingly acquire that practice.

This is much different from the one-sided, ego-inflated valuations we see from dentists or brokers who only represent the seller. To illustrate this, not long ago we met with a 58-year-old dentist who was desperate to sell his practice due to some health problems that had progressively become worse. Two years earlier he had decided that his condition was worsening and had made some inquiries with several firms about helping him sell his practice. We had met with him a time or two, but nothing ever came of it. Turns out that a local broker had convinced him that he could appraise his practice for much more than we would. This was appealing to this doctor because he expected he would need all of that money to retire on. And as promised, the broker appraised the practice at over $400,000. The true market value was about $250,000. Time passed, and buyers came and went, but none seemed very interested. Then after about a year, a young female came and offered $256,000 through the broker. The seller was insulted by such a low offer and turned her away. More time went by... another year without even a single buyer. That's when he called PARAGON. We told him the truth. His practice had now declined even further and was now worth about $150,000 at the most. Needless to say, he was very discouraged. Unfortunately, his experience is all too common. But not all of these stories end up without selling. Some actually do sell at an inflated price to unsuspecting buyers who just don't know whether they have just acquired the opportunity of a lifetime, or a nightmare.

Just remember that because of PARAGON's unique bilateral role in the process, if a selling dentist will not be realistic about his practice value and the terms of the sale, he will simply not become a PARAGON client!

The intangible assets in a professional practice constitute at least two thirds of the total value. They are also the most difficult parts to evaluate because they are so subjective. However, through our unique methodology and expertise, we know how to accurately measure the relative financial value of these intangibles.

Our valuations, unlike many we see from supply houses and brokers, are not equipment oriented. In acquiring a practice, the equipment is not the most important thing. It's not even in the top four!

10. We know how to get the transaction done. At first glance, this may not seem all that impressive. Of course we know how to get transactions done; that's our job, right? Yes, that is our job, but it is not quite as easy as it seems. There are plenty of people willing to talk about transition. The truth is that very few of those who talk about it can actually do it.
Let me share with you our experience in training men and women (many of whom were former dentists, lawyers, accountants and financial planners) to do practice transitions. Two of PARAGON’s consultants were involved in the training process with a large dual representation transition firm that was experiencing a great deal of expansion nationwide from 1987 to 1990. During that time, the company trained well over 300 people. Not long ago, we looked around to see just how many of those who had gone through this intensive training during that time had actually made it. The answer surprised us. Just 12 of us from that group were still here, a mere 4% of those who had gone through training. With all the systems and support, why were there so few who made it? Can you imagine what it would be like if only 4% of all dentists actually made it in dentistry? This is a hard business, and even with the best methods and support, it is very difficult to close transactions. Perhaps that is why studies show that less than 20% of practices for sale by owner and just 50% of practices listed with practice brokers ever close. At PARAGON, we have closed hundreds of transactions since 1988... closing 98% of the practices we have listed in that same time frame.

The reasons behind our success rate in actually closing transactions are many. It begins with a sound philosophy that is driven by the needs of our customer. It continues with quality and competent people capable of building on that philosophy to structure fair and equitable transactions. When you add strong support, and a lot of hard work, good things happen. Yet, if you eliminate any of the ingredients in the equation, the productivity goes way down. Eliminate the things that distinguish our services from any run-of-the-mill broker, and that's precisely what you'll get back in return... run-of-the-mill results.

Another reason we close more dental practice sales than anyone is that we have the most creative financial and legal structures available. We have purposely tried to avoid the market segment of forced sales, too-little-too-late sales, and other transactions where things are being driven by some crisis (that's not to say we don't handle such things, it's just that we are focused on another segment of the market). We have found over the years that when a practice sale is consummated as part of an overall plan, things tend to work out much better for everyone involved.

Yet another factor in the process is the wide variety of flexible financing options we have available. At PARAGON, you don't have to have much personal money to purchase a practice. Sometimes you don't have to have any money at all. The keys to getting where you want to go are willingness and knowledge - not money.

And finally, we have legal and financial people on staff and readily available to assist in tight spots. No transaction goes smoothly from start to finish. It is nice to know that there are experienced resources available to assist in whatever issues arise.
11. Our processes avoid adversarial negotiation and unnecessary conflict. Dental practices are essentially a complex and varied set of relationships. Our unique process of dual representation, full disclosure, and equitable transactions keeps these precious relationships intact. Keep in mind that these relationships are often described as "intangibles" and comprise at least two thirds of the practice value. Many young dentists have unwittingly squandered this goodwill by pressing too hard for that last $10,000 discount on the sale price, only to wake up later to find that they have so alienated the seller and his staff that they will not give him the support he needs to keep the patients and money flowing the way that the buyer expected. The last $10,000 costs him ten times what he originally perceived as a savings. The irony is that he may never recognize it for what it is. We see it in non-PARAGON transactions all the time.

An attorney once told us that he knew he was close to a fair and equitable deal when both parties were feeling like they were getting shafted! All too often, that is the mindset that takes over in these type transactions. Nevertheless, we can confidently say that it does not have to be this way. Conflict is not necessary in order to get to "fair," and it is truly possible to have a Win / Win transaction for all concerned. We know this because we do it.

We provide post-sale support. Where are the brokers after the sale when things get sticky? Ask a broker what post-sale support services he provides. Ask him if he will return your telephone calls when you find out that they failed to disclose that the hygienist had already accepted a job with the dentist down the street the week before the closing and promised to bring her patients along. Then call your attorney and ask him what to do about the capitation plan patients that are taking up 60% of the schedule time even though they are generating only 20% of the revenues. Of course, when the purchaser asked the broker how much of the seller's practice was from capitation plans, the broker revealed that the seller said 20%. Did he lie? Where are the attorneys with all their legal clauses that were going to make everything go smoothly? Will the attorney be there to help you retain patients and staff? Does the attorney know what to say to patients to get them to accept your treatment plans? Will these guys be there to help you make the most of your investment? Do they even know how? Of course not! But over and over again, young dentists never quite seem certain whom they should trust. The point here is that the mere designation of CPA or JD does not automatically translate into "dental practice transition expert."

One of our young clients came to us with an "offer" for the seller. It was just a few thousand dollars under the fair market value we had determined. In fact, the difference was less than 1.5% of the overall purchase price. We explained that his approach was a wrongheaded one, and that it would only serve to offend and aggravate the seller. He informed us that his accountant had done an exhaustive analysis, and had determined that he could not afford to pay
one cent more for the practice or he would risk financial disaster. Needless to
say, another of our clients purchased the practice and paid the fair market
price. That purchaser doubled the revenues in the first year to over $600,000!
The first buyer with the brilliant accountant remains an associate to this day.

12. We know how to make the acquired practice more productive and fun. It is
not what you pay for a practice that matters most; it is what you get for your
money. It will definitely take time for you to realize the full potential of your
practice. Along the way you will learn much about the practice and about
yourself as a person. As you learn and grow, so will the practice. Our goal is
that after two years you will be able to look back and say that you got a great
deal. Most all of our buyers really do. That's probably why over two thirds of our
new purchasers come to us by way of referral from a classmate or
acquaintance who has already been through the process.

The fun part comes when you have a staff of loyal and committed people who
enjoy their work and the doctor they work for. It comes when you have
patients who feel that genuine enthusiasm and commitment and who refer
their friends and family because of it. You will know you have truly arrived when
you and your staff truly enjoy serving your patients and being united together in
a common purpose. This is the hard part; the part they did not and could not
teach you in dental school. Too many dentists never figure it out; give up trying,
and consign themselves to the status quo, which is often characterized by staff
unrest, doctor stress, poor productivity, and patient turnover. To make your
practice the exception, it will take time and patience. It will also take input and
advice from those who can show you the way.

PARAGON can show you the way! It is what we do!
PARAGON ARTICLES

PARAGON has published numerous articles on various interesting topics including articles concerning the purchase of a dental practice. On the following pages we have provided a few of our practice acquisition articles for your review and enjoyment. We welcome your comments, suggestions and constructive criticism. Please feel free to email your thoughts to articles@paragon.us.com.

CAREER INCOME POTENTIAL

Most doctors will practice dentistry an average of thirty-five years throughout their career. The number of years a doctor ultimately practices times the average annual income he or she earns over that period equals that doctor's "Career Income." A dentist's Career Income Potential is greatly affected by the decisions a dentists makes during the career path. Decisions such as joining a practice as an associate, buying a practice, entering the military or public health and starting a practice from scratch all have a lasting impact on a dentist's Career Income. It's probably not possible to make all the right decisions along the way, but an informed dentist can certainly minimize the negative financial impact of decisions thus maximizing their Career Income Potential.

For example, let's say a doctor purchases an existing practice that produces an average pre-tax net cash flow (after all expenses and after annual debt service of the acquisition) of $225,000 each year (not a particularly large practice by today's standards). Under this scenario and based on practicing for 35 years, that doctor's Career Income Potential would be $7,875,000 ($225,000 x 35 years).

Let's suppose another doctor decides to work as an associate instead of purchasing a practice. This young doctor will discover that an associate's annual income typically ranges from $90,000 to $110,000 a year (not a bad annual income but certainly less than practice ownership would yield). Once the doctor determines that there is no ownership future in the associateship arrangement (this occurs more than 90% of the time), the doctor leaves that practice and starts all over again (many times making the exact same mistake again). Those peak energy years were spent averaging $90,000 to $110,000 a year instead of the $225,000 or more annual net income a practice acquisition would have created. Thus, 5 years of an associateship at an average annual income of $100,000 will cost a doctor approximately $625,000 in Career Income ($225,000 less $100,000, or $125,000 x 5 years).

Unfortunately many doctors enter such associateships... and the lost Career Income can never be recovered! It's not that associateships can't work; it's just that many of these young doctors never get started on the right track. There is rarely a contract spelling out exactly how the relationship will unfold thus these "dead-end" relationships typically end up negatively affecting their Career Income Potential.
Compare the previous two doctors to yet another doctor who really gambles his future income potential by setting up a new practice from scratch. This doctor incurs tremendous debt for new equipment and signs a long term lease for a practice location only to find that he doesn’t have enough patients in his chair each month to fully pay his monthly bills, much less, enjoy a substantial personal income. If this doctor is successful in surviving those first few years (many have not) on the minimal income afforded by a new practice start-up, the doctor’s Career Income Potential has most likely been permanently affected by millions of dollars.

It is a time-tested and proven fact that the absolute best way to maximize your Career Income Potential is to purchase an established practice. An established practice offers the single most important asset that you will ever own in your career… PATIENTS. New equipment is nice but secondary, a modern facility is attractive but also secondary, your staff is extremely important, but also secondary to a quality patient base. Think about it. Without patients, you really have no income stream and don’t even need the other assets.

Not too many years ago we worked with a new graduate who purchased a practice with more than 2,000 active fee-for-service patients (patients treated in the past 24 months). This new graduate earned over $250,000 his very first year out of dental school! At the beginning of the young dentist’s third year in practice he purchased and merged in a second practice with another 1,800 active patients. The dentist also hired two associates to help him work the vast number of patients. Only five years into this dentist’s career, his annual net income was already greater than $350,000. If he practices 35 years at this pace, his Career Income will exceed $12,000,000. Not a bad start for a new graduate!

Futures are not found… futures are made! All that is required is getting started in the right direction early in your career. Having access to the necessary information to make intelligent and wise decisions and some basic common sense is paramount.

It is your future, and yes, millions of dollars are at stake. How will you get started in your dental career? Or, if you have already started in the wrong direction, how long will you wait to “cut your losses” and get your career headed in the right direction?
THE FEAR OF OWNERSHIP

WHY? This is the question we ask young dentists who do not own their own dental practices. The responses vary somewhat, but with a little probing we discover that the reason virtually all of them don’t own a practice is simply because of a FEAR OF OWNERSHIP!

Unfortunately, these fears are generally based on groundless myths rather than facts. These myths, perpetuated for decades, are the topics of many a conversation among new graduates and others who do not fully understand practice ownership (professors, fellow students, recent graduates, etc.).

Myth #1: “Practices are too expensive. I could never afford it.”

This is the most common myth regarding practice ownership. First of all, the purchase of a practice is an investment, not an expense. The acquisition cost of a practice is really not important. What is important is the net cash flow the practice produces after deducting all operating expenses and annual debt service on the acquisition. Another important calculation is the net income percentage that you will be receiving on YOUR individual production. For example, an associate generally makes 30% to 35% of his or her annual collected production. Conversely, a practice owner can easily make 50% to 60% or more of his or her personal production (after all expense and debt service payments). Assuming this is true (and I assure you that it is very true), you can’t afford not to own a practice!

Myth #2: “I don’t know how to operate a dental practice.”

Operating a dental practice is the staff’s responsibility. Your job is to produce income and monitor staff activity. A new practice owner, however, can greatly benefit from the advent of computer technology, which simplifies such details as monitoring production and collections, bookkeeping, payroll, and scheduling. The novice manager can also utilize the services of a management consultant specializing in dentistry. Consultants can counsel the new practice owner in the essential task of hiring and retaining quality personnel; consultants can also provide a strategy for effective accountability and quality control. And finally, an experienced staff will teach you a lot about practice management because, quite frankly, their jobs depend on it! This is another factor that justifies purchasing a successful practice because it would not be successful without a quality staff.

Myth #3: “I don’t have the money to buy a practice and I owe too much already to qualify for financing.”

This myth is left over from the 1980’s when lender credit policies were quite strict and interest rates were extremely high. Today we have a number of national lenders that are anxious to finance practice acquisitions. These lenders have discovered that a
dental practice is far less likely to fail than other small businesses. Dental acquisition loans are now viewed among the safest risk types and are readily obtainable.

Myth #4: "The practices for sale are too old and have outdated dental equipment."

This myth is quite common and typically the most difficult of all to dispel for the apprehensive buyer. First, all practices for sale do not fall into this category. We often have sellers in their late 40’s and early 50’s with modern facilities and equipment. But even with the older practices, outdated equipment should be a minor concern. Even if you think the equipment is outdated, it has been adequate enough to produce the income the practice has historically been producing year after year. A purchaser should realize that the real benefit of purchasing an established practice is not in the equipment anyway, but rather in its solid patient base. It is much easier to upgrade older equipment with a solid annual cash flow than it is to start out with brand new equipment and not have enough patients to produce a positive cash flow. Some purchasers like to add new equipment as a part of the acquisition. This can easily be financed in the total deal, but we would always recommend taking it slow and easy with the new equipment purchases if the older equipment will do fine for a while.

These are just a few of the myths we encounter. The truth is that there are numerous reasons to own your own practice and very few, if any, good excuses why you should not own a practice. The lost income opportunity is tremendous. One year after selling a practice to a dentist, I asked him if he had any regrets. "Yes," he replied, "I regret that I did not buy the practice sooner."
SUGGESTIONS FOR A SUCCESSFUL PRACTICE ACQUISITION

Purchasing a practice will probably be the single largest event in your professional life. It is very easy to allow your emotions to enter into the process. It is very easy to get focused on little things that really don’t matter in the big picture! A practice acquisition is a logical process. The key is to define YOUR transition plan and then stay focused on the implementation of that plan!

PARAGON consultants have been assisting young dentists in acquiring practices since 1988. We have closed thousands of practice transition transactions. We know how to keep everyone focused on the things that matter and avoid the problems that often occur.

It is very important that you keep the following thoughts and suggestions in mind as you proceed through the practice acquisition process.

PRACTICE LOCATION: Make a decision that is economically sound for your long-term future. This normally means that you should only consider a practice in an area where you want to live and raise a family. However, many young buyers have acquired practices with substantial growth potential in areas in which they did not intend to call their final home. These practices were acquired with the intention of increasing the practice value and then selling the practice a few years later for a substantial profit. We have clients that have followed this path numerous times and each time being able to pocket substantial profits. Over time, these doctors have vastly increased their net worth while progressing to their dream practice and desired final location. We call these opportunistic dentists “entrepreneurial dentists.” So, when we say practice location, this really means that you need to decide what type buyer you are. The correct practice location for the entrepreneurial dentist may or may not be the correct location for you.

AGE OF THE DENTAL EQUIPMENT: Focusing on the age of dental equipment is probably the biggest mistake we encounter from young dentists. You are purchasing a practice, not dental equipment. Dental supply salesman have most likely been telling you how much you need the latest and greatest equipment with all the latest “bells and whistles.” There is nothing wrong with wanting ultra-prime dental equipment but it should not be your primary focus when considering a practice opportunity. A dental practice is an ongoing business and should be considered on the financial opportunity, not the equipment. You are purchasing a proven cash flow that is made possible due to a quality patient base. If the practice has a quality patient base and a historical track record of producing income year after year, the practice will be profitable regardless of the equipment. You will soon be making more than enough money to buy all the new equipment that you could ever want.

QUESTIONABLE DENTAL POLICIES AND PROCEDURES: A seller who has not been providing his or her patients with the latest “sophisticated” procedures is a major positive, not a negative! If you are more aggressive in your diagnosis and treatment planning than the
previous doctor, that alone will create more production. Often the best practice opportunities are those in which the seller has been operating a maintenance-only practice (indefinitely putting off work that needs to be done until the next patient visit). These “Diamond in the Rough” practices often double or triple production the very first year of new ownership!

**KEEP YOUR EYES OPEN:** A “good deal” is a transaction that is fair to both parties. Beware of any deal that seems heavily weighted in your favor or is obviously valued too low. This often means there is something seriously wrong with the practice. Listen to your PARAGON consultant. He or she has the expertise and objectiveness to properly evaluate the situation.

**DON’T NEGOTIATE WITH THE SELLER:** Talk to your PARAGON consultant, not the seller, if you sense a problem with a practice opportunity. Never try to negotiate directly with the seller! Doctors are very sensitive about the operation and value of their practice. PARAGON is in a much better position to discuss your concerns with the seller. If you try to “negotiate” a deal, the seller will resent you, and even if you conclude the transaction, the seller may try to get even later on and you will eventually lose.

**KEEP EVERYTHING IN PERSPECTIVE:** Purchasing a practice is not a $300,000, $400,000 or $500,000 decision. It is a multi-million dollar decision. If a practice is grossing $400,000 and you expect to practice another 35 years, then (without adjusting for inflation) it’s a $14,000,000 decision. Don’t forfeit millions by getting hung up on nickels and dimes. Negotiating the little things will only end up upsetting the seller and jeopardize the success of the transition. Think logically!

**BE RESPECTFUL:** This should really not have to be discussed but you would be surprised how often this is a problem. Show respect for the seller and the practice. Yes, the seller may not utilize the latest treatment methods and may not have kept up with the times... but, don’t be judgmental. Think about how you may be viewed by a potential purchaser 25 or 30 years from now. A purchaser who shows that he or she is eager to learn and appreciative of what the seller has accomplished will be afforded much more support and respect than the purchaser who comes across as an arrogant “know-it-all.” We have had a number of sellers elect not to sell to a doctor who rubs the seller the wrong way! Also, never be late to an appointment with a seller. The seller’s time is just as important as your time.

The practice acquisition process is a long road and can be full of potholes. However, you can improve the path with a little logic and common sense.
DEBT IS NOT ALWAYS BAD

In a perfect world we would all be completely debt free. There are a fortunate few who possess enough wealth money to go through life totally free of debt. And, then there are the rest of us who face debt as a fact of everyday life.

If debt is a fact of everyday life for you, then it’s important you keep certain things in mind when you are considering creating personal debt. There are basically two kinds of debt: Bad Debt and Good Debt.

What kind of debt could be good when we’ve always been told that debt is bad? Good Debt is incurred to acquire an appreciating asset and provides a new source of income; Bad Debt is debt incurred to acquire a depreciating asset and creates the responsibility of an added expense.

For example, educational debt would be viewed as an investment in your future. Typically, educational debt will provide you with an opportunity to increase your future income. This makes debt incurred for higher education a Good Debt.

Debt for a luxury automobile would be considered bad debt since it is an unnecessary expense that provides no income and depreciates in value. This makes this type of debt a Bad Debt.

Now, let’s take a look at good and bad debt as it relates to the average doctor who is ready to enter into private practice. Many new practitioners get caught up with opening brand new, shiny offices with all the latest, expensive gadgetry. Those who profit from the sale of such gadgetry promote this idea heavily.

Tens of thousands of dollars (in some cases hundreds of thousands) can be invested by a new practitioner for new equipment, new furniture and expensive leasehold improvements before the first patient ever walks through the door.

Interestingly enough, we have never heard of one single patient who was ever drawn to a dental practice because of the equipment. We have never had a doctor tell us that a patient was passing by and looked in his window, saw his brand new equipment, and decided to come in for a visit. The fact is patients don’t know if dental equipment is new or 20 years old as long as the old equipment is kept in good condition.

Now, if you think cars depreciate quickly, wait until you see the resale value of used dental equipment. The resale value of a car may depreciate up to thirty percent the first year, but dental equipment will depreciate up to ninety percent of its original cost the first year! So, since new, expensive replacement equipment does not produce any new patients and creates a non-income producing expense and is a rapidly depreciating investment, debt associated with this new equipment would be what kind of debt? Right, “Bad Debt.”
NOTE: New or used equipment that is required for a new procedure that will increase practice income would be considered "Good Debt."

So, what can a doctor invest in that is an income-producing asset that appreciates in value?

An existing dental practice. Yes, you will incur debt to purchase the practice, but the current income stream of the practice far exceeds the expenses and the debt service (the money required to pay off the debt), thereby providing net income to the purchaser. This is known as income producing debt... Good Debt.

Good income producing practices do not depreciate in value; they appreciate in value. The debt does not fund an expense; it creates an investment. You will almost assuredly be able to sell this practice one day for far more than you paid for it and the investment will create an annual income for you throughout your entire career.

Buying a dental practice is similar to buying a Certificate of Deposit (C.D.) at the bank. Both are income-producing investments (the C.D. pays interest, the practice provides income). Both appreciate in value (the interest accumulates in the C.D., the practice increases in value over time). In addition, they both are considered a sure and safe investment.

But, the dental practice has a definite advantage over a C.D. The IRS allows you to take tax deductions for the cost of purchasing a dental practice even though the practice appreciates in value! This means that the dollars used to acquire a practice are pre-tax dollars (which is considered the most desirable by all astute investors). Of course, you cannot depreciate the C.D., so this represents an after-tax investment, which is far more costly, and the income from the C.D. pales when compared to the income produced through the dental practice investment.

If you are not blessed with wealth and have to incur debt to get ahead in life, then make your debt decisions wisely. Income producing debt is Good Debt... non-income producing debt is Bad Debt. It's a simple rule based on logic. Think about it! Call PARAGON today for a complimentary consultation. You will be very glad you did... no obligation, just a very worthwhile education.
SIX-FIGURE INCOMES REQUIRE DEBT

According to an old adage, "There are two ways to get rich in this world, either be born rich or marry rich". If you are already rich you don't need to read this article, but if you count yourself among the less fortunate millions (that would be people and not dollars), then this article is for you.

There's another old adage, "It takes money to make money". If you were not born rich nor married rich, then there are only two ways for you to get money, earn it or borrow it. Generally, in order to earn the most you can over your lifetime you have to invest in yourself by obtaining an education. It is well known that for most everyone, there are distinct parallels between the amount of education you receive and the amount of money you can make over your lifetime.

This creates an interesting conundrum. Higher education to earn more money requires money. But you don't have money (which is why you desire the higher education), so the likely option for most of us is to borrow money to go to school. You borrow money to invest in yourself through higher education, gambling that your future earnings will be enhanced enough to pay off this educational debt and allow you to live a better lifestyle. An interesting conundrum indeed!

If you choose to avoid this educational debt, your future earnings will suffer. So, you made the wise choice. You chose dental school debt in exchange for increased knowledge and increased future earning power. That makes your educational debt, in actuality, an investment.

The April 1999 (Vol. 130) issue of the Journal of the American Dental Association published an article about student debt, written by its editor, Dr. Lawrence H. Meskin. This article stated that the average dental student graduates with debts of $150,000. Findings from an ADA study said "Ninety-one percent of [student] respondents said "I can not afford to purchase a practice." In addition the article stated, "There has always been some professional conjecture that high student debt forces new graduates to select dental delivery systems outside of the traditional fee-for-service modality. Twenty three percent of recent graduates derived more than 25% of their billings from PPO's, capitation plans and these graduates don't see their debt disappearing in the near term. More than 75% say their student debt will have a substantial effect on them financially for the next 10 years."

There indeed is a problem, however, the problem is not the fact student debt exists or in the amount of the debt that has accumulated. The problem is what these students opt to do after graduation in their attempt to service their debt. Ninety-one percent of these students are unfortunately misled into believing they cannot afford to buy a practice when just the opposite is true.
This bears repeating, 91% OF ALL DENTAL SCHOOL GRADUATES ARE UNFORTUNATELY MISLED INTO BELIEVING THEY CANNOT AFFORD TO BUY A PRACTICE WHEN JUST THE OPPOSITE IS TRUE!

Most dental school graduates have made a substantial investment into their education and are relatively heavy in debt when they graduate. These new dentists need to earn a substantial income to be able to service that debt and cover their basic living expenses. As mentioned, according to the ADA findings, 91% believe they can not afford to buy a practice, so, they typically decide to take the associate route. But, with the average annual associate incomes being in the $90,000 to $110,000 range, most will not earn what they need as an associate.

Typically what happens to most new graduates is that they scratch around looking for that dream associate position. But they eventually discover that the dream position simply does not exist. They get all kinds of promises from dentists who are willing to allow them to hang around their offices during off hours (evenings and Saturdays), hoping to snare some emergency patients or perhaps do some grunt work the current practice owner does not want to do. They will get job offers to work the capitation patients of a practice. Some will land true associate positions working with some quality patients but they will discover that the annual income is still not high enough to satisfy their financial needs. Unfortunately, most new dentists who don’t acquire a practice will not earn enough to cover living expenses as well as pay-off student debt.

It generally takes two to three years for these new graduates to discover that there is no easy solution to this debt problem. Many of them spend years going from place to place looking for that non-existent dream position or end up in dead end associateship positions. They often find themselves even deeper in debt (the interest has compounded on that education debt) and no legitimate prospects for making a decent living.

The most frustrating part of this scenario is that it so unnecessary. To earn enough money to pay off their existing debt and sustain a decent life style, these dentists need a steady source of income that much more than can be earned in an associate position. This is easy to solve. They need to invest in the one thing that will provide you with the income to ultimately get you totally out of debt... a dental practice. You have to love the irony of the solution. Being in debt requires a dentist to go further in debt to obtain a dental practice so the dentist can get out of debt!

Virtually all of PARAGON’s new practitioner clients have educational debt. And generally lots of it! Once these doctors finally understand that they cannot afford NOT to buy a practice, they are on the right track to solving their problem. Our recent graduate clients are wise enough to realize there are no dental jobs that are going to pay them enough money to live as they deserve as doctors as well as provide the funds needed to pay off their student loans. These young doctors are wise enough to invest in themselves once again, by purchasing a practice that will provide them with the income needed. They are not afraid of going deeper into debt to invest in themselves.
Education costs are high, but not at all out of line with any other investment that can pay a high rate of return. If a dentist will use his or her head and grasp the logic of this article, then they will not waste years coming to this conclusion. The JADA article said it took $150,000 to educate one dentist. Well, if that dentist chooses not to waste a lot of time and invests in a practice immediately, then that dentist's gross income can easily exceed $17,500,000 over his or her practice lifetime (35 years of practice, $500,000 gross per year, not adjusted for inflation). That makes the cost of the education less than one percent of total future revenues, which is less than the telephone expense for the typical dental practice over the same time period.

The problem with higher education in dentistry is not the cost. The problem is the misguided information provided to dental students relating to sound business decisions. One percent of total future revenues for education is not an expensive investment, it is a real bargain. The cost is the misinformation provided to these students, misinformation often supported by the instructors themselves and articles such as this that appear in JADA. Students are not being told of the importance of time and income, of starting out their career as a practice owner, not an employee. Our first year practice purchasers have an average pre-tax income of $175,000, after all expenses and practice-related debt service. Compare that to any job offer where you will be lucky to make $100,000 your first year.

Your education is a threshold expense. Financial success requires additional investment and therefore additional investment debt. If that additional investment debt gets you in front of high-quality patients and provides you with a healthy six-figure income your very first year after graduation, then none of this additional investment debt will ever be a problem. Delay and you will only end up costing yourself more money. You will eventually purchase a practice, just later than you should have!

It's time for someone to inform these students about the TRUE financial facts of life. It's time to talk with PARAGON.
THE HIDDEN TREASURE

Ask a recent dental graduate for a description of the general practice he or she would most like to own and you are likely to hear... “I want a high quality crown and bridge practice, in the best area of town, with the latest equipment where I can do MY kind of work on MY kind of patients.” It would be amazing if a purchaser ever had a different response. We know virtually every dentist wants to own this type of practice, but is it really the best opportunity to purchase?

Opportunity is the key word! It could be that an opportunity is something that simply satisfies the ego; a practice in the best area of town and working with high-income patients can provide ego satisfaction. On the surface it looks like a beautiful situation. But will this “perfect practice” produce the most economic rewards? Is it truly the best opportunity for you?

Over the years, we have received feedback from dentists who acquired these “perfect practices.” They told us the “perfect practice” had a great patient recall system, and like clock work, those quality recall patients were accustomed to coming in every six months for a cleaning and check-up. They also indicated that their patient base was most definitely affluent and high class people. However, the problem reported was that the former owner had seen those patients every six months for years and the former owner had completed most or all of the high profile crown and bridge and cosmetic treatments that those patients would ever need.

“Perfect Practice” patients have a high dental IQ, and they truly do take care of their teeth and their gums. If they need dental work, they have it done right away. They do this instinctively because the seller spent the required time and effort educating these patients. By the time a new owner takes over the “perfect practice”, the new owner will wait years before finding a substantial need for further comprehensive, high profile dental services on any of those patients.

In the meantime, the overhead and loan payments still have to be paid, which produces very lean months and in some cases very lean years. The “perfect practice” can often prove to be a not so good financial opportunity after all since the purchase price of the “perfect practice” is always higher than most other practice opportunities. Price is a factor of supply and demand and there is always huge demand and a limited supply of the “perfect practice.”

Now let’s suppose you have an opportunity to purchase an older dentist’s practice (for the younger dentists, “older” means anyone over the age of 40). Typically the older dentist has been trying to practice fewer hours and fewer days each week. He may even be practicing fewer and fewer weeks each year. The older doctor is no longer motivated by money; the older dentist seeks more quality non-practice time. As a result, the older dentist is less inclined to even want to start the more time consuming, comprehensive services such as crown and bridge treatment, cosmetic treatment, etc., unless it is absolutely necessary.
This kind of practice is called a “maintenance practice.” The “maintenance practice” frequently has a lot of patients that need a lot of dental work done. It has been easier for years for the doctor to just temporarily fix a problem rather than start a big, time consuming procedure. Even though it may not be what the purchaser perceives as the “perfect practice” in the best part of town, the “maintenance practice” virtually always provides the maximum financial opportunities.

The gross production of the maintenance practice is generally much lower than that of the “perfect practice.” The demand is also much less for these practice (although it should not be by any means). Thus the purchase price of the “maintenance practice” is significantly less than the “perfect practice” purchase price. However, even though the price is less, it is not unusual for the “maintenance practice” to actually have more patients than the “perfect practice”. The gross income is typically lower only because the doctor is no longer motivated to produce the dentistry that needs to be done.

The purchaser of a “maintenance practice” can immediately implement a recall system and begin presenting more comprehensive dental services. There is always a ton of high quality dental work that needs to be done in these practices. And, there is no reason for patient acceptance to not be just as good as in the “perfect practice.” The “maintenance practice” patients know that the treatment is needed, and if the new doctor presents the cases properly, they will accept the treatment plans.

The doctor who buys a “maintenance practice” will usually double or triple (often even more than triple) the gross revenues of that practice the very first year of ownership and the production typically continues to climb! And the overhead and debt service in a “maintenance practice” is always significantly less than the “perfect practice”, making profits outstanding.

The “maintenance practice” truly is a “Hidden Treasure” but like anything else, it takes effort and focus to develop its real potential.

PARAGON frequently has “Hidden Treasure” practices to offer our clients. And these “Diamond in the Rough” practices are tremendous opportunities for the purchaser who can see a true opportunity.
ESTABLISHING A FAIR PRICE

Dental practice valuation experts are very easy to find. It seems that another emerges every month. A new name can be seen attached to practice valuation articles in Dental Economics or JADA virtually every month. An occasional Google search reveals a new website proclaiming their firm to be experts in the dental practice valuation field (although many of these new experts were totally unknown a month earlier and many have never even sold a dental practice). As the old adage states... dental practice transition experts are a dime a dozen!

It is very easy to be considered an expert. All you really have to do is proclaim yourself to be an expert and amazingly... you are forever more, an expert! If you can somehow get an article placed in one of the trade journals, you are really an expert! If you conduct a seminar and travel from out of town, you are BIG TIME expert! It is not even necessary that you have ever sold a dental practice to be proclaimed an expert. And, once proclaimed to be an expert, from that point forward, everything you say or write comes from the brilliant mind of a seasoned, well-respected, knowledgeable expert!

So... let it be proclaimed, PARAGON is an expert in the dental practice transition field! Not because PARAGON has valued thousands of dental practices nationwide; and, not because PARAGON has sold thousands of dental practices nationwide. PARAGON is an expert in the dental practice transition arena simply because we proclaim ourselves to be an expert (just like all the other experts have done)!

What is the point of all of this satirical mockery? The point is that you can easily find an expert who will support YOUR opinion. If you don't like what one experts tells you, you just keep searching out experts until you find one that thinks like you think!

For example, some valuation experts say that today’s dental practices should be selling in the 60% to 70% of one year’s gross production range. Others say that the range is 65% to 75% and still others say that the range is 70% to 80%. One well known expert states that ALL dental practices should be valued at 65% of one year’s gross collections. Another proclaims that the value is 100% of one year's gross production. PARAGON states that any pre-defined percentage range is a ridiculously inaccurate way to value a dental practice since no two practices are exactly alike. As you can see, we have a major discrepancy in the opinions of the experts.

So, who and what can you believe? The only constant and accurate decision making factor... logic! Practice value can only be determined after a logical and systematic analysis of the practice.

From the time PARAGON first looks at a dental practice, it is typically a period of several months before the final value is placed on that practice opportunity and the practice is listed for sale. PARAGON must carefully examine the practice, both internally and externally, and then determine a fair and equitable value that will both provide the seller with a fair price and provide the buyer with a profitable return based on risk and
reward. It takes time to finalize a practice analysis so one will know the correct practice value. It is not a matter of using a pre-determined valuation percentage. This is logical.

Over the last two decades, PARAGON consultants have sold dental practices all across the nation. Some were valued as low as 45% and others as much as 95% of the most recent twelve month’s collected production! Practices were sold by PARAGON last month in this 45% to 95% range. And you know what? Practices will be sold by PARAGON next month in this same 45% to 95% range regardless of what the other “experts” say a practice should be worth!

Establishing practice value is a logical process not a simple matter of applying percentage ranges. Think about the decrees of the 60% to 70% practice value experts for a moment. Two practices are located side-by-side in the same office building. Both are grossing $500,000 a year. But Practice A nets its owner $225,000 a year on a 3.5 day workweek, has brand new equipment, a thriving hygiene department and 100% fee-for-service patients. Practice B nets its owner $75,000 a year on a 5 day workweek, has 30 year old equipment (constantly needing repair), the doctor does all hygiene and 95% of the patients are from managed care providers and capitation programs. Are you really going to accept that Practice B is worth 60% of its gross while Practice A is only worth 70% of its gross? That’s preposterous!

Do you honestly think that real estate sells in pre-determined valuation ranges? Suppose we have three side-by-side lots located in an area where lots have sold in the $20.00 to $21.00 square foot range. Two of the side-by-side have already sold at $21.00 per square foot. The third lot is the exact same size as the other two lots but unfortunately is 75% covered in a bottomless swamp of mud and quicksand. The preliminary estimates reveal that the foundation alone will cost $125,000 greater than a comparable building on either of the other two lots. Is this third lot fairly priced in the $20.00 to $21.00 square foot range? Of course not.

Think logically. Call PARAGON and we will help you find the right opportunity for you that is fairly valued.
I’M INTERESTED! HOW DO I GET STARTED?

That the easy part! Just call PARAGON toll free at 1.866.898.1867 and schedule a no-obligation consultation with the PARAGON consultant in your area. Your highly trained and knowledgeable PARAGON consultant will fully explain the various PARAGON programs, answer your questions and outline the steps needed to complete a successful practice acquisition or equity associateship.

Your consultation will be quite an educational experience. You and your consultant will cover the important aspects of a successful practice acquisition. You will also explore your personal and professional needs and goals and examine how PARAGON may fit into your future plans.

Your PARAGON consultant will also review a sample Financial Analysis Report with you so you can see first hand just how in-depth PARAGON’s analysis is for each practice opportunity we offer. This sample Financial Analysis Report will show you exactly how to evaluate a practice opportunity and what questions you should be asking. Each PARAGON Financial Analysis Report contains an extremely informative 10-year Proforma that offers a realistic projection of just what net cash flow can be anticipated from the acquisition of the practice. The Proforma takes all cash inflows and outflows into consideration, including debt service, and is based on the most recent practice financial data available.

Your consultant will also explain how we can help you obtain financing for your practice acquisition and how it is possible for a transaction to be structured in such a way that you will not be required to put any of your own money into the practice acquisition. If your credit is good, your current dental school and other debts are typically not an adverse factor in obtaining financing for acquiring a practice.

Call PARAGON today! No obligation… just a very worthwhile education!