

THE ORIGINAL AND AUTHENTIC PRACTICE **VALUE** INDEX

No such thing as a free lunch

Lis Hughes, managing director at Frank Taylor & Associates, explains why selling a practice for free and getting the buyer to pay isn't such a good idea

We see more and more dentists understanding that selling a practice for no commission is dancing close to commercial suicide. There has been a long held view by many dentists that selling for free and getting their buyer to pay this fee was a good idea, 'Surely this is money saved' was the cry.

This clearly is, and has always been, a bad idea.

Regardless of whether the vendor or buyer pays the agent's fee, the vendor ultimately pays for it as the offer placed for the practice is reduced to accommodate this fee. For example, if a buyer has £900,000 to buy a practice and has to pay the agent 4% (which is not uncommon) then this £36,000 will come off the amount that can be offered for the practice. So the seller only gets £864,000 – but it is worse than this as the buyer is then 'paying the agent' so applies pressure to make sure the price is not driven up. This sequence of events nearly cost one seller £450,000 as the practice being sold was not actively marketed by the agent – somehow makes selling for free look pretty expensive.



One dentist commented: 'This is a blatant conflict of interests and I want an agent that is working solely for me – there is no such thing as a free lunch.'

Another seller said: 'It doesn't matter who writes the cheque because either way I am paying, as the buyer will offer less for my practice to cover this fee.'

This is the commercial reality of selling

for free, then there is a legal position, which under the Law of Agency states – an agent must not accept any new obligations that are inconsistent with the duties owed to the principal. If an agent picks up a fee from the buyer, I am pretty sure this obligation is not being met.

The day is coming where taking a commission from buyers will be given a

wide berth by sellers – the case studies of where this has served sellers badly are growing day by day. **ID**

FOR MORE INFORMATION call Frank Taylor & Associates on 0845 612 3434 or the regional office on 0161 638 0875, email team@ft-associates.com or visit www.ft-associates.com.

Practice one – Gloucestershire

Practice location – This practice occupies a former residential property within a predominantly residential area.

Practice type – This is a three surgery, private practice, which was established over 40 years ago. This is a share sale.

Practice financials – The gross fee income is shown to be in the region of £950,000 with 2,100 patients seen in the past 18 months. The gross has been generated from the principal working 3.5 days a week, with two hygienists working a combined 3.5 days per week and one part-time therapist.

Price achieved – A price of £1,350,000 was achieved, which was slightly less than the asking price.

Agent's comments – The interest generated in this private practice is indicative of the activity in the marketing place with more purchasers happy to consider a successful private practice rather than a mixed or fully NHS practice, and with the principal only working 3.5 days a week, there is a great opportunity to increase the turnover and profitability of the practice.

Practice two – East Sussex

Practice location – The practice occupies the first floor of a grade II listed building in the heart of a busy town.

Practice type – This is a mixed income, two-surgery practice and is being sold as leasehold with eight years remaining on the present term.

Practice financials – The gross fee income is in the region of £350,000 and comprises of 56% of private income, 34% of NHS income, and 10% income from a capitation scheme. The gross has been generated from the principal working four days a week with the support of an associate working three days per week. In addition there are two full-time nurses/receptionists.

Price achieved – A price of £310,000 was achieved, which was significantly in excess of the asking price. The funding for this purchase was sourced via FT&A Finance.

Agent's comments – The principal was selling this practice to facilitate retirement and after working with the staff and patients for over 20 years, it was a tough decision. However, with a flurry of potential purchasers and many offers the principal was delighted and the fact we managed the sale process all the way through to completion meant the principal could ease into retirement and enjoy the results of years of hard work.

Practice three – Lancashire

Practice location – The practice is situated in shop-fronted premises with a mix of residential homes and local shops in close proximity.

Practice type – This is a mainly NHS one-surgery practice being sold with freehold to facilitate retirement sale.

Practice financials – The annual gross fees in the region of £180,000, 98% of this is an NHS-GDS contract of with a UDA (units of dental activity) rate of £26.72 and the balance of the gross fee is made up of fee-per-item. The gross has been generated by the principal working five days per week with a full-time dental nurse and full-time receptionist.

Price achieved – A price of £305,000 was achieved, which was in excess of the asking price.

Agent's comments – With an attractive UDA rate of £26.72, this practice proved to be very popular and with a number of offers the transaction went to the sealed bid process. This resulted in an offer being accepted that was in excess of the asking price. And, most importantly, the vendor had a number of purchasers to choose.

Practice four – Avon and Somerset

Practice location – This well presented, ground floor practice is situated within a residential area.

Practice type – This is a predominantly private practice with a small NHS contract, being sold as a freehold.

Practice financials – The gross fee income is in the region of £400,000 and comprises of 54% income from Denplan, 42% of private fee-per-item income and 4% NHS-GDS contracts. The gross was generated from the principal working four days per week, an associate working four sessions per week, two hygienists and two nurses working a combined six sessions per week.

Price achieved – A price of £445,890 was achieved, which was slightly less than the asking price. The funding for this purchase was arranged by FT&A Finance.

Agent's comments – A mainly private practice with a high percentage of patients under a capitation scheme is always going to prove popular and this was no exception. Situated within the heart of a residential community, the incoming principal could see many opportunities to grow and develop this practice but recognised how important it is to not rush in and change everything. Instead there is a sustained plan to develop the practice and the services over a period of time.