



Selling or Buying a Practice -An Insiders Secrets to Success-

By Gregory M. Kingsbury, D.C.

Having owned and successfully brokered hundreds of practices over the last thirty plus years has given me a unique perspective on little acknowledged factors that are truly the most important secrets to a successful sale or purchase of a practice.

As more people with accounting, business or banking backgrounds have jumped into the practice brokerage business, the perpetuation of inaccurate myths about what truly determines the value of a practice has spread throughout the chiropractic profession and has made practices more difficult to sell and for the buyer made the continuing profitability of a practice more difficult to achieve.

The first major flaw in determining the value of a practice for either the seller or buyer is that the yearly gross, and partially net revenues are first and foremost in determining a practice's value and ultimate sale price. While knowing these two things may be truly the most important factors for valuing most other types of businesses, this is not the case for a chiropractic practice. I have demonstrated this to be the case in a previous article whereby I compared the dramatic difference in value and sale price of two practices collecting the same yearly gross revenues, being valued at two vastly different prices and one of these practices selling for one half the amount of its counterpart.

“For decades, the myth of valuing a chiropractic practice based on a percentage of yearly collections has persisted.”

Virtually every day I get inquiries from both sellers and buyers wanting to know what percentage of collections a specific practice should be worth for either a sale or purchase. For decades, the myth of valuing a chiropractic practice based on a percentage of yearly collections has persisted. This false premise probably began back in the early 1980's promulgated by well known practice management consultants with unfortunately no real knowledge of what really makes a practice valuable for both seller and buyer. Percentages have ranged over the years from 100% to now about 60% depending on whom one wants to believe.

What this simplistic type of valuation formula fails to take into account is the real inner workings of a practice and how the various operating statistics interact and ultimately create the yearly revenues of a particular practice.

Again, a person with solely a business, accounting or other type of brokerage background would not have inside knowledge gained from direct experience in operating and owning a practice. While the purpose of this article is not to disparage other parties who endeavor to broker chiropractic practices, the advantage of having a chiropractor/broker with many years of experience in the field as both an owner of numerous practices is invaluable. Having had inside knowledge that only a chiropractor can have is a distinct advantage when seeking the advise and hiring a broker to help sell or buy a practice. Having direct experiential knowledge of chiropractic philosophy, techniques, marketing strategies, patient education, insurance reimbursement and staff management is of primary importance.

Whenever asked to perform a practice valuation, the first and most important task I do is to evaluate various statistical parameters and do comparative analysis. Having collected nationwide practice statistics from hundreds of practices gives a birds eye or insider perspective into the value of a specific practice.

The most important statistics will include the average yearly collections (last 3 years, with emphasis on the most recent 12 month period), average monthly and yearly patient

“The average yearly gross collections for a chiropractic practice is \$ 295,000.00.”

visits, new patients, collected fees per visit, retention rate or patient visit average (how long a patient comes for acute care, correction and maintenance) and collection ratio (actual percentage of the amount collected versus the amount charged and billed for services rendered). Once this information is computed, we need to see how these numbers compare to other practices across the USA. Being higher, lower or right at the median or average, is essential to know for determining what is the most accurate and fair suggested sale or purchase price of the practice in question. A proprietary rating system can then be applied and becomes a key ingredient in assessing what the practice is worth.

Some inside information to DCs looking to sell or buy a practice is the following:

Doing a statistical analysis on several hundred practices across the nation as of the last 3 year period, revealed the following: The average yearly gross collections for a chiropractic practice is \$ 295,000.00. The monthly number of office visits is 360, numbers of new patients seen per month is 18, average fee collected is \$ 73.70 per month, the retention rate or patient visit average is 20 (how many visits a patient comes for care), and the collection ratio is approximately 70% (70% of billings is actually collected.)



DON'T WORRY

*Your team is thoroughly trained. Systems and processes are compliant.
Now you can relax... And just be profitable.
The KMC University Library can take you there. Let's talk.*

KMCUniversity.com

(855) 832-6562

info@kmcuniversity.com



Nationwide Practice Averages:

Yearly Gross Collections:	\$ 295,000.00
Monthly Office Visits:	360
Monthly New Patients:	18
Office Visit Average:	\$ 73.70
Patient Visit Average:	20
Collection Ratio:	70%

This information is certainly important to know so one can assess where a particular practice rates as compared to other practices across the country.

When performing a practice valuation, all of these statistics play a pertinent role in determining value and sale price. Is the practice being sold performing better or worse compared to nationwide averages? If the numbers are higher in certain statistics then the value would be higher, if lower than that would decrease practice value.

Other insider secrets that must be taken into consideration when determining practice value for purpose of sale or purchase are the following:

1. Office location, layout appearance, accessibility and visibility
2. Equipment type, age and original cost
3. Patient Payor Profile (Cash, Major Medical, Medicare, PI, Medicaid etc.)
4. HMO/PPO affiliations

5. Referral alliances (other health care providers, attorneys, local business owners, religious organizations, civic groups etc.)
6. Active patient list
7. Overall practice philosophy
8. Adjusting techniques
9. Ancillary care (PT, massage, acupuncture, nutrition and lifestyle advise)

There are also other factors that will come into play when doing a practice valuation. These may include area demographics, population growth or shrinkage in the catchment area, and how many businesses are locating to, or leaving the practice area.

As one can see from this brief summation of insider secrets to selling or buying a practice, much more than considering yearly revenues and net profit is needed to accurately determine what fair market value for any practice would be in today's market.



Dr. Greg Kingsbury is the founder of ChiroEquity, a nationwide chiropractic practice brokerage and appraisal service company. With more than 30 years of experience, he has assisted hundreds of chiropractors in the sale and acquisition process. He can be reached at greg@chiroequity.com or 908-419-7510

OPEN AD