Looking Beyond Statistics: How to Buy a Chiropractic Practice
Practice Management

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Buying an existing chiropractic practice should be the most efficient and fastest way to financial success. For the new graduate, associate practitioner ready to branch out, or an experienced D.C. looking to expand, the benefits are numerous and the potential pitfalls many. For the last twenty-eight years, we have assisted hundreds of chiropractors in their quest to purchase the practice of their dreams. Regardless of the changing economic conditions over the last three decades, the basic guidelines for practice buyers remain the same. We must look beyond the statistics and the various rule-of-thumb formulas to determine a fair purchase price.

We get inquiries from chiropractors from every state in the country wanting to know the fair market value for a particular practice. Many have taken the advice of management consultants or fellow doctors and believe their simple pricing formulas. These formulas usually declare that a practice is worth a certain percentage of the gross or net income. Or, they follow the advice of their accountant or financial advisor who utilizes a more complex business valuation formula. By and large, these approaches are not relevant to each and every chiropractic practice. Each practice is a unique and distinct entity with qualities that distinguish it from all others.
There is virtually no business in the world that has the exceptional characteristics of a chiropractic practice and, therefore, no simple formulas or business valuations from other fields of endeavor apply. Even medical and dental practices do not share the specific and unique qualities of a chiropractic business.

Determining the value of Goodwill is the major factor in pricing a practice. Specifically, how effectively can it be transferred to the purchasing doctor? Goodwill implies the guarantee of a certain cash flow. This is what the purchaser is buying. Also inherent in the concept of Goodwill is the transferability and guarantee of continued profitability. The practice buyer must feel assured that practice profitability will, at least, stay steady once the sale is consummated. A buyer should never pay for "potential," as that is his or her burden to fulfill and not a quantifiable, salable or transferable commodity.

What do the statistics tell us?
As the famous or infamous saying goes, "There are lies, damn lies and statistics." We chiropractors have invested in the belief that certain practice numbers indicate success, failure or mediocrity. Sellers may want the buyer to believe that a certain gross and net income, patient visit average, office visit average, collection ratio, etc., translate into fair market value or sale price. While the purchaser should definitely look closely and evaluate these numbers, the question remains, of what value are those statistics to him or her? Are they good, bad or average compared to other practices in the demographic area?

How do they compare to national practice statistics? Most importantly, can the buyer duplicate or surpass those numbers, and what procedures will be in place to insure that happens? This is ultimately what the purchaser is buying. Every buyer of a chiropractic practice wants to equal, at a minimum, or, better yet, increase the vital statistics of the practice being bought. In the final analysis, the bottom line is, "How much money will the buyer take home after all overhead is paid?"

In addition to a thorough statistical analysis, other factors to consider when determining fair market value of an established practice include a compilation and assessment of the following:

1. Office location, appearance, accessibility, visibility, equipment and layout
2. Staff profile
3. Gross and net income
4. Accounts receivable
5. Payor provider profile
6. HMO/PPO affiliations
7. Referral alliances
8. Active patient list
9. Office procedures (overall practice philosophy, consultation, examinations, report of findings, adjusting techniques and ancillary care.)

Only after a comprehensive review and evaluation of all of these factors can we look beyond the practice finances and statistics and determine a fair market value.

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