The Sell-Now vS Sell-Later Calculation

When a dentist practice owner is in the last 10 years of their career, the decision of when to sell looms over them. Selling now or selling later can have a big impact on how the practice owner can fund their retirement.

Many practice owners communicate some variation of the following calculation as a reason to sell later:

"If I sell now, I could probably get $X… However, the practice is stable, and I am planning on working for another 5 years anyway. If I work for another 5 years and the practice continues as it is (and has been), I would receive $X from the practice in salary and profit from the practice over that period.

Therefore… If I sell in 5 years and get *anything* for the practice sale, I am better off than selling now".

While on the surface this argument may seem like a valid way to look at the situation, here are 5 major issues with this reasoning:

1. You are assuming that the fortunes of the practice over the next 5 years will be somewhat stable.

- If you are talking about the last 5 years of your career, there is a good chance this won't be the case. The last few years of a dentist's career are almost never as clinically productive as the years that preceded them. The final years are usually characterised by a desire for working less hours per week and less weeks per year for lifestyle reasons.
- You are relying on key person availability and their contribution to remain the same. If you have dentists working for you who make a meaningful contribution to your revenue and profit, you are relying on their availability and contribution remaining the same and, if not, that they will be easily replaced. This is not always a safe assumption.
- You are betting on the underlying conditions of the economy to remain the same for the next 5 years. This isn't necessarily going to be the case. Within a 5-year period, there are often changes in the local economy (drought, mining boom and bust, local employers falling on hard times, etc.) or there could be a downturn in the national and global economy (GFC, COVID-19, etc.). These changes in the economy change consumer/patient behaviour.
- You are relying on the underlying conditions of the industry to remain the same. In the last 10 years, there have been significant changes in the dental industry that can affect your ability to maintain your business. For example, the dentist to population ratios have changed significantly, as have the ease of dentist recruitment, the way that the government funds dentistry (CDBS, CDDS, DRISS), etc.

2. EVEN IF the practice billings are stable over time…. your profit/take home will NOT be.

To maintain your take home at the same level it is now, it isn't enough for your business to be stable (as the premise suggests). Expenses like wages, rent, consumables, etc., go up every year. So, even if your practice billings are stable for the next 5 years, your take home profit will almost certainly be declining over that time. Your revenue/billings need to be growing at the same rate as your expenses are, JUST FOR YOUR PROFITS TO STAY THE SAME.

3. EVEN IF profit was stable over time … What about post-tax money?

It is not how much you make, but how much you keep. The premise equates $X as a sale price with $X in salary and profit over 5 years…, **post-tax, those are two very different values.**

The quantum of tax payable on the sale of a business will depend upon your circumstances (how long you have owned your business, if you are selling to retire, etc.), which you should discuss with your accountant, but money for the sale of business is usually worth far more in post-tax dollars than money paid in salary and profit. They shouldn't be considered as equal amounts as they are in the premise.

4. EVEN IF post-tax money was the same over time … What about "The Time Value of Money"?

EVEN IF the post-tax money being offered on day 1 for the sale was the same as the post-tax money that you will receive over 5 years of working… you have to factor in the economic concept called the "time value of money", which says that the money you have sooner is worth more than the identical sum in the future, due to:

a. Interest and opportunity cost. The interest and return that you could get on present money if invested.
b. Inflation. The buying power of $1M today is greater than it will be in 5 years.

5. EVEN IF you are planning on working for the next 5 years anyway… What is the cost of the burdens of ownership?

The premise said that you are "planning to work for the next 5 years anyway" …

So, let's go with this premise. Let's say that, whether you sell or not, you are going to work for the next 5 years. In that time, (whether you sell or not) you will see exactly the same number of patients, bill the same amount in patient fees….and as a result get the same commission for your clinical work. With this assumption in mind, who will work more over this 5-year period?

The non-owner:

- doesn't spend time counselling upset staff, replacing staff that quit or finding temps if they are sick,
- doesn't spend time coordinating the servicing of equipment or someone to come fix broken computers or noisy air-conditioners,
- doesn't need to worry about compliance, marketing or IT issues,
- has weekends and holidays free of thought and stress about the business (how many owners can say the same thing over an extended period)

It is fair to say that the non-owner dentist who sells at the beginning will **work significantly less and have significantly less stress** in the practice over this 5-year period, doing the exact same clinical work **for exactly the same commission** that the owner dentist did.

If you are weighing up selling now or later, there is an opportunity cost that comes with being free of the burdens of ownership over the next 5 years that need to be accounted for, EVEN IF you are planning on working for the next 5 years.

Conclusion

When a practice owner is in their final few years of ownership, doing their calculations of whether they are financially better off selling now or later, the variables are more complex than many might think at first. Practice owners in this situation need to keep the above broad principals in mind to ensure that they are factoring in all relevant considerations, so that they are able to make their calculations accurately and don't get to the finish line short-handed.