The Top 10 Pitfalls to Avoid When Purchasing an Optometry Practice

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Buying an optometry practice is both exciting and stressful. You may feel overwhelmed with the process, but know it is something you want and need to do. An optometry practice is like any other small business. Some succeed and some do not.

If you educate yourself about the process and hire a professional team who can help you navigate through the maze of optometry practice purchase requirements, you may find your dream of owning your own optometry practice come true. Here are some **pitfalls for you to avoid** so your search for that “just right” practice to buy will be successful.

1. Not Having a Clear Vision of What You Want

Buying an optometry practice is not the same as buying a house or business. While some of the same factors may be involved, you really need a clear vision of the type of practice you want and what type of lifestyle you want to pursue outside of your practice before you begin your search.

Make a list of what you are looking for as a place to live for many years to come. The list should include, for example:

- Where is your ideal place to live? Why? What will an ideal day at work, evening after work, and weekend activity look like? List pros and cons.

- Are there alternate places you would enjoy living? If so, make a list of them, and again, list the pros and cons of each location.

- Determine what are you looking for in your optometry practice? Work, work, work, or a lifestyle balance between work, earning money, recreational activities, and humanitarian efforts?

- What kind of practice do you want? Are you more interested in a simple storefront practice that takes walk-ins or a practice that works primarily by referrals?

- Do you want to work Monday to Friday regular office hours or are you willing to work on weekends? Will the office be open on weekends even if you are not planning on seeing patients?

- What size workload are you looking for? How many hours a week do you want to work?

- What is your ideal lifestyle, and what types of things do you want to do in your spare time?

Your optometry practice will make you a business owner which will make you part of the community. You want to choose a location where you feel comfortable and that has the population you want to serve.

2. Not Doing Your Research on Ideal Locations and Not Doing a Demographics Report

Once you have decided on a place where you want to live, there is more to think about. Working in your own optometric practice will likely be the single most important part of your financial life.

This means the location and demographics are extremely important issues to address. Once you have narrowed down ideal locations for your practice, you must consider a demographics report that includes:

- The population ratio to optometrists in the locations you consider ideal, or close to ideal. According to the American Optometric Association (AOA), a desirable proportion is one optometrist for every 7,500 people in a community. Fewer people than this, and you will find yourself in a competitive area and your income may not match your goal.

- If you want to focus your practice on the elderly, make sure the community you are searching for has a population of retirement age. If you prefer having a practice catering to pediatric optometry, make sure the demographics of the area you choose has a large population of children.

If you fail to consider demographics, you may be disappointed in the type of practice you have purchased since you will not be working with the group of patients who you envisioned being part of your practice.

3. Waiting Too Long to Begin Your Search

In most cases, lenders look more favorably on candidates who have been working as an optometrist for at least two years after graduation. If you know you want to purchase a practice, it is not too early to begin your search. It may take you two years to find the practice you want to buy in the location you want to live.

On the other hand, lenders do not have a hard and fast two-year rule. If you find what seems to be an ideal practice and are working with a lawyer and accountant who have experience with buying and selling optometry practices, you will likely be able to make the purchase work.

When you do find a practice for sale that seems ideal, in the location you want and the demographic you want to serve, there will likely be competition in buying the practice. You will not be the only optometrist interested. If you feel you have found your niche, act quickly. Get your team together and do not let the opportunity pass you by.

4. Not Having Your Finances in Order

The average student debt for a new optometrist is approximately $200,000. Now, you plan on adding to that debt by purchasing an established optometry practice. Do not stress. Your dream is still within reach.

Lenders are aware of this high student debt and this factor by itself will not stand in your way of obtaining a loan for the purchase if your overall financial situation is sound. This means:

- Having a good credit score. This generally means a minimum of 680.
- Having minimum credit card debt.
- Personal tax returns showing acceptable levels of income in recent years.

You should wait to buy a new home and car until the practice purchase is complete. Also, we will be able to guide you to a specialized lender who will understand the reasonable debt a newly graduated optometrist will have and we will be able to negotiate strong lending terms.

5. Attempting to Do it Alone, Working with the Wrong People, and Not Hiring the Right Team of Advisors

The purchase of an optometry practice involves more than just buying a business and showing up the day after escrow closes to see patients. You need to:

- Search for available practices.
- Conduct due diligence on the practice or practices that appear to be practices you would like to pursue.

- Have an appraisal done to determine the value of the practice.
- Negotiate a fair sales price.

Trying to do this alone without the right team of advisors can be fatal. You could find yourself with a practice that does not generate the income you were led to believe. A practice that is failing and not growing. A practice in a location that is overrun with optometrists who are all struggling to support themselves with too much competition and a demographic that does not support a growing practice.

You need a team of experts who have specific experience in optometry practice purchases, not just business purchases. There are unique aspects purchase professional will know how to address.

Your Team Should Consist of:

A Lawyer. An attorney will compose a letter of intent and review all sales documents. The lawyer will be sure that the sale structure is legally permitted and in compliance with all state and local laws.

A lawyer can assist with your due diligence process, assist you with the lease agreement, vendor contracts, employee handbook, and other relevant documents, and be sure that they are all in compliance with federal, state, and local laws. The lawyer can arrange for an appraiser, and make sure that other aspects of the purchase that need to be legally explored are in order.

Some specific clauses the attorney who is experienced in optometry practice purchases will be sure are included in the purchase contract are:

- **Contingencies**. You need to have a way to cancel the purchase agreement if you encounter problems, such as getting a loan for the purchase, or negotiating a satisfactory lease with the landlord of the building where the practice is located.

- **Representations and Warranties**. The purchase agreement needs to include a declaration by the seller that all representations are true, such as the practice's income and expenses, and whether there have been any criminal, civil, or regulatory claims against the practice.

- **Responsibility Regarding Defects**. The contract should make it clear which optometrist, the buyer or seller, will be responsible for defects in services and items, such as lenses and frames, that have already been provided but are being brought back by a dissatisfied patient or customer?

- **A Non-Compete Clause.** You do not want the seller of the successful optometry practice to go down the street and open a new practice. A non-compete clause limits the seller from opening a competing practice within specific geographical areas for a specified period of time. The attorney will know the law governing such clauses and prepare one that is airtight and not subject to a legal challenge, as each state interprets the law differently.

- **Goodwill.** Goodwill encompasses the intangible aspect of the optometry practice and includes things like the reputation of the practice, its patient base, and location. A monetary value should be placed on the goodwill and this should be included in the purchase agreement.

An Accountant. The accountant will assist with the due diligence process, evaluate the cash flow of the practice, and review and evaluate the profit and loss statements of the practice you are considering purchasing. The accountant should be one who specializes in optometry practices and who can assist you in setting up your own accounting process to get you going in your own practice after you buy the practice and begin seeing your own patients.

6. Considering Practices That are Being Sold by Sellers Who Do Not Have a Broker

Buying a practice has so many variables, and so many factors involved to make sure you buy the right practice in a location you want to settle for many years. If a practice is being sold by a "do-it-yourself" optometrist who is not represented by a professional optometry sales practice broker, you may end up wasting time, money, and energy. Worst case scenario, you will have purchased a practice that does not live up to your expectations.

The seller's broker will have already completed a comprehensive appraisal of the practice which should include a demographics report, cash flow, and many other aspects of the sale that will assist you in making this decision. The broker should also have the information you need about equipment and building leases.

7. Not Aiming High Enough

Friends and family may advise you to start small. To buy a small practice with a small price tag. This may not be the best advice.

The more expensive the practice is to buy, the more profitable it may be. This may lead to a higher income with the opportunity to quickly repay the loan. You want to be sure that you will be earning at least the same amount of money as you would if you took a salaried position of employment with another optometrist.

8. Relying on the Wrong Metrics and Not Conducting Due Diligence

Do not get misled by relying on the wrong metrics, like just evaluating gross revenue and nothing else. Your attorney and CPA can help you with the due diligence process which includes an in-depth evaluation of financial, practice management, and legal due diligence.

Financial Due Diligence

You will need to see the following financial documents from at least the previous two years:

- Federal and state tax returns.
- Financial and bank statements.
- Profit and loss statements.
- Collections statements.

You also need to understand the ongoing expenses, such as all overhead costs:

- Office rent.
- Staff salaries and benefit plans.
- Optometry supplies.
- Any vendor contracts and costs.
- Equipment lease payments.
- Any warranty contracts.

Financial due diligence also includes valuing all assets and obtaining a list of all liabilities.

The cash flow of the practice is vitally important. Optometry practices often sell for 60% of the yearly gross income, Of course, a practice that grosses more than $1 million a year may be worth more and be appraised at its earning ability, and one that is struggling will be appraised at less than 60%.

Practice Management Due Diligence

You want to be sure the daily operational functions of the practice are what you want for your own practice and meet your expectations as they have been represented to you. You do this by:

- Making a personal visit to the office. This gives you an opportunity to see for yourself how the optometry practice is functioning. View the equipment to see if it is the kind you want to use and up-to-date or will it need to be soon replaced. Look at the inventory of frames to see if it is fresh and not outdated.

  You should look at the appointment book to determine patient flow and how much the practice benefits from walk-ins. Check out the fee schedule, determine how new patients are discovered and recruited, and what the opportunities are for attracting new patients.

- Can the practice be expanded? This could mean adding hours to the work schedule, increasing fees, or adding services.

- Can expenses be reduced? Maybe using different vendors would be an option.

- Does the practice bill insurance companies or require payment and the patients seek reimbursement on their own?

Legal Due Diligence

This includes your attorney:

- Obtaining a list of all assets and liabilities.
- Reviewing all contracts.
- Determining if you want to be a limited liability company (LLC) or incorporate in some other way.

Your optometric practice attorney will work with you to be sure all of your legal questions are answered, and you will go forward without worrying about any untoward legal consequences for your purchase.

9. Not Making an Eyewear Inventory

The practice you buy should have an adequate inventory of frames, lenses and contacts that can be sold to your patients. You need to make sure you conduct an accurate eyewear inventory and ensure it is included in the valuation of the practice.

Even though it is the easiest of the assets to appraise, watch out. The items may be obsolete or damaged. For example, a 600-frame inventory, with the items in good shape and up to date, should be appraised between $28,000 and $33,000.

10. Relying on the Appraisal Provided by the Seller's Broker and Not Getting a Second Opinion

Your advisors you have helping you will arrange for a comprehensive second appraisal. This gives you the information you need to make an informed decision about buying the practice. If the appraisals are close, then you can confidently go forward with the purchase. If they are far apart, your lawyer and accountant can analyze the results and determine why there is a discrepancy.

Getting Legal Help

Buying an optometry practice is a complicated but rewarding experience. To avoid pitfalls and to have the process end well, we recommend that you work with an optometry-specific attorney and a team of professionals who have solid experience working with optometrists in buying practices.

Our attorneys have the background and experience you are looking for. We have years of experience in helping optometrists like you avoid pitfalls that may occur along the way. To learn more about how we can help you with this endeavor, contact us at Dental & Medical Counsel at 925-999-8200 or use our contact form to get more information and to schedule a complimentary consultation with attorney Ali Oromchian.

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Do you have questions regarding anything we covered in this whitepaper?

Dental & Medical Counsel was built with doctors in mind. We understand that you already have a busy professional life full of stress, heavy workload, and constant liability. Let us help you reduce your stress levels, improve your work/life balance, and minimize your concerns regarding any legal matters you may have.

Additionally, our comprehensive and unique approach enables the most entrepreneurial optometrists, dentists, veterinarians, and physicians to achieve their personal and business goals as they create wealth through smart strategies with the peace of mind of knowing that their practices are compliant with all federal and state laws.

Best of Luck,

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