

Making the Move That's Right For You

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Like most healthcare professions, dentistry is one that offers young dentists an established career ladder. Generally, dentists are comfortable progressing up this ladder one rung at a time- until they reach the top and finally establish the kind of practice they have always wanted.

If you are about to graduate from dental school or complete a residency, chances are that your first move will be to secure a job as an associate in an established practice. Dentists just starting out typically spend two to seven years working as an associate. During this period, you have the chance to hone your technical and production skills and build your confidence without having to shoulder the financial and managerial responsibility of the whole practice.

This early phase of your career is also the time to start planning for the next rung on your career ladder. That means developing the professional and financial objectives you want to achieve over the next five years. Whether you plan to buy your own practice or prefer to become a partner in someone else's, it's important to establish the goals you're striving for. You'll want to think about the type of practice and patient base that you want, your location preferences, income expectations and the amount of debt you are comfortable taking on to become established in practice.

Another key consideration is your timing. After working as an associate for a while, you may come to the conclusion that you cannot reach your salary expectations as an employee and decide it's time to either become a partner or set out on your own. It's common to start feeling like you are functioning like a partner but being remunerated as an employee. For some dentists, this realization comes in a few years—for others, it can take up to 10 years. But once you've reached this point, it's time to move on.

Consider Your Options

There is more than one way to get established in practice. Many young associates prefer to buy into or become a partner in a practice where they are currently working, because they perceive this to be less risky than buying an established practice or starting out from scratch.

Buying into a practice offers some significant advantages. The main ones are that you already know the patients and staff and are familiar with the strengths and weaknesses of the practice. You're also likely to be comfortable with the owner's philosophy regarding patient care, which makes for a smooth running of the office, at least initially.

There can be potential drawbacks, however. One of the biggest stumbling blocks can be the senior dentist's perception of your readiness to pick up the ball and assume greater

responsibility. If this is your first position as an associate, it may be hard for you to overcome the perception by staff and patients that you are the “junior” dentist.

The primary difference between a buy-in and a partnership is in the financing arrangement and the timing. When you buy in while still working as an associate, the employer usually makes you a partner through a salary differential plan. This means that you own an increasing percentage of the practice each year, until you become a full partner. A simple example of how salary differential works is that you and the practice owner work the same number of hours and produce equal amounts of work. Let’s say that you are paid 30 percent of your production. Then the owner might deduct 5 percent from your production and apply it towards your buy-in. At the end of the year, the practice profits are allocated, with the senior dentist receiving 90 percent of the profits and your share being 10 percent. The second year, you receive 20 percent of the profits and so on, until you are receiving 50 percent of the profits. The financial risk in this arrangement is nominal, since you don’t have to put money up front and there is no underlying debt to pay off. The negative comes if you’re buying into a very successful practice. You may end up paying a very high price for the practice because you are giving up too much of the practice’s profits during the buy-in period.

In a partnership, you usually establish a price to buy in and become an equity owner right away. The monies can be obtained directly from seller financing or through outside capital. This arrangement carries more financial risk, since you are assuming a known amount of debt. Regardless of how much dentistry you produce, you will be obligated to make payments to the seller or a bank.

Pros and Cons of Buy-ins/ Partnerships

The main advantage of both arrangements are that they offer you the opportunity to earn a good income while sharing the responsibilities and costs associated with running the practice. When two dentists have a vested interest in the success of their practice, the motivation to build patients and profits is generally high.

However, dividing profits and responsibility equitably can also become a challenge. Many of the partnerships we’ve seen appear to be “expense sharing” arrangements, with the partners sharing overhead costs and hygiene income, but usually treating their own patients and keeping their own production. In the best partnerships, work hours and income are equally shared and each doctor brings his own strengths to the practice. One of you may be good at treatment planning, while the other is a great people manager. Recognizing that both sets of skills are critical to the success of your practice is the key to maintaining a productive, long lasting relationship.

Whether you’re considering a buy-in or partnership, it’s smart to have a written agreement in place at the outset of the relationship. The agreement should spell out the financial and operating terms of the arrangement, so both dentists know exactly what they are getting into. It’s also important to establish clear and reasonable restrictive covenants, the most common being a non-compete clause. Finally, the timing of key transition events, like a planned reduction in one doctor’s work hours, should also be in writing.

Buying a Practice

Buying an existing practice from a doctor who's retiring or leaving dentistry is still the most popular way to get started in practice. That's because this option provides you with a built-in patient base and income level at the outset. In addition, you don't face the potential relationship entanglements that can arise in an associate buy-in or partnership.

While buying a practice is a major step, it's one you are ready for once you are confident of two things: your ability to perform at a satisfactory production level and your readiness to take on the responsibilities of running what is essentially a "small business."

Buying your own practice involves lots of decisions, from finding the right practice to negotiating the purchase price and terms and obtaining the necessary financing. Turning to the services of a professional practice broker can go a long way towards ensuring a successful outcome.

A professional practice broker should guide you through the four steps to buying a practice: identifying practices for sale, introducing you to selling dentists, structuring the terms of the purchase and having a plan for effectively transferring the practice's patients to you. A broker's expertise in this process can make the difference between a successful transaction and one that gets bogged down with problems that can at times seem insurmountable.

Once you have found a practice that seems perfect, it's important to perform a thorough due diligence analysis before making an offer to decide whether the practice is really right for you. The analysis should be conducted using a team of professional advisors, including a practice transition broker and an accountant.

Make sure the practice is the right "fit"

What do we mean by fit? Essentially, it's how comfortable you feel about walking into a practice and filling the shoes of the selling dentist. It's important to be comfortable with the owner's dental production-both the type of dental procedures being performed as well as the volume of work being produced. You should also discuss the seller's method of treatment planning and compare it to your own. The bottom line is that you want to feel confident about your ability to produce a similar volume of work with the current patient pool.

Compatibility with the patient pool is also critical. Information about the patients should be provided either by the practice broker or directly by the dentist. You'll need to know the number of active patients in the practice (individuals treated during the last two years without counting the same person twice), their age categories and general information about their ethnic and socioeconomic characteristics. You must be comfortable with the patients in order to treatment plan effectively.

Once you have a profile of the patients and practice production, you're in a good position to decide whether your personality and work ethic will be a good fit. Don't be overly concerned

about whether the patients will like you—we find it’s more important that *you* like the patients. If the answer to that question is yes, you should assume that you will be able to retain the majority of the current patients by implementing a coordinated transfer plan involving you, the seller, and the patients.

Ensure that the practice is profitable

Before making an offer, you should also have a clear understanding of the profit and cash flow you can expect the practice to generate. An accountant with expertise in analyzing professional practices should be retained to review the seller’s practice returns. The accountant should review the past three years of tax returns for the practice, with greatest emphasis placed on the prior year and current year to date information. Ultimately, you want to ensure that the profit and cash flow you can generate from the practice will be sufficient to cover your acquisition and working capital loans and still provide you with a livable income.

Be comfortable with the facility and location

Information about the community where the practice is located is an important part of the picture. If the seller or practice broker hasn’t already provided this background, now is the time to contact the town library, area chamber of commerce or do a search on the Internet for a socioeconomic profile of the community.

The overall appearance, layout and condition of the practice facility are obviously significant considerations. You should feel comfortable with the number of operatories and the flow and look of the office. Ideally, the facility should offer patient parking and be accessible to major roads and highways. If you’re considering an expansion of the office in a few years, you should find out from the current owner whether this will be feasible.

In terms of office equipment, it’s common for a retiring dentist to have older equipment. As long as it’s been maintained and is functional, equipment can always be upgraded down the road, once you have established yourself in the practice. Greater focus should be placed on the vitality of the patient pool, since it’s easier to purchase a new chair than to find patients to fill that chair.

Whether you decide to buy into a practice or purchase your own, the hardest part isn’t finding practices for sale. It’s finding a practice that meets your criteria, then asking the right questions and feeling good about the answers you receive. Taking the time to analyze the practice and obtain the information you need will go a long way towards helping you make the move that’s right for you.

Martin and Risë Mattler are principals of Countrywide Practice Brokerage Inc., a Manhattan-based firm specializing in the appraisal and sale of dental practices. For further information about getting started in practice, contact them at ctrywide@optonline.net or call 800-222-7848.