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# Practice mergers: a great way to grow!

There are several ways in which dentists can grow their practices. Some of these methods range from expensive marketing campaigns to expanding services or products offered to patients. Although these methods may prove to be effective, we have found the best and most profitable way to grow a practice is a "practice merger."

In essence, a practice merger involves the complete movement of a seller's practice into a buyer's facility. Even though these practice mergers can be extremely beneficial to both parties, certain fundamental elements should be in place to maximize the benefits of a practice merger.

❶ *The buying doctor must have a facility that can accommodate the additional patients and/or dentist.*

❷ *The buying doctor must have the personnel and ambition to accommodate the new patients.*

From the selling doctor's perspective, it is best not to have a lease or, if the doctor does have one, it should be a short-term lease obligation. If the selling doctor's equipment has little or no value, this is not necessarily detrimental, since the acquiring doctor may not be interested in the practice's "hard assets." However, even if the selling doctor's equipment is ultimately discarded by the buyer, the purchaser may still be able to deduct the "allocated value" of the discarded equipment. Finally, the two practices need to be fairly close to one another, since the goal is to have the selling doctor's patients end up at the buying doctor's office.

If the above criteria are met, a practice merger can be amazingly beneficial to both parties. From the selling doctor's perspective, it may be the best and only way in which to sell his or her practice. For example, if the selling doctor has an older facility and equipment, the practice itself will not be attractive to a potential buyer. However, if the seller still has a substantial number of loyal patients, those patients do have value and make a practice merger a better option. Trying to sell this practice as a turnkey operation would most likely diminish its value and possibly make it unmarketable. From the buying doctor's perspective, the benefits of these practice mergers are economically self-evident. The following example will illustrate this point.

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Assume that Dr. Buyer's practice collects $500,000 with a 70 percent overhead (i.e., $150,000 profit). Dr. Seller's practice collects $300,000. If Dr. Seller's practice is successfully merged into Dr. Buyer's practice, the end result will be Dr. Buyer's practice collecting $800,000 annually. Even more importantly, the relative overhead of Dr. Buyer's practice will decrease significantly. In essence, Dr. Buyer is simply "stacking" Dr. Seller's practice on top of his or her existing practice and overhead structure.

The net effect is that only Dr. Buyer's variable expenses will go up (e.g., supplies, lab fees, assistants' and hygienists' salaries), and the remaining fixed expenses will be more efficiently utilized. In this instance, Dr. Buyer's profit should increase from $150,000 to over $300,000.

Best of all, this additional cash flow becomes a future annuity of revenue for Dr. Buyer as the years go on. Moreover, the additional production increases Dr. Buyer's practice value to a greater extent than the purchase price he or she paid the selling doctor.

Naturally there are variables; however, our experience reveals that most practice mergers actually see an increase in production from the selling doctor's practice after the merger. If it is handled properly with the expertise of a competent transition specialist, a practice merger can be a very rewarding and profitable acquisition for the purchasing dentist.

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