DC Practice Insights

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Selling Your Chiropractic Practice: Know What Matters

By Greg Kingsbury, DC

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 rationality of the seller. A practice being sold because of health-related issues, disability or death of the practitioner needs the objective evaluation, appraisal and negotiating ability of an intermediary or qualified broker. However, the same can be said for a practice selling because the doctor is relocating, retiring or changing careers.

Unfortunately, many successful practices have been sold at bargain-basement prices because of the inability of the doctor or estate executor to negotiate effectively due to the reasons for the sale.

If one reads the classified ads in our state and national publications, they will see a lack of uniformity as to how practices are priced. Two practices may be collecting the same annual gross income, yet be priced very differently. Having personally assisted DCs in selling and buying practices over the past 30 years, I have had the chance to play the game from both sides. On quite a few occasions, I have been seen practices of equal patient volume and income sell for significantly different dollar figures.

The lack of knowledge in determining the fair market value of a practice is particularly notable when it comes to doctors pricing their own practices. This is due to the fact that as a group, chiropractors are an independent, self-motivated, do-it-yourself breed, and that is where the problem lies. Just because a chiropractor has started and built a successful practice does not mean they are remotely qualified to determine what their practice is worth or will sell for on the open market. The same argument can be said for your typical business broker who sells everything from bars to health spas. This even applies to brokers who sell dental or medical practices.

Determining the Fair Market Value: Variables to Consider

Many business brokers selling or advising buyers of chiropractic practices are unqualified to determine the fair market value of a chiropractic practice. When appraising the practice, most will simply take the gross or net income figures and price it according to a certain percentage of those numbers. They know little or nothing about chiropractic philosophy; various techniques; patient management in terms of acute, corrective or maintenance care; CA function and training; insurance coverage; new-patient acquisition; legal and insurance narrative reports; patient education; advertising and promotions; patient visit average; office visit average and a host of other intimate details which are essential to operating a successful practice.

On the other hand, the successful DC may know all those aforementioned details about their practice, but doesn't understand how they influence the value. So, they resort to valuing their practice according to the simplified, but highly inaccurate percentage of gross or net income formula. Here's an example to further illustrate what I mean:

Going Beyond Face Value: An Example

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

Practice B also has an annual gross collection average of $250,000 per year, but is predominantly an acute-care practice, averaging only 10-15 visits per patient. New-patient volume is high at 40-50 per month because of an intense and costly marketing and advertising program, which draws in approximately 90 percent of all new patients into the practice.

At first glance, it may appear both practices should be valued and sell for the exact same amount regardless of what "percentage of gross income" formula is used. However, I believe Practice A has a much greater value. Here's why:

a.. Practice A obviously has better educational, management, recall and financial procedures, thus encouraging long-term care and greater patient compliance.
b.. 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 patients and income up. The overhead and stress of running a new-patient-dependent, acute-care practice is much greater than for Practice A.
Further comparative analysis of these two practices could give evidence of other significant differences. Practice A may have a much greater "goodwill" associated with it, guaranteeing future stability for the buyer. The patient referral numbers in this practice reflect some of that goodwill, which usually stays with the practice under new ownership.

Since Practice B is a marketing-driven, pain-relief-only practice, goodwill would likely decline if advertising, marketing and promotion were cut back or curtailed. This means the value of future goodwill for the prospective buyer would be worth much less in terms of dollar amount.

Unfortunately, your typical business, medical or dental practice broker is totally unaware of these subtle distinctions. Chiropractors themselves rarely take them into account, and the same goes for accountants, lawyers, financial advisors and even practice-management consultants. Rarely would any of them consider the aforementioned differences between the two practices just cited in terms of their fair market value.

As in this example, there are numerous subtle differences that can distinguish two practices collecting identical amounts of income and thus be valued quite differently.

Need to Sell? What to Look for in a Broker

So, what value could a knowledgeable and qualified broker be to a DC wanting to sell or buy a practice? From my perspective, a competent chiropractic brokerage service should have at least one experienced and successful chiropractor on staff and be able to provide the following services:

1. Practice appraisal or valuation which firmly prices chiropractic practices for chiropractors only. Practice valuations should be much more insightful, thorough and efficient as compared to the typical business broker, accountant, financial advisor or practice-management consultant. Not only should the financial data be scrutinized, but the practice statistical profile, including patient volume, new-patient numbers, patient visit average or retention rate, case average, office visit average and collection ratios also should 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, Medicare, cash, worker's compensation or Medicaid. Also important to know is how patients got to the office; e.g., direct referral, phone book or Internet, sign or location, attorney or other health care practitioner in the area.

2. Negotiates and arbitrates between sellers and buyers the price, terms and conditions surrounding the selling and purchasing of the practice.

3. Consults with attorneys, accountants, lenders and advisors regarding the sales contract and other pertinent financial details.

4. Markets and advertises the practice for sale in state, national and chiropractic school career development publications.

5. Screens and matches potential buyers with sellers.

6. Offers consulting services after the sale is consummated to assist in an orderly transition, so the practice retains the existing patient base and continues to generate the same income (at a minimum).

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

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 sales and practice acquisition process. He can be reached through www.chiroequity.com.