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Hoping to Own Your Own Practice?

Times have changed. Here's what you need to know to keep pace with investor dentists.

If you are a young dentist who wants to buy a practice, you have advantages that “investor dentists” do not have. If you understand and work with those advantages, you can get the practice you really want. Our two previous articles (in the October 2014 and March 2015 issues of *Ontario Dentist*)* focused on the factors driving the selling prices for dental practices, and why we expect prices will likely continue at their recent highs. The role of investor dentists was identified as a major contributing factor driving prices to their current levels and one that will likely help keep them at least as high as they currently are.

With so many owners buying a second or third practice (or more), the traditional path to practice ownership — graduate, associate for two to four years to build your skill set and confidence, then buy a practice — increasingly seems like a dream for many young dentists.

Advantages That Investor Dentists Have

Most young dentists already have a good, albeit exaggerated, perspective on the advantages that investor dentists have. They are:

- **Financial Resources.** Not only are investor dentists free from student debt, they usually have significant equity in their current practice(s), which they can use to secure financing for a new practice, or they have access to other sources of capital.
- **Clinical Experience and Access to Specialists.** Many investor dentists have developed one or more specialized skills such as implant placement or orthodontics, which they provide themselves or through travelling specialists. These specialized skills allow them to do more procedures in the practice, increasing cash flow versus what a new young dentist might be able to do on his or her own.

- **Management Experience and Confidence.** Investor dentists have bought at least one practice, and sometimes many practices. They likely have the experience to manage the process well. They also have practice management experience, which should allow them to run the purchased practice more effectively, giving them more cash flow to be able to justify a higher purchase price.

How to Mitigate the Investor's Advantages

The investor dentist's advantages may be intimidating. So, how does a young dentist compete? First, work to mitigate these advantages.

- **Financial Resources.** Despite what you may think, you may not be at a disadvantage here. Even if you have student debt, banks are usually still prepared to loan you — at prime — most, if not all of, the money you will need to buy a practice, with only the practice as security — and that is equal to what an investor dentist will get from a bank. In some instances investor dentists may actually face more bank scrutiny as their total debt moves upward and attracts more examination from departments in the bank that worry about the high level of exposure.
- **Clinical Experience and Access to Specialists.** Use the time before you buy a practice to build up your experience and skills with some more specialized procedures, so you do not have to refer out as much work once you own. As long as you develop good skills, your extra knowledge will benefit patients by providing more services to them from within the practice, while also improving your bottom line. You might also consider partnering with a classmate or colleague who has a complementary (clinical or business) skill set to yours.

- **Management Experience and Confidence.** You cannot duplicate the experience and confidence that current practice owners have. But you are able to hire people who can. The most important advisor when you are looking to buy a practice is an accountant — but only a very experienced dental accountant is going to be able to advise you properly on the purchase of a practice. Find out from your accountant *exactly* how many purchases or sales of practices he or she has been involved with in the past year. Simply having “a lot of clients who are dentists” is not good enough. If your primary advisor has not been involved in several purchases or sales in the past year, that accountant does not have enough experience to effectively advise you in such a varied and rapidly changing market.

Your Not-So-Secret Advantages

Investor dentists recognize you have advantages, too, including three important competitive ones they can never duplicate:

- **Productivity.** You have the ability and the will to work harder and care more than any associate an investor dentist will hire. Most owner dentists will work longer hours, spend more time at the office, and make more sacrifices than any associate working for an investor dentist. And, unlike an investor dentist, you will likely end up taking on administrative work instead of paying others to do it. It costs investor dentists a lot more to do what you will do, and the people they hire will likely not do it as well, or care as much. You are, in effect, the owner in the store and that can be unbeatable.
- **Continuity.** Once you own a practice, you are not going anywhere. And, if you have good dental and people skills, you will build long-term, trusting relationships with your patients. As their faith in you grows, they will refer more and more new patients to you. That loyalty adds huge value to your practice, and is something that investor dentists cannot duplicate because they are dependent on associates, who can leave at any time to buy their own practice or take another position elsewhere. The “revolving door of associates” is the investor dentist’s primary risk — and you do not have it.
- **Most Vendors Prefer to Sell to You.** While some vendors only care about selling to the highest bidder, irrespective of who that bidder is, you would be surprised how many are prepared to sell at a bit of a discount to someone who will be an owner-operator. Dentists who are staying on for some time after the sale often feel it will be a more enjoyable experience to work with a dentist who is now what they once were. And some simply feel that it is the way dental practices should operate. So, depending upon the vendor, you often have an advantage that the investor dentist cannot duplicate.

Conclusion

Although more and more practices are selling to investor dentists, we still see a lot of younger dentists, who are currently associates, being successful at buying a practice. But it is not as easy as it used to be. You need to be prepared to take the risk, have the confidence to do so, and surround yourself with experienced advisors to offset your own lack of experience. But if you do that, you can leverage the advantages you have that investors cannot compete with — your ability and motivation to work harder, the practice benefits that come with being an owner operator, and the fact that, all other things being equal, many vendors would prefer to sell to someone like you.

One last piece of advice: Your perfect, dream practice is not the one that you will buy, but rather the one that you shape and mould from the practice you have purchased. 

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*Back issues of *Ontario Dentist*, including “What is a Dental Practice Really Worth” in October 2014 *Ontario Dentist* and “Dental Practice Values” in March 2015 *Ontario Dentist*, by Dr. Bernard Dolansky and Mr. Bill Henderson, are available online. Visit the ODA website at www.youroralhealth.ca/member/ and click on **Ontario Dentist**, in the top banner.