Taking over

In the second in the three-part series, Simon Hocken of Breathe Business considers various aspects of buying an existing practice

The countryman who famously said to the traveller asking directions, ‘If I was going there, I wouldn’t start from here’, had probably never met a dentist seeking his own practice. However desirable, it may be to create a new business entirely in your own image, it’s often more practicable to buy into, or purchase outright, an established practice and progressively adapt its activities to fulfil your own ambitions.

Many of the basic criteria, which apply to creating a new practice, are equally relevant to acquiring an existing business. Location, and the surrounding demographic, must fit with the type of practice and treatment you aspire to provide; a rural community dominated by young families, for example, is probably not the ideal environment for an implant specialist. If the business is successful, and this is a safe assumption since you will naturally have examined the books before expressing a serious interest, it’s reasonable to assume that the service it currently offers is compatible with the needs of its core clientele, and a radical change of emphasis could be expensive.

Potential for growth?

Although your purchase target fits your present requirements, you should always consider its potential for future expansion; is it already working at capacity? Suppose you decide to open another surgery – is there parking for additional patients? Could the waiting area or the x-ray facilities cope with a higher throughput? More people on the premises may also have an impact on Fire, and Health and Safety regulations.

While taking over a going concern has obvious cashflow advantages, legal and professional advice is vital to assess and where appropriate renegotiate the existing contracts which govern its operation. Two of the most critical aspects are the tenure of the premises; when these are subject to a leasing agreement, and the practice’s relationship with its PCT where an NHS contract is involved. Bear in mind that an incoming owner will also assume responsibility for the existing staff contracts.

Read the lease

Practices frequently come to the market as the consequence of a retirement or the closure of a partnership, but these events may not coincide with the end of a leasing period. Even when this is the case, the seller may still need the approval of the premises’ owner before a change of principal can take place. Whatever the circumstances, a scrupulous examination of the terms of the lease should be undertaken by a specialist solicitor, with particular attention paid to who is responsible for maintaining the property, making good wear and tear, weather related or accidental damage and the funding of any alterations or improvements. Potential purchasers should also be aware that because commercial leasing agreements are normally longer than those covering domestic property, with up to 15 years and renewal options offering security of tenure, lessees are certain to insist on satisfactory bankers’ references before considering a new tenant.

When an NHS contract is involved, the attitude of individual PCTs to a change of practice ownership is notoriously variable; while some appear to be rela-
tively relaxed, others may take the opportunity to insist on a UDA renegotiation when the contract is transferred which effectively shifts the goalposts in their favour. Before making a commitment, at Breathe Business we recommend potential practice purchasers to inform the PCT management of their intentions, preferably in conjunction with the seller, who is in any case obliged to inform the PCT that a sale is in prospect.

Is it worth it?
It’s possible, even likely, that the vendor’s valuation of the practice will not coincide with your own opinion, and an independent valuation undertaken by an industry specialist is essential. While the valuation of tangible assets such as the freehold of the premises or the lease, and the clinical equipment, is relatively straightforward, this is not the complete picture. In recent years, goodwill values have escalated beyond recognition, some would say to unrealistic levels, with figures of up to 150% being recorded in some instances. This trend has been particularly evident in private, urban practices delivering a high proportion of cosmetic treatments, perhaps reflecting the rapid and continuing growth of this area of dentistry. Even among experts, opinions about the importance and long-term value of goodwill differ widely.

Making it yours
From day one of your ownership you will become liable for all the business expenses – most immediately the staff salaries. It has been known for new, more expensive employment contracts to come into force on the very date of the sale completion, another motivation for the careful evaluation of all the paperwork! In any case, as well as the purchase price you must have working capital set aside to sustain the business during the handover or settling in period – it would be rash in the extreme to depend on cashflow alone to see you through the first few weeks. There are also bound to be some changes, however slight they may be, which you will want to make immediately to put your own stamp on the business – new stationery, for example.

Dental practices do not present in uniform shapes and sizes – at Breathe Business we have clients currently engaged in developing or purchasing practices whose locations, among others, vary from a brand new clinic, a stately home and a Georgian house, to a converted off licence. Practice owners are also individuals, and it’s this diversity that makes experienced, professional business and legal advice so important during the evaluation and purchase process.

In my next article, we’ll look at the basic nuts and bolts of running the business in the first few weeks.