

The 10 Red Flags

to Watch for When Buying
a Dental Practice

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Buying a dental practice can be an exciting and rewarding business venture, but it's not without its risks. Whether you're an experienced dentist looking to expand or a newcomer to the industry, it's essential to carefully evaluate the practice you're considering. The wrong decision could lead to significant financial and operational issues. Here are 10 red flags you should watch for when buying a dental practice to ensure you're making a smart investment.

1. Declining Patient Base

One of the first things to assess when considering a practice is the patient base. If the number of active patients is in decline, it could signal a range of problems, from poor management to an outdated practice. A healthy practice will typically have a steady or growing number of patients. A decrease in patient volume could indicate a problem with the location, staff, or even the dentist's reputation. You may encounter a practice that has recently dropped out of network with some or all insurances. The problem with this is that you may not know how many patients are going to stay with the practice for 6 – 12 months. In situations like this you need to pay close attention to the number of prophesies they were doing monthly before and after they dropped insurances. In short, you need to be sure to inquire about the practice's patient retention rates and how often new patients are brought in.

2. Unclear Financials

Financial transparency is crucial when buying any business. If the seller is unwilling to provide clear and accurate financial records, it's a major red flag. You should have access to tax returns, profit and loss statements, and any other relevant financial documents for at least the last three years. Lack of financial clarity could indicate poor business practices or an attempt to hide debts or liabilities. Furthermore, if the financials are confusing and require a lot of mental gymnastics to understand, you may want to consider another practice. Complicated financials are a good indicator the practice has many problems, including non-financial problems.

3. High Staff Turnover

High employee turnover in a dental practice can be a significant concern. Consistent staff turnover often points to poor workplace culture, management issues, or dissatisfaction with the owner's leadership. As a buyer, it's important to talk to current and former staff members about the work environment and what might be contributing to frequent departures. A stable, experienced team is essential for a smooth transition and continued patient care.

4. Bad Google Reviews and Low Google Star Average

Google reviews are a great way to learn about a practice. Reading the patient reviews can tell you a lot about how the doctor and staff treat their patients. If a practice has an average of 3 stars it's a good indication the doctor doesn't care that much for his patients and or his/her business. A practice should never have less than a 4.5 average star ranking and it's nice to have at least 20 reviews. Closer to 100 is preferred for an office that has been open 5 + years.

5. Outdated Equipment

The dental industry is technology-driven, and outdated equipment can lead to inefficiency and even affect patient outcomes. If the practice is using old equipment or outdated technology such as film for imaging, it could be a sign the practice has been poorly maintained or is operating below modern standards. Be sure to review the condition of all dental equipment and ask about any upcoming replacements or upgrades that may be needed.

6. Bad Location

Thanks to the internet, location is not as important as it used to be, but it's still important. A good location with great visibility is like having a billboard and you will likely receive a fair amount of new patients who drive by your office on a regular basis. If the practice is in an area that is underpopulated, has a declining economy, or is difficult to access, it may struggle to attract and retain patients. Research the area's demographics, competitors, and overall business environment. A practice in a prime location will have a higher chance of success than one in a declining or isolated area.

7. Employee Compensation is too High

This is a very difficult obstacle to overcome. If the net income of a practice is tight and if the employees of that practice are paid significantly above the average for an area it can be very difficult for a new owner to correct this problem. Employees will typically either leave a practice or become very disgruntled if there is any adjustments to their wage or their benefits.

8. Overly Aggressive or Inflated Valuation

Determining the value of a dental practice is a nuanced process, and it's essential to ensure the valuation is based on solid metrics rather than overly optimistic projections. If the asking price seems unusually high, the seller might be inflating the practice's worth. This could be due to a number of factors, including previous financial problems, declining profitability, or unrealistically high expectations. Be sure to have a professional practice appraiser involved to assess the true value of the practice.

9. Significant Amount of Specialty Treatment

A dental practice that performs a significant amount of specialty treatment may be hard for a new dentist who doesn't have the skill or the confidence to provide the same treatment as the seller. In many cases, the buyer may have some experience, but isn't as efficient as the previous doctor and takes much longer to perform the same procedures. General dentistry offices that perform a lot of specialty procedures usually have a marketing strategy and a reputation for those services. Furthermore, the staff may be focused on those procedures and reluctant to help promote the bread and butter procedures that are the backbone of most general dentistry practices.

10. Owner's Personal Reasons for Selling

Sometimes, the reasons a dentist is selling their practice can be a major clue about potential issues. While personal reasons for selling, such as retirement or relocation, are common, it's worth probing deeper if the owner's reasons are vague or unclear. If the owner is selling because of financial trouble, personal health issues, or unresolved conflicts with staff or patients, it could be a sign that the practice is struggling.

Final Thoughts

Buying a dental practice is a significant investment, and it's important to approach the process with caution and thorough research. By watching for these 10 red flags, you can better protect yourself from making a costly mistake. Remember, a successful dental practice requires a stable patient base, clear financials, up-to-date equipment, and a committed team. Take your time, do your due diligence, and consult professionals—like accountants, lawyers, and practice appraisers—to help ensure the decision you make is one that benefits you in the long run.