Planning your exit strategy: Key questions to address

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Part 1 of 2

In the early days of 2007, you may be reflecting on how your career will end. In any life transition, proper planning can be the difference between success and disappointment. If you are thinking of a practice transition in the next five years, today is a good time to get started. Designing a strategy, timeline and objectives will create the roadmap for your journey into retirement. In this two-part article, we’ll review 10 key points you should consider to maximize a successful practice transition.

A realistic outlook is needed to properly strategize for retirement. In this issue we’ll address five key questions to get the transition planning process started:

1. Can I afford to retire?
   When wanting to retire collides with being able to retire, the outcome can be devastating. Enlist the services of a financial planner to quantify the answer through a retirement income need analysis, which will project what you will need to live comfortably, for how long, based upon your current assets. If a shortfall is uncovered, plan now so you can make adjustments to your lifestyle or income before it’s too late.

2. Will anyone buy my practice?
   The condition of your physical plant will either help or hinder your ability to sell. If your practice has a worn out look, and if your equipment is old, finding a young dentist willing to buy could prove difficult. If you are going to practice five years or more, consider updating your office equipment, or updating your office through smart interior decorating. You will receive tax breaks for Section 179 expense or depreciation, as well as recouping some of the value when your practice is sold. Remember that in an urban or suburban area, competition will be fierce for buyers. Enhancing your physical plant will help you compete in the long run. For practices located in small towns or rural areas, more time is needed for recruitment of potential candidates since the number of potential purchasers is far less than in Metropolitan or Suburban areas.

3. Am I up to date with technology?
   Speaking, investing in clinical technology is only worth it if you can derive benefit from it immediately. Most practices are skeptical of a practice’s potential if computer records cannot be accessed or generated. Generally speaking, increasing your net income for the years leading up to the sale of the practice may increase the value of your practice quite handsomely as well as possibly provide more funds for your retirement plan.

4. How efficient and profitable is my practice?
   Building up your practice before retirement is not counter-productive. In fact, increasing your net income for the years leading up to the sale of the practice may increase the value of your practice quite handsomely as well as possibly provide more funds for your retirement plan.

5. What are my real estate issues; is my building worth more than my practice?
   Since most solo practitioners own their office space, special consideration must be made for the majority of buyers who will not want to purchase the real estate with the practice. Most buyers will want to pay rent initially and then make a purchase after a few years of practice ownership. If a deferred real estate sale is part of your future, be sure that your Agreement of Sale for your practice includes a future purchase option, which allows a buyer the first right of refusal to purchase the building. Not being able to sell your practice and your office space may detrimentally affect your financial plan. Work with a financial adviser to allow for this possibility.

In cases where your real estate’s value is greater than the value of your practice, selling both assets together may create problems with funding for potential buyers. If a buyer cannot obtain funding for the down payment for the real estate transaction, you may need to become a landlord, until a purchase can be made. If so, be sure to charge rent that is comparable to other professional practices in your area. Set lease terms to a minimum of five years with a five-year renewal. This provides lenders with assurance that the tenant will remain.

Part 2: Five key points you need to consider as you get closer to a practice sale.

About the author

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