

# Transitions in Dentistry

Dr. Lisa Brennan

You may be deciding to start a new practice or buying into an existing practice. You need to know yourself whether you are willing to share the responsibility or want to be responsible for your own decisions. The traditional dentist was a perfectionist who only knew how to do a procedure one way, his way. This led to difficult associate relationships and generally takes the dentist 2 years to get accustomed to the new methods and materials brought in with the new dentist. The level of debt with dental graduation has taken the new graduate into immediate multi-office employment to service the debt making them more flexible. They also experience different styles of practice which will help shape their future dream practice.

When thinking of a new start up, pick an area that you would like to live in and then find a space next to the pediatrician, your best referral source. The value of living in the neighborhood is the interaction with the parents and children. People like human connection and like to be recognized by their dentist even if you can't remember their name. This falls under the concept of that it takes a village to raise a child.

## **Create a team of advisors:**

You will need financial and legal advice in the transition arena. Check the listings in the journals for attorneys and accountants with business experience, preferably dental. These will cost a little more than online services but will come with advice. Ask your banker for a "Personal Financial Statement" to fill out so you are ready when the time comes. It helps you know what percent of your income is available to support the new practice and what the percentage of income is needed to service your debt.

Bank of America and Matsco offers a course at CDA on practice start ups including sections on real estate leases, contractors, and marketing people. Your local bank will not necessarily have a person versed in dental financing but will be able to put you in contact with one. If you are thinking of setting up, wait on buying the house or the expensive car until you know what percent of your present salary will be needed to be available to finance the practice. Sometimes your spouse's salary will be considered in assessing your financial situation.

When evaluating a practice for purchase:

- **The dentist:** their situation in the work cycle, ready to stop or just wanting to share the management responsibilities
- **Practice Overview:** location, philosophy, population and economy that it serves, school district, own or leased facility, practice history, marketing efforts, average number of new patients and active patients, who are the main referral sources, continuing care program and computer management system.
- **Dental Team Members:** How many dentists and what is their relationship, associate or independent contractor, extra duties and how long with the practice?

- **Business Team:** Who is on the front desk team in the welcoming position, check out person and appointment making, chart management, office manager, who is writing the checks and balancing the books.
- **Clinical Team:** Who are the members of the team as far as RDA, RDAEF, DA and RDH. How long have they been with the practice and what are their extra duties.
- **Big question** is who will stay with the practice during the transition.

**There are many options as to how to buy in:**

- **Traditional:** buy 100% or 50% now and 50% in five years: dentist might carry back some of the loan. Payment can be divided between equipment and good will to take advantage of capital gains tax.
- **Percentage Ownership:** in a large group practice with members owning different percentages dependent on amount paid in.
- **Buying Stock Options** of a practice and doing income shift as a method of payment
- **Can Purchase Charts** from an existing practice and move them to a new location

**Pricing:**

Have the practice evaluated and a price set independent of the asking price.

The traditional one dentist practice has a current value of 60% of production for a year but this isn't always the case for a multi-dentist practice. In the traditional practice with overhead running 60 to 70%, the 30 to 40% is the dentist's salary from which to determine how much is needed to live on and how much can be paid to the bank for the servicing of the loan.

**Bottom Line when buying a practice:**

After presentation of the last couple of tax returns of the practice you are looking at, is there enough money to make the bank payment each month for the purchase price. This will take some investigation since practices like to zero out the profit at the end of the year. The areas that would allow shifting money to the monthly payment will be in the pension plan payments, family employees, car allowances, entertainment and continuing education expenditures.