

Dental Practice Transition

A Practical Guide to Management

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Part 1

Overview

Chapter 1

Introduction and Overview

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This book is aimed at providing you with necessary concepts and perspectives for making practice transition decisions. The emphasis is on presenting good ideas in as fair and as balanced of a manner as possible. We are not trying to sell you anything other than information for decision making.

Assembling all that is necessary for practice transition in a single volume is a daunting task. More detail treatments are available for many of the topics addressed here (for example, see a partial list of American Dental Association [ADA] publications at the end of this chapter). Still, this book provides essential information not typically available in one book.

This chapter explores career choices, the current dental market and its implications for you, the “Bermuda Triangle” of practice transition, and the selection of key advisors for your practice transition and life.

Career Choices

The future you see is the future you get.

Robert G. Allen

The major career question has already been answered. You are in dental school or have already graduated. For those still in dental college, questions often center on what area of dentistry: a generalist, specialist, public health, military, dental educator, or are you one of the few that will join one or more of your relatives in “your” family practice? The ADA’s *Success Seminar Manual* (2005–2006), chapter 1, outlines many of the advantages and disadvantages of various career options. Our purpose here is not to duplicate that information but, rather, to take a step back and have you reflect on the process of making a career choice and some of the key issues in that process.

Most dental students in their first and second years are asking, now that I am in dental school, what is next? Questions begin to race through your mind. Where do I want to live? Or if married, where do we want to live? If I specialize, how does that affect where I can live? Do I want a metropolitan lifestyle, rural lifestyle, or something that allows a little of both? If you have or are

planning a family, you find yourself asking about the best educational and social opportunities for your children. What values do you want your children exposed to day by day? For those who follow a faith-based lifestyle, where does God want me to be? Can I get student loans repaid, and should this, based on interest rates, be a slow or a quick repayment process?

The questions listed above are by no means an exhaustive list. They are meant to get you thinking about the relationships between you, your family, the location of your practice, and the type of practice (general, speciality, etc.). The matrix in Table 1.1 is meant to give you a starting point for your decision-making process. You can list across the top all the issues you need to consider in making a decision about the type of dentistry you want to practice and then see which area of dental practice best meets most or all of your criteria. Approach the matrix (decision-making process) with the following in mind:

- Gather input from the people closest to you who will be affected by your decision.
- What seems like a good idea in your second year of dental school may not seem like a good idea in your third year of dental school. Be flexible; at times, life can take a sharp turn.
- It is called a decision-making process for a reason. Decisions, especially of the nature you are considering, take data or input that take time. Be patient.

A question that often arises when working with people making important decisions is, what if I do all the right things and I am comfortable in my decision, but after being in the practice I do not like it? This is a challenging and multi-dimensional question with both a simple and a complex answer. The simple answer is that you can always move, though this may take some time depending on your situation. There is a demand for dentistry in many places. The complex answer is based on a series of questions:

- What do you not like about the practice?
- What do you not like about the community?
- Can anything be changed that would make you more at ease?
- What would you do differently in choosing a practice?
- How does what you are experiencing differ from what you expected?

If you invest the time to go through the series of questions with family, and if you are in a position of working for (associateship) or with (partnership or buyout) another dentist, you may find out that you can resolve the issues causing your discontent. However, if you are not able to resolve the issues causing your discontent by answering the questions, you are better prepared to decide on what you will do next.

Some points to remember when making decisions, adapted from McDaniels et al. (1995):

Table 1.1. Decision matrix.

	Lifestyle We Want (e.g., rural area)	Values We Want	Loan Repayment	Educational Opportunities for Children	Close to Family	Housing We Want and Can Afford	List Other Important Considerations
General Dentistry							
Speciality Practice							
Military							
Public Health							
Dental Education							
Dental Service							
Management Organization							
Institutional Practice (Hospital)							

- Decisions are tentative; you can change your mind.
- There is usually no one right choice.
- Deciding is a process, not a static one-time event. We are constantly re-evaluating in light of new information.
- When it comes to a career decision, remember you are not choosing for a lifetime. Choose for now and do not worry whether you will still enjoy it in 20 years. Life is fluid and change occurs.
- There is a big difference between decision and outcome. You can make a good decision based on the information at hand and still have a bad outcome. The decision is within your control, the outcome is not. All decisions have an element of risk.
- Think of the worst outcome. Could you live with that? If you could live with the worst, then anything else does not seem that bad.
- Try to avoid either/or thinking: usually there are more than two options.

The Current Market and Its Implications for You

The dental market in the early 21st century presents some unique opportunities and challenges for dentists and patients alike. These exigencies have profound implications for you. Let us consider the platinum age of dentistry and the present market as representing both the best of times and the worst of times as a background for this book.

The Platinum Age

We stake no claim on being the first to call this the platinum age in dentistry. The term has been used since at least the first reference we could find, in the spring of 2000 (Takacs 2000). So, why *are* people calling this the platinum age in dentistry? Much of the rationale hinges on the numbers, most of which you have probably already heard and so we will only point out the most critical ones.

Our population is living longer and is more likely than a generation or two ago to have had relatively good oral health. With fewer missing teeth and more teeth and supporting structures to be maintained and restored, there is, plainly speaking, more work to be done. Simultaneously, the number of dental graduates is still significantly less than the number of dentists who will be retiring. As of this writing, a few new dental schools are in various stages of development. Still, the gap between retirees and new graduates will likely remain somewhere in the lower 4,000s, while the need is in the area of 4,650 (Chou 2006). Further, the number of dentists per 100,000 population is projected to decline from a peak of 59.5 in 1990 to 43 in 2020 (Valachovic et al. 2001).

In addition, according to Mark Maremont of the *Wall Street Journal*, as of 2005, general “dentists in the past few years have started making more money

than many types of physicians, including internal medicine doctors, pediatricians, psychiatrists, and those in family practice.” This trend is likely to continue, if not be magnified. Granted, some physician specialists such as radiologists and cardiologists still enjoy incomes greater on average than that of general dentists and specialist dentists. However, remember that these medical specialists, like their counterparts in dentistry, have more years of education than general dentists before earning large incomes. So, the time value of money also has to be considered in understanding this as the platinum age of dentistry.

While this certainly seems to be the platinum age of dentistry for dentists, we would be remiss if we failed to mention that such is not the case for certain groups of patients. Patients lacking dental insurance, patients in some rural areas, and patients with lower incomes are all less likely to receive the care they need. So while this is the platinum age for providers, it is the stone age for certain patient groups. Since you will be receiving much, we hope you will consider giving back much in whatever manner you are led to help close the gap in access to care. Options are many but include state Medicaid programs, nonprofit clinics, Missions of Mercy (volunteer weekends for providing care for the poor), and even providing free or discounted care or negotiated care based on bartering.

The Best of Times, the Worst of Times?

A particularly astute and famous quotation from Charles Dickens’s *A Tale of Two Cities* accurately describes the current transition opportunities for the general practice of dentistry: “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity.” How do these literary observations relate to transitioning into private practice?

In so many ways, it is indeed the best of times. Student choices for entering private practice resemble a buffet: do I prefer Chinese food tonight, or perhaps seafood, or Italian instead? There are so many choices, in fact, that we have heard it said that it is very difficult to fail, for example, in buying an existing practice with healthy financial numbers. There is little doubt that in a myriad of dimensions in this platinum age of dentistry, this is the best of times.

However, it is also, ironically, the worst of times in a sense. Why? Because it is sometimes a struggle to choose what you really want from the buffet! Having to choose from two or more favorable options is still conflictive. There is a need, among other skills, to be able to objectively evaluate the options that are available in order to make an informed decision. Further, the word has now been widely broadcast: dental students will likely become wealthy in their lifetimes. This means that many individuals and corporations are, metaphorically speaking, circling above the heads of dental students, not waiting for them to die, but waiting for them to live out their careers and to share in the revenue stream! The need to be watchful regarding personal and business

insurance, regarding practice transition concepts and processes, and regarding investing has never been greater.

Amidst this best of times and worst of times, arguably some wisdom and strangeness have emerged, as well as some sense of total devotion to certain models and concepts and some sense of credulity (that there is no right way). We are, frankly, surprised at the way that some associateship arrangements and practice purchases are structured, particularly in this platinum age. Still, there apparently is room in the competitive market for contracts that seem to be heavily biased in some ways for the owner-dentist. Some very competitive market conditions give the owner-dentist incredible negotiating positions that, in such a context, may warrant many fewer advantages for an associate position and much higher prices for practices. Some consulting firms market and implement their business models of transitioning practices across incredibly variable market conditions, causing others to scratch their heads and wonder how and why.

One of the main purposes of this book is to provide for you some perspective of wisdom based on historically proven concepts so that you can sort your way through this best of times and worst of times, through the fog of strangeness. In the end, there may not be any absolutely and completely “right” way to structure an associateship experience or to purchase a practice. Nevertheless, there certainly are reasonable ranges within which these endeavors can be structured, and some of these will be more or less favorable to you. This, then, calls for you to be a wise consumer.

The “Bermuda Triangle” of Practice Transition

Transitioning from dental school or early career tracks (military or public health) into private practice represents a tenuous activity in which opportunities can readily disappear into oblivion. Hence, the reference in the heading to the infamous “Bermuda Triangle,” where, according to folklore and myth, ships and planes have disappeared without a trace (see Figure 1.1). Regardless of the legitimacy of the Bermuda Triangle in history, as a metaphor the name helps us to focus on the particularly tender and easily tipped process through which recent dental graduates enter the business world by trying to start, buy, buy into, or become associates of dental practices.

The three-dimensional triangle in the practice transition model includes these parties/sides: the dental student/graduate, the owner-dentist(s), and the advisors for both parties (see the model itself). Inside the model are the particular dynamics and characteristics of the practice that, depending on how they “load” with each party, can also readily sink the deal. Outside the model are the external variables influencing the practice. For example, suppose a prospective buyer understood that the staff in a given practice would be staying after the purchase, only to discover that all the team members are leaving. Such information could easily sink the deal, as could discoveries related to the opinions of area dentists, overhead percentages, and so forth.

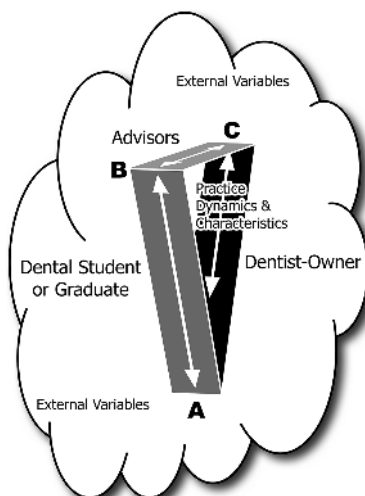


Figure 1.1. The “Bermuda Triangle” of practice transition.

Three specific principles undergird this model; principles that, admittedly, are themselves subject to debate.

Principle #1: *No single party in the transition process should retain all of the power or control.* We believe this principle is an equitable one. The dentist-owner, obviously, enjoys more “position power” than a prospective associate or buyer. Still, the interests of the latter simply cannot be shelved in favor of the dentist-owner. Some sense of balance and mutual interest must be preserved if a practice transition toward associating or purchasing is to be successful.

Principle #2: *Each party has competing interests, and thus this process requires some degree of negotiation, ranging from making minor adjustments to standardized employment agreements to developing unique contracts.* Sometimes individuals have interests and needs that, on the surface, appear somewhat strange. These may arise from personal history. Occasionally, for example, an associate-ship contract will contain some very specific provision regarding a rather obscure circumstance that presented itself in a previous associate’s employment (for example, thou shalt not approve the purchase of any dental supplies).

Principle #3: *This process of negotiation can easily/readily “tip” or fall (sink into the ocean) if any party maintains an unreasonable bargaining position or an unreasonable stance.* We are of the opinion that practice transitioning needs to major in majors rather than get tipped by relatively minor issues. It seems unwise to walk away from an associateship contract because of a dispute about who pays for malpractice insurance for 1 year or because of a disagreement about whether the practice is worth \$300,000 instead of \$315,000. Fifteen thousand dollars buys a small car these days. Yet, it is our opinion that you do not walk away from a practice sale for \$15,000 (though maybe for \$50,000).

Let us explore the nexus of the triangle where competing interests meet. At juncture “A” reside the relationships and interactions between the dental student (or recent graduate) and the dentist-owner. How do the personalities mesh, the philosophies of practice, the values governing behavior, the type of dental services to be provided? Do these two parties agree on some fundamental concepts and principles to structure an associateship or a practice purchase?

At juncture “B” emerge the dynamics of relationships and interactions of the dental student with his/her advisors and the advisors of the dentist-owner. Importantly, note that advisors here may be both formal and informal. Formal advisors could include transition consultants/companies, attorneys, accountants, lenders, faculty, and so on. Informal advisors include parents, other family members, friends, and classmates. How well (if at all) are these basic understandings of the student communicated to the formal advisors? Does the consulting firm offer a flexible, efficacious business model to handle the transition if one is desired by the student? May the student hire independent advisors in addition to the ones in a consulting firm? Do spouses assert proper influence in the negotiation? We have seen cases where spouses exert incredible influence, potentially spoiling the “deal” for a few thousand dollars in valuation or applying models of understanding inconsistent with the dental market. Does a student agree with the philosophy/business model of the transition firm if one is involved? For example, some firms assert that they represent both parties (known as “dual representation”), and is the student comfortable with this? Should a student have to pay a fee up front to look at practices or an “earnest” payment to hold the final purchase until after graduation? Will the lender offer the money needed for the purpose?

The relationships and interactions of the dentist-owner with his/her formal and informal advisors and the student’s advisors develop at juncture “C.” Does the owner-dentist communicate clearly to transition consultants the previously agreed-to basic understandings negotiated with the student? We have seen many cases where this has failed, typically due to advisors who have a standardized contract or approach to transition inconsistent with what the student thought was going to occur based on extensive conversations with the owner-dentist. Do the student’s advisors offer what is perceived to be reasonable positions with respect to valuations or contracts?

Inside the Triangle

Every dental practice has unique characteristics that make up the inside of the triangle. Some of the key “inside” variables include practice location, patient base (and its historical, current, and future dental needs), unique staff, the practice’s office design (which can make life much easier or more difficult for the practitioner), technology, number of active patients (see Heller 2007), and financial information (see chapter 3 on dentistry by the numbers for an excellent overview by Dr. David Willis). This inside picture of the practice needs to be understood, especially by associates intending to buy and by potential

buyers. This is all part of due diligence. For example, a practice showing production of \$510,000 and collections of \$450,000 for the previous year creates a “due diligence opportunity” for you. Is this uncollected revenue, is this insurance “write-offs?” In a study published in 2007, Steward and Steward argue that it is very difficult for a dentist to produce the income and manage the practice once certain production thresholds are met. This requires a paradigm shift away from micromanagement to macromanagement if such practice characteristics exist and if the practice is to continue to grow.

Outside the Triangle

Outside the triangle are the external variables unique to the neighborhood, town/city, county, and state. Is the neighborhood older and established, deteriorating, or growing? Some friends of ours started a practice in extreme south Lincoln, Nebraska, in the late 1980s, when pheasants and foxes could be occasionally seen from their office. This area is now surrounded by miles of growing city. What is the general population of the city/county, and how many general dentists are in practice? This information can be researched through a variety of sources as well as purchased from certain firms. Is the dental market highly competitive for patients? If so, practices will likely sell for much higher prices, comparatively. Two states may be separated by a mile-wide river. Yet this may be a great divide representing two distinct markets: one essentially saturated with third-party payors; the other, primarily fee-for-service patients. These external variables cannot be overemphasized.

Some Common Pitfalls Causing the Triangle to Sink

In associateships:

- Compensation offers from owners and/or expectations of would-be associates below and/or above typical norms.
- Form of relationship: employee vs. independent contractor. The IRS has a rigorous test for dentist-workers to qualify as independent contractors (search www.irs.gov). As you probably know, an independent contractor must pay his/her own share of social security tax AND that of the employer (just over 15% as of 2007).
- Assignment of patients: is this fair and balanced? Does this match the compensation provisions of the contract to cover base pay or the “draw”? Patient assignment becomes particularly critical in practices with significant managed-care/third-party payors with resultant “adjustments” (reductions) in collections.
- Buy-in provisions/process (timing, procedures, etc.).
- Influence of third-party carriers on associate’s compensation and on practice overhead and profitability.
- Insufficient practice revenue for adding another dentist?

- Allocation of dental hygiene income: does the associate receive any credit for hygiene exams?
- Restrictive covenant terms viewed as unreasonable.

Dr. Eugene Heller (1999) also details ten specific reasons for associateships failing; refer to his article listed in the references.

In purchases:

- Practice value unknown or viewed as unreasonably high by associate and/or advisors.
- Practice allocation of value seen as inaccurate (for example, a value of \$2,000 for all equipment and supplies and a value of \$300,000 for the goodwill or blue sky).
- Can the buyer secure enough financing? Some lenders may cap the lending limit of new graduates.
- Major change in the practice during the process of purchase (disability of owner, departure of staff, divorce of owner, etc.).
- Practice projections that appear too good to be true from a transition consulting firm.
- Undue and inappropriate influence of a key advisor (formal or informal).

Some Suggestions to Avoid Tipping the Deal

- Study the dental market in the specific area. What do associates tend to earn in salary and benefits? What methods are used to evaluate practices? What is the extent of third-party involvement and reimbursement in the area? What are typical overhead/profit ranges? What are some ballpark figures for which practices typically sell in terms of percentages of revenue?
- Identify your “non-negotiables,” if any, in an employment arrangement and in a practice purchase. Are you willing to do prophies? What is your “bottom line” for income and benefits? How soon do you want to purchase the practice, and is this process in writing? What is the most you would be willing to pay for the practice?
- Identify your negotiable positions: compensation level beyond minimums, practice value within a certain range, how the transfer will proceed with respect to patients, staff, and so forth.
- Utilize a variety of advisors and weigh their input based on their expertise. It was Solomon who advised, “Refuse good advice and watch your plans fail; take good counsel and watch them succeed” (Proverbs 15:22).
- Make sure all items of importance are specifically documented in contracts and agreements. Part of the “code of the West,” a term coined by Western writer Zane Grey, involved doing business on a handshake that was “more binding than a 100 page contract” (Wheeler 1996). That code served as a

great ideal of the burgeoning West. But, as you have heard in the 21st century, get it in writing.

Selecting Key Advisors

Before you start the process of selecting advisors to help you through the maze of decisions that end up with you practicing dentistry, you need to answer the question, which advisors do I need to seek out? The list of professionals that you need to find the best practice fit for you is rather extensive. Most certainly your choice of practice (associateship, partnership, ownership) will influence the number of advisors and type of advisors you will require. However, before we dig deep into purchasing the best possible advice, do not overlook the invaluable input of any family members or family friends, particularly those in business or in dentistry. Conversations about the practice of dentistry with practitioners, especially family, are most productive if you have a list of questions that reflect your goals. It is a good idea to cross-check information obtained about the practice of dentistry from family and friends with the views of your dental faculty.

Two of your best resources in dental school are the faculty who teach practice management and the faculty who practice in the community. For most dental schools, talking to part-time faculty who maintain a private practice is one of your best resources for issues that face a dentist in private practice.

Faculty who teach practice management should teach you about or have references that can help you decide which advisors you should contact to help you achieve your practice goals. Many schools maintain a list of practice opportunities and dental practices for sale. Most practices may be within the state and region in which the dental school is located, and many listed practices are owned by alumni of the college. Nevertheless, your college's practices list is a good place to start.

Also, do not overlook the advice you can get from dental suppliers. Dental suppliers often know about dentists interested in selling their practices before the dentist goes to a broker or lists the practice. Most dental suppliers are happy to pass on information to prospective buyers in the hope of continuing to supply the new practitioner.

Remember to ask questions: advisors you hire work for you, with the obvious exception of consultants working for the practice owner. The number and type of advisors that you use will depend on the type of practice opportunity you are pursuing. For example, if you are pursuing an associateship without the option to purchase, your banking, accounting, and tax needs will be different than if you are pursuing a purchase of a solo private practice.

Let us examine in alphabetical order (see Figure 1.2) the advisors available to assist you in obtaining the practice environment of your dreams, or at least the practice environment that matches your goals. This is a basic list, not an exhaustive one. For example, architects are not discussed here.



Figure 1.2. The Unthank Design Group, Lincoln, Nebraska, is a planning architecture and interior design firm providing services exclusively to the dental professions. Since 1980, Dr. Unthank has designed more than a thousand dental and specialty offices throughout the world.

Look at the list below as a menu from which you need to choose the advisors who will help you accomplish your goals.

Accountant/CPA
Attorney
Banker
Insurance broker
Investment counsel
Practice broker

You may have the opportunity to get two advisors in one. Some accountants are also attorneys: see the American Association of Attorney-Certified Public Accountants (AAA-CPA) website (www.attorney-cpa.com); go to this website and click on the Find an Attorney-CPA link.

When looking for advisors, make sure they are skilled in working with small business/dental practices. If you use an advisor who does not deal with dental practices on a regular basis, you may end up paying to help educate the advisor and possibly pay again through lost income for outdated or inaccurate advice.

Selecting an Accountant

Consider, for example, what an accountant/CPA potentially has to offer:

- Prepare periodic financial statements and annual audit reports
- Assist you in analyzing your financial statements
- Help develop a budget and a system of monthly reporting so that you can regularly check on your financial transactions in relation to what was budgeted

- Prepare tax returns and assist with tax planning
- Set up a tax calendar and a system to help you comply with all filing requirements
- Help set up your accounting system
- Assist with determining loan or capital requirements
- Act as your advisor on financial and administrative matters
- Perform operational reviews to help you find ways to run your practice more efficiently
- Analyze profitability and break-even levels

The following suggestions are intended to help you find the right professional accountant, attorney, banker, CPA, practice broker, and so on. For the purpose of consistency, we will continue using the accountant in this example.

Determine the scope of work that you want an accountant to provide for your practice. Do you want someone to keep your books and prepare monthly financials? Are you looking for an annual audit? Are you looking for advice?

- Ask for referrals from other dentists in private practice.
- Set up interviews with two or three accountants so you can see which one you are most comfortable with.
- Keep interviews focused on whether you would be comfortable with and have confidence in the accountant. Questions you ask should be general in nature. Do not ask for accounting or tax advice in the interview process.
- Ask each accountant interviewed for two or three references.

The following questions should be covered in the interview (adapted from www.smallbusinessnotes.com; go to financial management, then click on selecting an account):

- What primary services do you provide to a dental practice?
- How will you charge for your services? Most accountants will establish a monthly retainer for recurring services like monthly or quarterly financial statements and charge by the hour for audits. Tax returns can be charged by the hour or by the form.
- What can I do to reduce your fees? Determine if you will be able to keep your accounting costs down using the tips provided.
- As my practice grows, how will you be able to help me? Ask them to describe services they provide to other dental practices.

You can keep your accounting costs down by:

- Finding out what you can prepare in advance to make the accountant's work easier. The easier it is for the accountant to read and understand the information you bring in, the quicker the work gets done.
- Choosing an accounting system, manual or computerized, that you can understand and that allows you or a staff member to do as much of the bookkeeping work as you have time for.
- Talking to your accountant and tax professional before making major decisions so you will know the tax implications ahead of time. This also allows

you to fill out all documents in a timely manner, thus saving the accountant time.

- Preparing and organizing for your meetings. Taking time to prepare for your visit can save money and time. Take notes so you will not have to ask questions a second time.
- Asking for a detailed bill that specifies the billing for each type of service, including time and billing rate. This will help give you some clues about what you can do to save money.

It is good to keep in mind that contracting out services that would take you a lot of time to learn can actually save you money. You can be far more productive doing dentistry than doing your own books, billing, or tax forms. There is a lot to be said for the quality of life: having time to spend with your family, enjoying your hobbies, and relaxing.

Selecting an Attorney

When selecting an attorney, it is important to determine the type of attorney you will need. If you are interested in becoming an associate or partner in a dental practice or are considering purchasing a dental practice, you will best be served by an attorney who specializes in small business contract law. If you are looking for an attorney who is also a CPA, you may be best served by contacting an attorney from the AAA-CPA.

In many localities, attorneys are permitted to advertise in the yellow pages for an area of specialization. Often the area of specialization is regulated by the American Bar Association. This association, like state dental associations, may require members to maintain a skill level that mandates the annual completion of additional study in the area of expertise under which they are listed.

The primary consideration in selecting an attorney should be how comfortable you are after your interview with a prospective attorney.

The suggestion list intended to help you find an accountant can and should be modified and used to find the right attorney. For example: determine the scope of work that you want an attorney to provide. Do you want the attorney to give you examples of contracts or review a contract you have been offered? If the attorney is reviewing a contract for you, know in advance what you want in the way of compensation, benefits, and overhead expenses.

The questions you ask of a prospective attorney should include (adapted from www.lawsonline.com/directories/attorneys/attyselection.htm):

- Does the attorney specialize in the area of law in which you are interested?
- Will you be charged for your first consultation?
- How much does the attorney charge per hour?
- How many hours does the attorney think it will take to complete the task?

- Are there any government licensing or filing fees involved?
- Are there any statutory guidelines for this type of work?
- Does the attorney provide the client with a written contract or letter confirming employment? If so, ask to see an example.
- Has the attorney ever had complaints filed against him/her?
- Does the attorney refer work to other attorneys in other areas of law where he/she is not an expert?

Throughout the course of your lifetime, you will need the services of attorneys to help you with issues like wills, trusts, and the sale of your practice when the time comes. Even if the attorney you have identified to work with cannot handle all of your needs, they can refer you to the expertise you require.

Selecting a Banker

How should you choose a bank or financial institution? The steps to choosing a bank or financial institution are very similar to choosing an accountant or attorney. Not all financial institutions are the same. Each institution establishes its own policies for

- Types of products and services that are offered
- Criteria for qualifying for a loan
- Minimum balances for accounts
- Interest rates
- Charges for account services

Your banker can offer you

- Assistance with cash management needs—for you and your business
- Investment products of varying maturities and varying risk
- Advice about qualifying for the loan that best meets your needs
- Special loan programs for small businesses

Compare financial institutions in order to find the one that serves you best. Do not overlook local banks. They tend to have more of an interest in the community, and the majority of their resources stay in the community. Start gathering information to help you select the best financial institution and identify a banker with whom you can build a relationship with for the future:

- Approach the decision as a long-term investment.
- Ask your accountant and attorney to introduce you to bankers with whom they are familiar.
- Check with your local Chamber of Commerce to find out which banks are active in the community.
- Look for a complementary personality—someone you are comfortable with.
- Introduce yourself to the banking center manager. If looking for a loan, ask to meet the loan officer who will be assigned to you.

- Tell them about your business so they can tell you what special products and services or restrictions might apply.
- Do not make a decision on pricing alone, but do compare interest rates on deposit accounts and basic consumer loans. Most business loans are negotiated. Also, you can get banks to negotiate charges for services. Do some comparison shopping (see www.smallbusinessnotes.com/operating/finmgmt/bank.html)

It is a good idea to establish a relationship with a banker before you need money. The right banker will be someone who understands your needs and the needs of your business.

Selecting an Insurance Broker

An insurance broker (agent) sources (brokers) contracts for insurance on behalf of his/her customers. Basically, there are two types of insurance agents: those who work for an insurance company, and independent brokers who work for their clients. Brokers who work for insurance companies can offer only the products and prices established by the company they work for. Independent insurance agents shop all insurance companies and try to offer the best coverage at the best price.

Your insurance needs will fall into the two broad categories of personal and business. Areas of your personal life that should be covered by insurance policies include but may not be limited to

- Household/renter's
- Automobile
- Life (you/spouse)
- Disability (may fall under your practice agreement)
- Umbrella policy
- Health (may fall under your practice agreement)

Areas of your professional life that require insurance coverage include but may not be limited to

- Malpractice
- Disability
- Health

If you are a partner in a dental practice or the owner of a solo practice, you will need to consider insurance coverage for

- Building and/or equipment
- Employee health
- Liability/personal injury
- Employee life

You may need to use more than one insurance broker, depending on your insurance needs. When looking for a broker to help you with selection and

coverage for your practice, you should follow the interview process as outlined for accountants, attorneys, and bankers. Seek a broker who is familiar with the insurance needs of a dental practice (see the article by Vogler and Lakamp [1988] in the references).

Please refer to chapter 21 on insurance needs as they apply to you and to dental practices.

Selecting an Investment Counsel

When it comes to investing your money for you and your family's future, whether children's education, new house, or retirement, you have basically three choices. First, you can do all the investing and manage your own portfolio. A second choice is to let someone else manage all your investments, or your third option is you manage some of your assets and someone else manages the remainder of your assets. Unless you have been trained as an investment counselor or have made investing a hobby over several years, going it alone can be risky, and not all the risk is in choosing poor-performing investments. If you are obligated to the practice of dentistry 35 or more hours a week and you have a family, little time remains that can be devoted to the study of investing.

Turning all or most of your investment money over to someone to manage should be done only after you have developed your investment goals, determined the level of risk you can tolerate, and established your investment philosophy. The process of developing your investment goals starts with the budgeting process. See chapter 22 on personal finance/investing. Once you have established a budget and your emergency fund and maintained your budget-driven lifestyle, you will have identified money for investments. Investment goals at the top of the list for most younger couples include

- Education for children/spouse
- New house/car
- Vacations
- Retirement

Once goals have been identified and the amount of money has been agreed upon, then it is time to determine your tolerance for risk; this is one question that an investment counselor should ask you. Basically, risk is defined in terms of rate of return on your investment. Usually, the higher the rate of return, the higher the risk. Bank certificates of deposit (CDs) and savings accounts are considered to have the least risk of losing your investment. However, it is possible to lose money on CDs and savings accounts. If your rate of return is 5%, and inflation is 3%, you are making a 2% return. But we need to figure that you will be taxed on your 5% return. Depending on your tax bracket, you could be losing money. Most investment counselors will suggest a mixture of investments (diversified portfolio), with percentages of your investment money being allocated to different investments. If you are in your thirties, you may

get a recommendation of 50–70% equities (stocks usually vs. mutual funds), 10–20% in bonds, and the remainder in foreign equities or cash.

The use of more than one investment modality is referred to as an “asset allocation.” For a beginner’s guide to asset allocation, diversification, and rebalancing, go to the U.S. Securities and Exchange Commission’s website, www.sec.gov.

Investors who can tolerate high levels of risk and volatility may invest 90–100% in stocks. Their rationale is that from 1920 to 1999, the stock market has averaged an 11% return rate. However, there have been volatile days when the market dropped and people lost significant amounts of their investments. If you have the personality to ride out the bad days—and sometimes years—and you are in the right stocks and/or mutual funds, you will see good returns.

Next, you need to decide if your investments will be active (someone manages) or passive (stocks or funds that are reviewed once or twice a year). There will be fees and investment costs for either the active or passive approach to investing. The key to choosing an investment counselor is how he/she charges you. Pick financial advisors that charge an annual management fee. People who are paid only on up-front commissions have no incentive to watch your money and make suggestions as to when adjustments are needed.

For review purposes, your investment philosophy should include

- Allocation of assets
- Portfolio diversification
- Identifying and sticking with your investment style
- Active or passive management of your investments (wealthstrategies.com)

Selecting a Practice Broker

The role of a practice broker includes these and other functions:

- Listing of practices for sale
- Marketing listed practices
- Showing practices to potential buyers
- Writing offers to purchase
- Making sure all appropriate paperwork is signed

Choosing a practice broker is much like choosing an accountant or attorney. In addition to using the suggestions for finding an accountant or attorney, you will need to ask if the broker represents the practice owner or both the practice owner and you as the would-be associate/buyer. The latter is called “dual agency” and includes built-in ethical challenges. Is it really possible to represent both parties equitably and equally? Dual agents may be paid by both the buyer and seller. Theoretically, dual agents work for the best outcome for both

parties. If you are working with a broker who is a seller's agent (or with a dual-agency broker), you really should consider hiring an independent attorney or broker to represent your interests.

You will also want to ask how your earnest money will be handled. Typically, earnest money is deposited in an account and used toward the purchase price of the practice at closing. The amount of earnest money can be negotiated.

Another question you will want to ask is, what is the average length of time from acceptance of offer until close? The longer the wait, the more financial resources you will need to live on.

References and Additional Resources

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Learning Exercises

Decision Matrix

Complete the decision matrix for the career path toward which you are leaning. Make sure that you involve your immediate family members.

Buy-In

You are just beginning your D4/senior year. Over the summer break, brief as it was, you found what you think is the ideal practice to purchase. An appraisal from 3 and a half years ago from a national consulting firm placed a value of \$450,000 on the practice. In your initial discussions the current owner, Dr. Smith, indicated that he would sell you the practice for approximately @\$375,000, in spite of increased practice revenues averaging \$600,000 for the past 3 calendar years.

1. What can you do to facilitate this successful sale in order to make the deal mutually beneficial for you and Dr. Smith? In other words, how can you avoid “tipping” the Bermuda Triangle of practice transition?
2. What can Dr. Smith do to facilitate this successful sale in order to make the deal mutually beneficial for you and for him? How can he avoid “tipping” the Bermuda Triangle of practice transition?
3. Identify key advisors for you and for Dr. Smith.
4. Identify some practice information you would need to obtain and study as you pursue this purchase.