

Chapter 3

ASSESSING PRACTICE ENTRY OPTIONS

Assess all available practice options simultaneously prior to making a decision to enter practice. Those options are: (a) establish a practice; (b) acquire a practice; (c) acquire a portion of a practice; (d) enter into a solo group arrangement; or (e) associate with an existing practice.

Practice Option Report

In deciding upon alternative options, prepare an analysis, in light of your personal goals and financial situation. This "Practice Option Report" in Figures 3- and 3-2 provides an analysis of the qualitative and quantitative factors for each option.

Qualitative Considerations

The qualitative portion of the Practice Option Report should consider your goals and practice objectives in terms of the following categories: (a) the demographics of the patients you desire to attract, income, age, etc.; (b) the method by which you expect to be paid for your rendering of professional services, fee for service, insurance, managed care, etc.; (c) the mix of procedures which you expect to perform; (d) the geographical area where you intend to practice; (e) the geographical area where you intend to live; (f) the form of practice in which you intend to operate (establish a practice, acquire a practice, acquire a portion of a practice/practice merger, operate in a shared solo-facility format or associate); (g) a statement of your mission practice philosophy; (h) a statement of your commitment to continuing education; (i) a statement of your commitment to learning the business of dentistry or your specialty; (j) the characteristics of the practice, its assets and facility which you intend to operate from, size of facility, rent or own your building, number of treatment rooms, revenues per year, the number of hours which you intend to work per week, etc.; (k) a statement of your dedication to community involvement, etc.; (l) a statement of your personal and family objectives; and (m) any other category which you deem relevant. This list of categories is included in Figure 3-1, "Practice Objectives."

Quantitative Considerations

The "Practice Option Matrix" contained in Figure 3-2 is an example of the quantitative segment of the Practice Option Report. The Practice Option Matrix provides a format to prepare a long term business plan, designed to assist you in choosing your desired form of practice. The Practice Option Matrix should be utilized not only to compare the options of practice form, but to compare the available options within one category, e.g., practices available for sale, associateships, etc.

The Practice Option Report should be in writing and typed so that it is complete. Unfortunately, the preparation of the Practice Option Report takes substantial effort, as does the preparation of any formalized business plan. Nevertheless, one method to obtain the practice you want is to formally plan for your results. After you're in practice, the Practice Option Report

should be continued in the form of an ongoing strategic practice plan. This should provide you with a reference point to assess your continuing progress toward your goals and objectives. The strategic practice plan also allows you to reexamine your decisions and goals, in light of a changing economic, political and social environment.

Establishing a Practice

To the extent that you have the ability to successfully establish a practice, you have no need to consider other options, e.g., acquire a practice. However, you may choose to establish a practice and associate elsewhere, on a part-time basis, in order to support your family. In such case, you would be analyzing two options. The most difficult phase of the analysis to establish a practice is the determination of revenues for the first 2-3 years. The expenses are much easier than revenues to quantify.

Acquiring a Practice

The acquisition of a practice should provide you with an immediate patient base, staff and practice facility. You are immediately in practice after the acquisition. The economic cost, and associated benefit, of acquiring a practice would typically be weighed, prior to the purchase, against other options, e.g., establishing a practice, etc.

The primary consideration in acquiring a practice should be to ensure that you actually receive what you pay for. That is, you are acquiring: (a) certain tangible assets, consisting of dental equipment, office equipment, furniture, leasehold improvements, plumbing, electrical and carpentry, etc., dental supplies and office supplies; and (b) more importantly, the goodwill or going concern value of the practice and its owner(s), e.g., its patient and/or referral source base. Unless you believe that the patient and/or referral source base will remain with the practice after its acquisition, you should not proceed further.

Acquiring a Portion of a Practice

In acquiring a portion of a practice or in merging two or more practices into one, you are placing yourself in a joint ownership arrangement. While there are advantages to multiple owner arrangements, expense sharing, mentorship, coverage of practice(s), sharing of ideas, etc., certain matters should be considered to minimize the potential for dispute. Those matters are: (a) control; (b) the buy-out of other owner(s); (c) the expense sharing formula; (d) the compensation allocation formula; (e) the ability of the practice to continue or replace the production of any departing owner(s); (f) the expense level in the event of the departure of any owner(s); (g) covenants not to compete in order to protect the practice from competition by former owner(s); and (h) employment of spouses and other family members.

Solo Group Arrangements

In a solo group arrangement, the associate acquires an interest in the tangible assets of the practice being acquired, equal to any other practice owner, e.g., one-half in a one owner practice. Additionally, the associate would also acquire the goodwill or going concern value of the patient

base which the associate had previously treated. For example, the goodwill amount may equal approximately 37% of the associate's yearly production at the time of the acquisition. At the time the associate would become an owner, he or she would form a separate practice from the existing owner(s).

In this format, the practice owners would operate their respective practices by way of a written operating agreement. This agreement would provide for the allocation of all expenses, distribution of non-referred new patients, maintenance of the premises and certain other matters. Additionally, the practices would be subject to a buy-sell/dissolution agreement which would provide for the departure of any owner, for any reason, from the shared facility.

The primary benefits of a shared solo-facility arrangement are to: (a) share expenses; (b) maximize use of the practice facility; (c) provide coverage for each practice in the facility; and (d) provide a purchaser in the event of death or disability of an owner, while retaining a degree of independence so that the respective practice owners avoid the complexities of co-ownership.

Associating

While there are benefits of associating with an existing practice in that you are employed and have the opportunity to learn and grow professionally, you do not own it. Hopefully, your association will lead to practice ownership, in whole or in part, by way of a solo group format, co-ownership arrangement or complete acquisition.

In order to attain practice ownership through an association, make the effort to locate and associate with a practice which you desire to own. While locating the right practice is not an easy task, the more effort you put into the process, the better your chances of success.

View the associate period as an opportunity to prove yourself. While there are generally no promises of practice ownership during the associate period, there can and should be a detailed discussion, prior to employment, of the potential for future ownership. This assumes that the associate period will be successful. The potential for ownership discussion should be memorialized through a non-binding letter, outlining the general parameters, terms and conditions of both the associate arrangement and future ownership in the practice. By utilizing this format, the practice owner(s) and you should minimize the potential for misunderstandings relative to the associate period and future ownership. It should be noted that unless the practice owner(s) invites you to become an owner after proving yourself during the associate period, there would not be an opportunity for practice ownership.

Prior to commencing the associate period, you should be requested to review and sign an associate employment agreement. The employment agreement would include provisions relating to compensation and benefits, non-competition/non-disclosure, duties and responsibilities, vacations and other time-off and termination of employment.

Figure 3-1

**PRACTICE OPTION REPORT
PRACTICE OBJECTIVES/QUALITATIVE SEGMENT**

In narrative form, list your goals and career objectives in terms of the categories below:

- I. Patient Demographics;
- II. Method of Payment for Your Services;
- III. Procedural Mix;
- IV. Practice Location;
- V. Location of Residence;
- VI. Practice Form;
- VII. Mission Statement;
- VIII. Continuing Education Statement;
- IX. Statement of Commitment to Learning the Business of Dentistry/Specialty;
- X. Practice Characteristics;
- XI. Statement of Community Involvement;
- XII. Statement of Personal and Family Goals; and
- XIII. Other Categories Which You Deem Relevant.

Figure 3-2

PRACTICE OPTION REPORT PRACTICE OPTION MATRIX/QUANTITATIVE SEGMENT					
Annual Projected Budget	Establish Practice	Acquire Practice	Acquire Portion of Practice/Practice	Solo Group Arrangement	Associate
1. Revenues/Collections					
2. Total Operational Costs/List by Individual Expense Category					
3. Equipment Replacement/Remodeling Costs After Acquisition					
4. Retirement Plan Contribution					
5. Owner/Associate Compensation					
6. Provision for Income Taxes					
7. Owner/Associate Net Compensation					
8. Total Practice Debt Repayment					
9. Total Personal Debt Repayment					
10. Total Personal Expenses					
11. Cash Reserve					
12. Net First Year					
13. Net Through Second Year					
14. Net Through Any Specified Number of Years					