

Part 1

An Introduction to Practice Transition, Dental Practice Financial Statements and Practice Financial Analysis

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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 sound ideas in a fair and balanced manner inasmuch as that is possible. We are not trying to sell you anything other than good 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.

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: private general practice, private specialty practice, public health, military service, dental education, or are you one of the few that will join one or more of your relatives in “your” family practice? Our purpose here is not to duplicate an entire American Dental Association publication on career options, *Roadmap to Dental Practice: The Guide to the Rest of Your Career After Dental School and Licensure*. Rather, we encourage you to take a couple of cleansing breaths or deep sighs, and to take a step back and 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

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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 among you, your family, the location of your practice, and the type of practice (general, specialty, 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, require sound data and input, and take time. Be patient.

This question often arises when working with people making important decisions: what if I do all the right things, and I am comfortable with my decision. However, after being in the practice or another career path, I realize I do not like it? This is a challenging and multidimensional question with both a simple and a complex answer. The simple answer is that you can always move, although 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/career path?
- What do you not like about the community?
- Can anything be changed that would make you more at ease?
- How does what you are experiencing differ from what you expected?
- What would you do differently in choosing another practice/career path?

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 eventually resolve the issues causing your discontent. However, if you are not able to resolve the issues causing your discontent by answering the questions above, you will be better prepared to decide on what you will do next.

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

- 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 reevaluating 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

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							
Specialty Practice							
Military							
Public Health							
Dental Education							
Dental Service							
Management Organization							
Institutional Practice (Hospital)							

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 its 21st century “adolescence to early adulthood” stage of life presents some unique opportunities and challenges for dentists and patients alike. These exigencies have profound implications for you. Let us consider the current 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: Now Tarnished

The term “platinum age of dentistry” seems to have first been used as early as the spring of 2000 (Takacs 2000). So, why *did* people describe dentistry as being in the platinum age at that time? 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 assuming patients have the means to pay for it and access to care to get the treatment done. In addition, research suggests that dentists now make more money per hour than physicians, although physicians make more annual income because of longer work hours (Seabury, Jena, and Chandra 2012). Finally, *U.S. News and World Report* ranked dentists as the No. 1 career in 2015 (<http://money.usnews.com/money/careers/slideshows/the-25-best-jobs-of-2015/2>), with vital practice team members, dental hygienists, not far behind at No. 5.

While these and other reasons may have justified dentistry being anointed as a “platinum age” for dentists for a time, we would 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 dentistry may have enjoyed a platinum age for providers, it may have been more of an iron 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.

So, why now depict the platinum age as being tarnished? Several key variables are diminishing the “platinum age of dentistry,” even in light of dentists being named the No. 1 career. There are probably many variables at play here, but four in particular stand out.

First, the expenditures (\$) for dental services appear to have flattened and may not rebound amidst the ebb and flow of economic conditions. Meanwhile, utilization (those going to the dentist for services) has increased for children and dropped for adults (Wall, Vujicic, and Nasseh 2012; Vujicic 2013). Further, and brace yourself for some sobering statistics, The total number of dental care visits in the United States, across all settings,

decreased by 7% between 2006 and 2012. There were approximately 271 million dental care visits nationwide in 2006 compared with 252 million in 2012 (this means 19 million fewer dental visits in 2012 versus 2006). Over this same time frame, the US population increased by 5.3%, and the number of practicing dentists increased by 9.4%. As a result, average dental care visits per capita and per dentist decreased substantially. Even though more people now seem to have dental coverage of some kind—Medicaid, preferred-provider, and so on (see McGill 2014), patients still struggle to access care and still need some expendable income for any deductibles or co-pays.

Second, dental student debt has skyrocketed, prompting studies about its influence on recruiting students and impact on career decisions. As of this writing, average debt hovers around the \$247,000+ area and is rising precipitously, with lower averages for public college graduates and higher for private college graduates (<http://www.asdanet.org/debt.aspx>). A debt of \$225,000 at a blended 6.5% rate over 10 years results in a monthly payment of \$2,555, without factoring in rather severe limits on the tax deductibility of student loan interest and income taxes owed on gross income. A recent graduate would need to earn on average \$30,660 in annual income just to make a \$2,555 monthly payment ($\$2,555 \times 12$). This indebtedness redefines the economic landscape for associateship positions and for obtaining practice purchase loans (study the related chapters on these topics—especially Chapters 3, 20, and 21).

Third, new dental colleges have been and are being created, and this may eventually saturate the market with an excess number of providers, especially in some markets (see Solomon 2015a, 2015b).

Fourth, decreased reimbursement schemes from some dental insurance companies are putting increased pressure on practice profit margins, presenting an ongoing challenge to dentists (McGill 2014). Summarizing an aggregate data set, Boechler asserts that “although the dentists and hygienists are working more hours on average each month, their net production per hour and per patient represents a smaller percentage of the gross. This is due to the increased use of insurance as payment, leading to more adjustments and a smaller percentage of net production. Unfortunately, for dentists, with the ACA [Affordable Care Act] . . . this trend is likely to continue into the future.” In other words, *dentists can expect to work longer hours and realize increasing pressure on profit margins*. Peruse several related chapters in this book, especially Chapters 3, 12, and 13, for insights about practice profitability, dental fees, and dental insurance/benefits.

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. In spite of the “tarnishing” impact of the variables described earlier (such as debt and lower utilization levels), it is certainly not by accident that dentistry was ranked in 2015 as the No. 1 profession as already mentioned. The return on investment remains good at least for the foreseeable short-term future (Dunning 2015).

However, it is also, ironically, the worst of times in a sense. Why? Because blazing a career path is becoming increasingly complicated with unpredictable demand for dental

services and the need to make student loan payments. 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. Refer to the chapters addressing these issues, including Chapters 25 and 26 on personal/business insurance and personal finance/investing.

Amidst this best of times and worst of times, a plethora of transition arrangements and models have emerged. We are, frankly, surprised at the way that some associateship arrangements and practice purchases are structured, particularly in view of student indebtedness. 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 these models can work in such diverse markets.

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 this fog of a somewhat tarnished platinum age of dentistry. In the end, there may not be any absolutely and indisputably “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 very wise consumer with business acumen.

The “Bermuda Triangle” of Practice Transition

Transitioning from dental school or early career paths (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 veracity 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. 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.

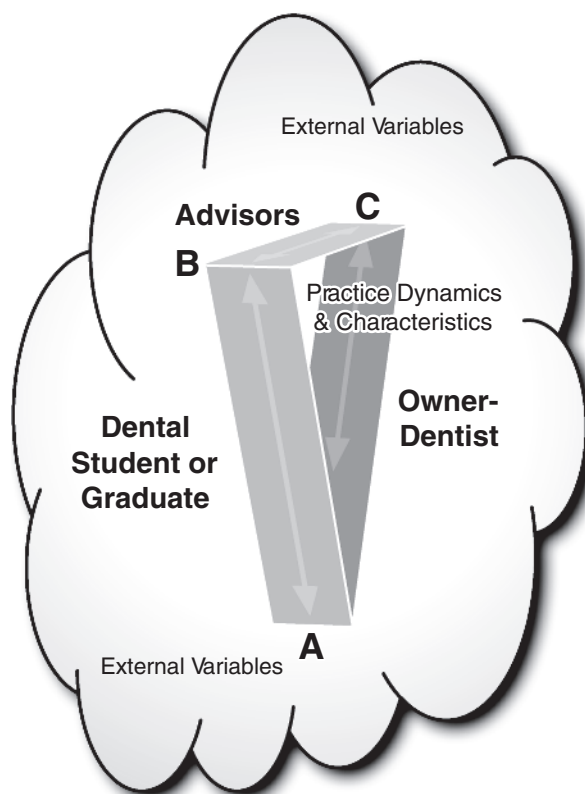


Figure 1.1. The “Bermuda Triangle” of practice transition.

Outside the model are the external variables influencing the practice, including the wider economic conditions such as unemployment, inflation, and interest rates.

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 cannot simply be ignored. Some sense of balance and mutual interest must be preserved for a successful transition to occur.

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 that seem somewhat odd. These may arise from personal history. Occasionally, for example, an associateship 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 \$500,000 instead of \$530,000. It is our opinion that you do not walk away from a practice sale for \$30,000 (though maybe you should certainly pause and get expert advice for \$100,000!).

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.* The model sinks or stays afloat based on the relationships between the person in transition and practice owner(s). 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 or dentist in transition 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 the basic understandings negotiated between the student or dentist in transition and the owner-dentist communicated to the formal advisors? Does the consulting firm offer a flexible, efficacious business model to handle the transition as envisioned by both the student and the owner? May the student hire independent advisors in addition to the ones in the transition firm? Do spouses assert proper influence in the negotiation? We have seen cases where spouses exert incredible influence, potentially breaking the “deal” for relatively minor issues or by applying general business models inconsistent with the nuances of 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”), is the student comfortable with this? Should a student have to pay an up-front fee 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 practice—and, if so, are there any liens against the practice?

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? Unfortunately, the answer is often “no.” In other words, it is fairly common in transitions for the communication between the owner-dentist and his/her advisors to fail to include what the student and owner thought had been negotiated through several extensive conversations. This is often because the owner’s advisor failed to edit a standardized employment agreement or utilizes a possibly inflexible approach to transition. Do the student’s advisors offer what is perceived to be reasonable positions with respect to practice valuations or associateship 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, and financial information (see Chapters 2 and 3 on dentistry financial statements and key quality performance indicators 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 and/or dental insurance adjustments”

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? 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 payers; the other, primarily fee-for-service patients. In addition, the wider economy, interest rates, unemployment, and inflation have incredible influences on any dental practice. In total, these external variables cannot be overemphasized.

Broadly speaking, the continued growth of group practices represents a fundamentally profound and ongoing shift in the national dental market and dental economy. This growing trend includes not only groups of dentists operating within the same building(s) with variously defined legal/business corporate relationships but also dental service organizations (a.k.a. “corporate dentistry”). Chapters 10 and 21 discuss, respectively, business entities and dental care organizations.

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 versus 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 this writing).
- 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 payers 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? Some argue that a single-dentist practice should have ~\$800,000 or more in collections before an associate should be hired.
- Allocation of dental hygiene income: does the associate receive any income for supervising dental hygiene?
- Restrictive covenant terms viewed as unreasonable.
- An associate demonstrating weak interpersonal communication skills or marginal technical skills (Halley et al. 2008)

Dr. Eugene Heller (1999) also astutely 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 \$10,000 for all equipment and supplies and a value of \$375,000 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? Chapter 4 covers the basics of practice valuation.
- Identify your “nonnegotiables,” 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 based on a detailed personal/family budget? 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. Solomon 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.
- Manage your credit rating; the higher your rating, the better. And while the “below which no loan” bottom threshold changes based on market conditions, generally speaking it is critical to maintain a credit rating higher than ~665 as of this 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 this question: which advisors do I need? 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 securing 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 members, are most productive if you have a list of questions that reflect your goals. It is a good idea to verify information obtained about the practice of dentistry from family and friends with the perspectives of other trusted sources.

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, as well as recommended advisors such as lenders and transition firms. 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 establishing a long-term business relationship.

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 or a future buy-in of a multiple-owner practice.

Let us examine in alphabetical order 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 and yet have a pivotal role in marketing your practice and lowering your stress level via insightful office design (Figure 1.2).

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

There are key organizations specializing in dental services, including the Academy of Dental Practice CPAs (www.adcpa.org) and the Academy of Dental Practice Management Consultants (www.admc.net).

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 or legal entanglements because of outdated or inaccurate advice.



Figure 1.2. Unthank Design Group is an award-winning planning, architecture and interior design firm providing services exclusively to the dental professions. Dr. Michael Unthank is a dentist and registered architect and has designed over 2,000 dental and specialty offices throughout the world. (a) Dr. Davila's eight chair prosthodontic office in Tampa, Florida. This view of the treatment corridor illustrates the classical nature of Dr. Davila's heritage. (b) Drs. Glenn and Katzberg's office in Lincoln, Nebraska. Based on their theme for Genesis Orthodontics, a 42" diameter globe is center stage in this contemporary new office.

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 and retirement/estate 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
- Consult with you to set and monitor key financial and quality performance targets and to maximize profitability (see Chapters 2 and 3)

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 an 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 that 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 screening process.
- Ask accountants you interview to provide two or three references from dentists with whom they have worked for several years.

The following questions should be covered in the interview (adapted from www.smallbusinessnotes.com):

- 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 and business overhead costs down by using the advice 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 the following measures:

- 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. Modern dental practice software provides many reports helpful to you and your accountant.

- Choosing an accounting system 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 that 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 that 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 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 a 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, particularly with dental practice experience. If you are looking for an attorney who is also a CPA, consider a member of the American Association of Attorney-CPAs (<https://www.attorney-cpa.com>).

In many localities, attorneys are permitted to advertise in 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. A 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 the following (adapted from <https://attorneyspages.com/help/ch11-attorney-interview-questions.html>):

- 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 such as 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. As with accountants, trusted dentists in your area will likely have recommended attorneys for you to interview.

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 the following:

- 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 the following:

- Assistance with cash management needs—for you and your business
- Investment products of varying maturities and varying risk (see Chapter 26)
- 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 and regional banks. They may have more of an interest in the local 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 trusted dentists, 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 or vice president. If looking for a loan, ask to meet the loan officer who will be assigned to you.
- Educate the banker about your business so that they can tell you what special products and services or restrictions might apply.
- Do not make a decision on costs alone, but do compare interest rates on deposit accounts and basic consumer loans. Most business loans are negotiated. Also, you may be able to negotiate charges for services. Do some comparison shopping (see www.smallbusinessnotes, for example).

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 or agent source (brokers) contracts for insurance on behalf of his/her customers. Basically, there are two types of insurance agents: those who work for one main insurance company, and independent brokers who work for their clients by vetting policies from many companies. 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 the following:

- Homeowner/rental
- Automobile
- Life insurance (you/spouse)
- Disability
- Umbrella liability policy
- Health (may be offered as a practice benefit)

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

- 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 the following:

- Building and/or equipment
- Staff members
- Liability/personal injury
- Employee life
- Business overhead (which provides coverage for practice disruption due to fire and flooding as examples)

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. Importantly, as discussed in Chapter 9, a lender may require life insurance and disability insurance of a borrower in order to provide security for a loan.

Please refer to Chapter 25 on insurance needs as they apply to you and to dental practice.

Selecting an Investment Counsel

When it comes to investing your money for you and your family's future, whether children's education, a 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 hire someone else to manage all your investments; and 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 Certified Financial Planner™ (CFP), an investment counselor, or have made investing a hobby over several years, going it alone can be very risky, and not all the risk is in choosing poor-performing investments. If you are obligated to the practice of dentistry 35+ hours a week and have a family, precious little time remains to learn the intricacies of investing and monitoring your investments.

Turning all or most of your investments 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. A financial advisor certainly may assist you in setting goals, assessing risk, and developing a philosophy of building wealth, but in the end these are your informed decisions. The process of developing your investment goals starts with the budgeting process. See Chapter 26 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 the following:

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

Once goals have been identified and the amount of money has been agreed upon, 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 potential 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 essentially lose money on CDs and savings accounts. If your rate of return is 2%, and inflation is 2%, you are really making a 0% return. Still, you will be taxed on your 2% return on interest, and therefore are actually 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 in the form of mutual funds and stocks, 10–20% in bonds, and the remainder in foreign equities, precious metals, 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 investor.gov. Once on the site, go to investing basics and click on guiding principles.

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 the following:

- Allocation of assets
- Portfolio diversification
- Identifying and sticking with your investment style
- Active or passive management of your investments

Selecting a Practice Broker

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

- Listing of practices for sale
- Recruiting associates
- Marketing-listed practices
- Showing practices to potential buyers
- Writing offers to purchase
- Serving as a practice buyer representative
- Making sure all appropriate paperwork is legally compliant and 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 the seller. In an ideal world, 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 before income can be earned from the practice.

There are *many* associations/organizations focused on brokering dental practices, including ADS Transitions (www.adstransitions.com) and Professional Practice Transitions (<https://dentalpracticetransitions.henryschein.com>).

Before closing this chapter, it should be mentioned that a growing number of leaders in organizations, including dentists, engage short- or long-term coaching consulting services. An internet search of “dental coaching” will yield many dental coaching services. Some coaches have formal training such as that offered through <http://coachfederation.org>.

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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 year. Over your all too short summer break, 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. Dr. Smith, the current owner, said that he would sell you the practice for \$400,000, in spite of increased practice revenues averaging \$650,000 for the past 3 calendar tax 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, and how you would select them.
4. Identify some practice information you would need to obtain and study as you pursue this purchase.