MANAGEMENT & MARKETING

(Editor's Note: This quarterly JCO column is compiled by Contributing Editor Howard Iba. Every three months, Dr. Iba presents a successful approach or strategy for a particular aspect of practice management. Your suggestions for future topics or authors are welcome.)

This month's column continues our series on transition with an article by Dr. Jerry Clark, a practicing orthodontist from Greensboro, North Carolina, and CEO of Orthodontic Management Group. Dr. Clark adamantly believes that you should sell your practice, rather than just walking away, and that you should start early to develop your plan.

Dr. Clark presents convincing evidence that it is a buyer's market and that, as in real estate, location is everything—in this case, the area of the country instead of the area in your city. According to his research, there are parts of the country where selling a practice may be extremely difficult, if not impossible. If your practice fits this description, he suggests different strategies and even earlier planning. Ironically, it seems to me that if practice size and location limit your ability to find a buyer, you might have to adopt the approach that Dr. Clark cautions against—not selling your practice at all.

In any case, I think you will find Dr. Clark's ideas relevant and helpful in planning the eventual disposition of one of your most important assets.

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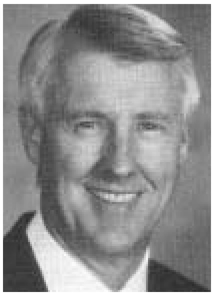

Dr. Iba

Dr. Clark

Practice Transition: To Sell or Not To Sell?

If you had a house worth $1 million and wanted to move, would you sell it or just walk away? That seems a silly question, but when it comes to selling your practice, some respected advisers would have you believe that walking away is a viable option. The average sales price of practices we work with today is nearly $1 million. Given an asset of this size, I submit that the question is not, "*Should* I sell my practice?" but rather, "*Can* I sell my practice?"

There will come a time when you will want to retire. Gottlieb made that point clear in a classic 1993 JCO Editor's Corner.[1] If you are eventually going to retire, would it not make sense to reap the benefits of all your years of hard work in building a practice? Would it not make sense to give a jump start to a young orthodontist entering the specialty? The present article is an effort to put this topic into perspective and allow the practicing orthodontist to develop a strategy for practice transition and sale.

Demographics: They're Not in Your Favor

This year, approximately 260 residents will graduate from orthodontic training programs in the United States. Some will return to foreign countries to practice, and some will enter active military service. A few will enter academics, while others will seek employment with management service organizations. Some will decide to enter practice with parents; some will choose to start their own private practices. That leaves fewer than 200 graduates available to purchase existing practices. With orthodontic training pro-

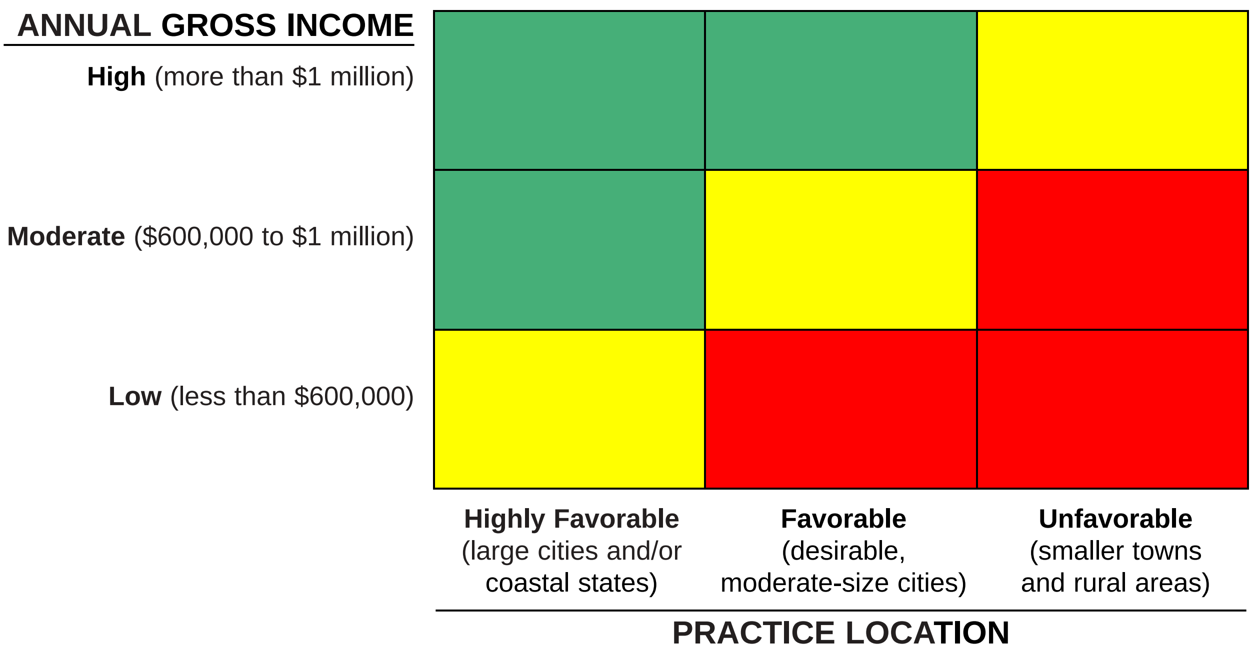

Fig. 1 Practice transition success grid.

grams closing and class sizes dwindling, this number is not expected to increase significantly over the next 15 years.

According to Orthodontic Management Group's survey of the residents graduating in 2000, there are nine states in which no residents have expressed any interest in practicing. In other words, there is definitely a geographic bias that will make it difficult or impossible for orthodontists in some parts of the country to sell their practices, no matter how well run these practices might be.

I have developed a simple grid to enable you to quickly assess your chances of eventually selling your practice, based on your current gross income and location (Fig. 1). Whether you fall into the green, yellow, or red area indicates your likelihood of transition success and suggests a strategy as outlined below.

Green = Go
Transition Probability: Excellent

If your practice is of high or moderate income in a highly favorable or favorable location, then your chances of selling are extremely good. In our survey, more than 80% of the graduating residents wanted to enter profitable existing practices. It only makes sense. Some of the benefits for new graduates include:

- Less risk.
- Guaranteed immediate income.
- The opportunity to continue to build an already thriving practice.
- The opportunity to work with a mentor.
- The opportunity to benefit from the good will already established within the community by the senior orthodontist.
- The opportunity to practice in a high-quality facility that otherwise would not be affordable for years.
- The opportunity to practice immediately with a well-trained staff.

Strategy: The practicing orthodontist should start looking for an associate/buyer at least seven years prior to retirement—perhaps even sooner if the practice is getting too large to comfortably handle alone (Fig. 2). This gives the seller ample

This test is designed to assist the orthodontist in determining the appropriate time to bring in an associate or partner. Circle your score on each of the following scales, and total your scores to see where you are in the transition process.

ITEM **SCORE**

1. Age of treatment facility

1 2 3 4 5 6 7 8 9 10 ______

1 year 10 years 20+ years

2. Need to maximize retirement income from sale of practice

1 2 3 4 5 6 7 8 9 10 ______

Not necessary Very necessary

3. Desire to work fewer hours

1 2 3 4 5 6 7 8 9 10 ______

Want/need to increase Satisfied with present hours Want/need to cut back

4. Desire to expand referral base

1 2 3 4 5 6 7 8 9 10 ______

No desire Strong desire

5. Number of new patient referrals

1 2 3 4 5 6 7 8 9 10 ______

Many more this year than last Less this year than in previous years

6. Effect of a new, hungry practitioner opening in the area

1 2 3 4 5 6 7 8 9 10 ______

Not much Somewhat A lot

7. Percentage of general dentist referrals

1 2 3 4 5 6 7 8 9 10 ______

100% 50% 0%

8. Saleability of practice if sold today

1 2 3 4 5 6 7 8 9 10 ______

Easy Somewhat difficult Difficult

9. Desire to bring in an associate/partner

1 2 3 4 5 6 7 8 9 10 ______

No desire Might consider A must

10. Age of orthodontist

1 2 3 4 5 6 7 8 9 10 ______

30 years 45 years 60+ years

TOTAL ______

Key to scores:

75-100 Start planning for transition immediately; begin search for associate/buyer soon

50-75 Consider taking on associate/partner within 3-5 years; start developing transition strategy now

25-50 Begin planning, even though a partnership may be some years away

0-25 Although you have no immediate need for an associate/partner and may be years away from retirement, you should still be aware of the advantages of proper plan-

Fig. 2 Transition planning test.

time to choose the best possible candidate, effectively introduce him or her into the community, and ensure the success of the practice.

Yellow = Caution! Transition Probability: Guarded

For orthodontists in the yellow range, sale of the practice will be a greater challenge, and more planning will be required. Since you probably won't be able to move your practice to a more favorable location, the best strategy becomes making your practice as productive and profitable as possible. The higher the income, the better your chances of selling. If you are eventually unable to sell, you will at least have the financial resources to enjoy a comfortable retirement.

Strategy: Start early! Age 45 is not too soon. Try to identify potential candidates by writing to schools, contacting the AAO's or your constituent society's matching service, looking in journal classifieds for interested buyers, or working with a transition company. Even more important, make your practice the best it can be to help attract potential buyers.

Red = Alert! Transition Probability: Unlikely

Unfortunately, if you have chosen to practice in an area of the country in which the population is not steadily growing, your chances of attracting a buyer may be slim. Unless you are fortunate enough to find a resident who is returning to a home town or is not interested in living in an urban area, you might need to consider other alternatives.

Strategy: Start as early as possible, and use every resource available to attract potential buyers. Do everything you can to improve your practice. Look at different options, such as selling your practice to another orthodontist in the area or to an MSO. You might need to practice longer than you originally anticipated to fund your retirement adequately. In 1993, Gottlieb estimated that a retiring orthodontist needed a retirement fund of at least $3 million.[1] Today, that number is probably closer to $4 million.

Conclusion

Every orthodontist should develop a plan to be financially independent by age 55, so that when the time to retire does arrive, he or she can use the income derived from the practice sale as an added bonus. Don't count on the sale of your practice to help fund your retirement plan. But don't plan to walk away from a valuable asset, either. Start planning for your retirement today.

REFERENCES

1. Gottlieb, E.L.: Editor's Corner: You will retire, J. Clin. Orthod. 27:657-658, 1993.

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