

Chiropractic Economics

Selling the Chiropractic Practice:
Why a Qualified Broker May be Your Best Bet

By G.M. Kingsbury, DC

1990 — Selling a chiropractic practice can be at best difficult and at worst an emotionally gut-wrenching experience. Reasons for selling vary and each reason can carry an emotional toll which may cloud the judgment and rationality of the seller.

A practice being sold because of disability or death of the practitioner particularly needs the objective evaluation, appraisal and negotiating ability of an intermediary or qualified broker. Many a successful practice has been sold at bargain-basement prices because of the inability of the disabled doctor or estate executor to negotiate effectively due to the emotions surrounding the reasons for sale.

Likewise, many a doctor just changing careers or locale has failed to receive fair value for his practice because of faulty assessment of the practice's real value and because a driving urgency for change precluded his ability to assess the full worth of his practice.

If one reads the classified ads in our national and local publications they will see a lack of uniformity as to how practices are priced. Practices nationwide are being sold for one-quarter to one and one-half times their yearly gross collected income.

Having personally bought and sold practices over the last 14 years has given me a chance to play the game from both sides. On several different occasions I have been involved with practices of equal patient volume and income selling for a difference of thousands of dollars. The lack of knowledge is astounding when it comes to doctors pricing their own practices.

Yet, as a group, chiropractors are an independent, self-motivated, do-it-yourself breed — and that is where the problem lies. Many DCs feel since they started their own practice, built it and intimately know its ins and outs, “Why shouldn't I be the one to sell it?”

This logic can be correct when you compare the knowledge the typical DC has about his practice to the typical business broker who sells everything from bars to health spas.

I have found some business brokers totally unqualified and unknowledgeable about how a chiropractic practice operates. Most simply take gross or net income figures and decide to price according to some percentage of those numbers. They know little or nothing about patient management, CA function and training, insurance coverage and assignment procedures, new patient acquisition, legal and insurance narrative reports, patient education, advertising and promotions, patient visit averages, office visit averages and a host of other intimate little details which are essential to operating a successful practice.

On the other side of the coin, the successful DC may know all those aforementioned details about his/her own practice but doesn't understand how they influence the value of this practice, so he or she too prices it according to a percentage of gross or net income figures which may in effect under or over value.

An example here may further illustrate what I mean.

Practice A grosses \$250,000 per year. It has a high patient visit average of 50, but only sees 15 to 20 new patients per month, almost all the result of direct referral.

Practice B also grosses \$250,000 per year but its run on an acute basis, averaging only 10 to 15 visits per patient. New patient volume is high, 40 to 50 per month, because of an intense marketing and advertising program which draws in approximately 90 percent of all the new patients into the practice.

At first glance it may appear that both practices should sell for the exact same amount regardless of whether the doctor's formula for pricing is one-half or the full gross value.

Having an in-depth knowledge of the mechanics of how practices operate, I would assess practice A to have a much greater value. Here is why:

1. Practice A obviously has better educational, management, recall and financial procedures, thus encouraging long-term care and better compliance.
2. Practice B being an acute care practice with little corrective or maintenance care obviously must rely on heavy advertising and marketing costs to keep patient volume, new patient numbers and income up. The overhead and stress level of running a high, new patient dependant, acute care practice is much greater than the practice A type.

Further comparative analysis of these two practices could evidence other significant differences. Practice A would have a much greater "good will" associated with it, guaranteeing future stability for the buyer. The referral numbers in this practice reflect some of that good will which usually stay with the practice under new ownership.

Since Practice B is a marketing-driven pain-relief-only practice, good will would be much less if advertising and promotion were cut back or curtailed the value of future good will under new ownership would be less. Like this example there are numerous subtle differences between practices that on the surface may seem to be worth the same amount.

Your typical business broker is totally unaware of these subtle distinctions. Doctors rarely take them into account, and the same goes for sellers, buyers, accountants, financial advisors and even practice management consultants. Rarely do any consider the differences that distinguish two practices in terms of their value.

So what value could a qualified broker be to someone who wants to sell or even buy a chiropractic practice? A competent chiropractic brokerage service should have at least one successful experienced chiropractor on staff and be able to provide the following services:

1. Practice appraisal or valuation which firmly prices chiropractic practices for chiropractors, the courts, attorneys and accountants. Appraisals should be much more thorough, detailed and efficient when compared to the typical business broker, accountant, financial advisor or practice management consultant. Not only should all the financial data be scrutinized, but the practice statistical profile, including patient volume, new patient numbers, patient visit average, case average, office visit average and collection ratios should also be studied and evaluated.

In addition, the current patient mix should be analyzed. It is extremely important to know what percentage of total patient volume is personal injury, major medical assignment, Medicare, cash, etc., and how they got to the office, i.e. direct referral, phone book, sign, attorney, etc.

2. Negotiate and arbitrate between sellers and buyers the price, terms and conditions surrounding the selling and purchase of chiropractic practice.

3. Consult with attorneys and accountants regarding the sales contract preparation and all financial details.

4. Market and advertise the practice for sale in national as well as local publications.

5. Match potential buyers with potential sellers.

6. Offer consulting services after the sale to assist in orderly transition and retention of the existing patient base.

It certainly behooves the seller to buyer of chiropractic practices to have someone with extensive experience in operating, selling and buying practices to work with them. A competent, efficient, qualified chiropractic brokerage service can fulfill such a need.

G. M. Kingsbury, DC, can be contacted at 908-419-7510 or at greg@chiroequity.com