ESTABLISHING A FAIR PRICE

Dental practice valuation experts are very easy to find. It seems that another emerges every month. A new name can be seen attached to practice valuation articles in Dental Economics or JADA virtually every month. An occasional Google search reveals a new website proclaiming their firm to be experts in the dental practice valuation field (although many of these new experts were totally unknown a month earlier and many have never even sold a dental practice). As the old adage states… dental practice transition experts are a dime a dozen!

It is very easy to be considered an expert. All you really have to do is proclaim yourself to be an expert and amazingly… you are forever more, an expert! If you can somehow get an article placed in one of the trade journals, you are really an expert! If you conduct a seminar and travel from out of town, you are BIG TIME expert! It is not even necessary that you have ever sold a dental practice to be proclaimed an expert. And, once proclaimed to be an expert, from that point forward, everything you say or write comes from the brilliant mind of a seasoned, well-respected, knowledgeable expert!

So… let it be proclaimed, PARAGON is an expert in the dental practice transition field! Not because PARAGON has valued thousands of dental practices nationwide; and, not because PARAGON has sold thousands of dental practices nationwide. PARAGON is an expert in the dental practice transition arena simply because we proclaim ourselves to be an expert (just like all the other experts have done)!

What is the point of all of this satirical mockery? The point is that you can easily find an expert who will support YOUR opinion. If you don’t like what one experts tells you, you just keep searching out experts until you find one that thinks like you think!

For example, some valuation experts say that today’s dental practices should be selling in the 60% to 70% of one year’s gross production range. Others say that the range is 65% to 75% and still others say that the range is 70% to 80%. One well known expert states that ALL dental practices should be valued at 65% of one year’s gross collections. Another proclaims that the value is 100% of one year’s gross production. PARAGON states that any pre-defined percentage range is a ridiculously inaccurate way to value a dental practice since no two practices are exactly alike. As you can see, we have a major discrepancy in the opinions of the experts.
So, who and what can you believe? The only constant and accurate decision making factor... logic! Practice value can only be determined after a logical and systematic analysis of the practice.

From the time PARAGON first looks at a dental practice, it is typically a period of several months before the final value is placed on that practice opportunity and the practice is listed for sale. PARAGON must carefully examine the practice, both internally and externally, and then determine a fair and equitable value that will both provide the seller with a fair price and provide the buyer with a profitable return based on risk and reward. It takes time to finalize a practice analysis so one will know the correct practice value. It is not a matter of using a pre-determined valuation percentage. This is logical.

Over the last two decades, PARAGON consultants have sold dental practices all across the nation. Some were valued as low as 45% and others as much as 95% of the most recent twelve month’s collected production! Practices were sold by PARAGON last month in this 45% to 95% range. And you know what? Practices will be sold by PARAGON next month in this same 45% to 95% range regardless of what the other “experts” say a practice should be worth!

Establishing practice value is a logical process not a simple matter of applying percentage ranges. Think about the decrees of the 60% to 70% practice value experts for a moment. Two practices are located side-by-side in the same office building. Both are grossing $500,000 a year. But Practice A nets its owner $225,000 a year on a 3.5 day workweek, has brand new equipment, a thriving hygiene department and 100% fee-for-service patients. Practice B nets its owner $75,000 a year on a 5 day workweek, has 30 year old equipment (constantly needing repair), the doctor does all hygiene and 95% of the patients are from managed care providers and capitation programs. Are you really going to accept that Practice B is worth 60% of its gross while Practice A is only worth 70% of its gross? That’s preposterous!

Do you honestly think that real estate sells in pre-determined valuation ranges? Suppose we have three side-by-side lots located in an area where lots have sold in the $20.00 to $21.00 square foot range. Two of the side-by-side have already sold at $21.00 per square foot. The third lot is the exact same size as the other two lots but unfortunately is 75% covered in a bottomless swamp of mud and quicksand. The preliminary estimates reveal that the foundation alone will cost $125,000 greater than a comparable building on either of the other two lots. Is this third lot fairly priced in the $20.00 to $21.00 square foot range? Of course not.

Think logically. Call PARAGON and we will help you find the right opportunity for you that is fairly valued.