

# The Dental Transition

N E W S L E T T E R

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## A Buyer and Seller's Guide to a Seamless Practice Transition

*Whether you're on your way in or out, prepare yourself for your practice transition with these tips.*

Transitioning a dental practice from one owner to another is a significant milestone in a dentist's professional journey. For the aspiring dental practice owner, purchasing a practice and transitioning into the role of owner signifies the beginning of their entrepreneurial journey, a new chapter filled with opportunities and challenges. For an established dental practice owner, their practice is likely their most valuable financial asset, not to mention the years of hard work it represents. For both buyer and seller, it can be a thrilling and nerve-racking experience. However, a seamless transition is all about the prep work. In this article, we'll explore considerations for a successful transition for buyers and sellers.

### The Prep Work

Before you dive into the transactional phase of the transition process, buyers and sellers should be on the same page philosophically, or at the very least, be able to acknowledge their differences. Every practice acquisition is different, so if you're an aspiring owner, it's important to set your expectations and know what you're looking for. Take some time to envision what you want for your future practice. Consider the location, the building, patient base,

cash flow, equipment, staff, and your mission, vision, and values. Answering these questions will help determine if you're searching for a practice with untapped potential or looking for a well-oiled machine. Working with a consultant can help identify these areas of potential improvement, and propose modifications to help elevate the practice. If you're unsure what you're looking for, NAPB.org is also a good place to search.

It goes without saying, sellers should clarify their motivations. Do you simply want to cash out, retire, and move to Hawaii? Or do you want to preserve your practice's legacy? Your answers determine whether you should sell to someone who shares your values as you consider potential buyers. You could sell your practice to an associate of the existing practice, a dentist outside of your practice, or to a dental service organization (DSO). Whomever you choose, finding "the right buyer" who has a shared practice philosophy will set your team and patients up for a good experience when transition day arrives. When searching for the right buyer, you may utilize a dental practice broker who specializes in matching buyers and sellers in the dental field, and have valuable insights and connections.

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# A Buyer and Seller's Guide to a Seamless Practice Transition

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When it comes to practice philosophy, this includes not only the clinical aspects but also the overall approach to patient care, practice management, and business ethics. A philosophical match between buyer and seller can lead to a smoother transition and a more harmonious post-closing relationship, ultimately helping to form your transition plan.

## Communication is Key

One of the fundamental pillars of a successful practice transition is effective communication between the buyer and the seller. Before a practice transition, establish a clear line of communication so you can have open and transparent dialogue throughout the process. Discuss, both verbally and in writing, expectations, goals, timelines, and any concerns that may arise before the sale of the practice. Nearly as important as strong communication between the buyer and the seller, is communication between the seller and their legal team, staff, and patients. If a legal issue arises during communication, ensure that you discuss the issue with your attorney, as it could affect your long-term liability or cost you money, either immediately by purchase price adjustments, or allocations on the purchase price. As the seller, you'll also want to reassure your staff and patients that they will be in good hands with the new owner. Communication can promote a comfortable and harmonious environment, which can help reduce any potential employee or patient turnover.

## Articulate your Transition Plan in Advance

As a buyer, you've been dreaming of becoming a practice owner. But what does ownership look like to you? Take time to put your transition plan on paper. What's your practice's "why"? Having a clearly defined business strategy, goals, values, and timeline can help you stay focused and not just start making changes for the sake of making changes. Taking time to plan can help set the stage for the type of owner you want to be. Outlining how you intend to manage patient care, your staff, and day-to-day operations can help you engage more effectively with consultants and other professionals, who will be assisting you in the transition. The clearer your plan, the easier it will be to implement it smoothly.

It's important to acknowledge that even though you have your own goals for how your future practice will operate,

being aligned with the seller about some of the details of the transition will be beneficial to everyone. Take time to hear their transition plan. Do they have handshake deals with their staff, patients, or community? Then take time to share your plan. By working together, you can implement changes gradually. This will help ensure that each of your modifications is intentional and that you are not making changes for the sake of making changes.

## The Day you Been Waiting For

Transition day marks the culmination of a journey filled with anticipation, negotiation, and preparation. The baton officially passes from seller to buyer. It can be both a thrilling and nerve-racking experience for all parties involved.

Transition day essentially unfolds in two distinct phases: pre-closing and post-closing. Initially, there are experts who provide guidance before the sale, and their roles might conclude at the closing date. This group typically comprises attorneys, consultants, lenders, and brokers. After the sale is sealed, the attorney's responsibilities cease, documents are signed, and the consultant and lender may not be involved in the transition day. This leaves only the buyer and seller, who often have limited post-closing communication. However, if you did all of the prep work, this day should feel effortless!

## A Win-Win for Buyers and Sellers

Navigating a practice transition in the dental industry requires a shared commitment to success, effective communication, and careful planning. Buyers should develop a clear transition plan and engage consultants to identify areas for improvement. Sellers should communicate their expectations to brokers to facilitate better matches with buyers. When both parties share a similar philosophy, and work together, the transition can be a smooth and successful process.

If you're ready to take your practice ownership dreams into your own hands, be sure to give us a call so we can help you put these steps into action for a smooth transition.

# Don't Sabotage Your Practice Transition:

## Key Terms to Consider When Hiring an Associate Before Your Practice Transition

For many dentists, the sale of their dental practice marks a significant milestone in their professional journey. However, what some may overlook is the critical role that a well-drafted associate agreement plays in safeguarding, maintaining the value and protecting the goodwill of their practice during this transition. If the associate agreement does not contain adequate protections, buyers may be wary that the associate will leave and take the patient base or staff. In this article, we'll delve into the importance of a well-written associate agreement and its impact on the sale of a dental practice.

The following are the key terms from the practice owners perspective that should be incorporated into every well written associate agreement:

**Fair Market Value Compensation:** Profitability is one of the most important factors in dental practice value. Associate compensation can take up a large portion of overhead. While guaranteed minimum salaries are typical for newer graduates, these should be limited to the first six months or one year of employment. It's better to keep the associate motivated to produce, which is why all associate compensation should be based on a percentage of adjusted gross production. That is, gross production less insurance adjustments, discounts, and bad debt. Additionally, laboratory fees should be reduced from gross production.

As far as the fair market value, the percentage of adjusted gross production that should be paid to the associate is dependent on the overhead of the practice. A general dental practice with standard overhead should not have compensation above 35% of adjusted gross production.

**Termination Clause:** A termination clause with a 90 to 120-day notice period prevents an associate from abruptly quitting, ensuring sufficient time for the practice to find a replacement. This clause is especially important in areas where finding qualified dental professionals is challenging.

**Confidentiality Agreement:** A well drafted confidentiality agreement prohibits the associate from taking or using practice information when he or she has left the practice. This can include patient lists, financial records, or other sensitive materials you may have developed and are crucial

to your success as a practice owner. We like confidentiality agreements because they do not have an expiration date, which is different from non-solicitation and non-compete clauses which are generally limited to one or two years.

**Non-Solicitation Clause:** A non-solicitation clause prevents the associate from soliciting patients or staff members to leave the practice. This may be the most important term of the agreement as this protects from the associate stealing the patient base, staff, and referral sources (in the case of a specialist) when he or she has joined a new practice. The importance of this term is magnified with the staffing shortage that many of our clients currently face. We recommend a minimum of one to two years to adequately protect the goodwill of the practice.

**Non-Compete Agreements:** While unenforceable in some states, if allowed, an associate agreement must have a broad non-compete agreement. Now, state specific laws will govern enforceability, but a minimum of six months to one year will be sufficient to protect the practice's goodwill. The radius will largely be dependent on the practice's market and patient base. With a rural-based practice, the patient base will travel a greater distance, which will allow a broader geographic scope for the non-compete clause. Conversely, a suburban or urban dental practice will be limited in geographic scope because its patient base is narrower. Ultimately, the geographic scope is limited to the range necessary to protect the practice's business interest or goodwill.

**The Impact on Practice Sale:** A well-drafted associate agreement not only protects the practice during the associate's tenure, but also enhances the practice's value during a sale. If an associate agreement does not have sufficient protections, many potential buyers will be reluctant to make an offer on a practice or will greatly reduce the purchase price offer to mitigate risk. Further, if the compensation or benefits are over market value, the profitability of the practice will suffer, making the practice less valuable at best or, in a worst case scenario, unsaleable.

As with all things involving the contracts affecting your dental practice or your practice transition, we highly recommend consulting a dental-specific attorney or practice transition specialist.



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## What Our Clients Have To Say About Us Matters

"When I decided to buy a dental practice, I quickly learned that practice brokers represent the seller. As a buyer, that posed some challenges. Of all the brokers I worked with in St. Louis, Kim was the only one who managed to make me feel that she was actively trying to find a practice for me to buy. Not only did she help me find a practice I loved, but she still represented her seller well and was fair throughout the entire process. Because of her, I am now the owner of a great dental practice that I love and I truly believe she made that happen for me. Thanks Kim."

– Dr. Victoria Daugherty

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**Contact us TODAY to schedule a free consultation!**

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