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Walking with dental students through the minefields of associateship opportunities

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In *Dental Practice Transitions: A Practice Guide to Management* [1], I liken practice transitions to traveling through the Bermuda Triangle, the infamous albeit largely folkloric-defined geographic region in which planes and ships allegedly and mysteriously disappear. The process of negotiating for a position as an employee in a private dental practice does include its share of "mines" that can, metaphorically speaking, explode in the hands of students and/or owners, and thereby "sink" the opportunity.

I need to emphasize three disclaimers. First, I am NOT an attorney or an accountant. Before I provide any type of formal review or advice to a dental student, s/he must sign an "Informed Consent" form required by our University Counsel. This informed consent states that students should seek legal counsel before signing any employment contract. Second, in reviewing the contracts I try to balance the perspectives of both the owner and the student, recognizing that these perspectives often represent competing interests. Students, for example, are often saddled with educational debt of $100K to $150K or much more in U.S. dollars and, consequently, must earn an additional $20K - $30K in order to make ONLY their monthly payments on educational debt.

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Third, I am not a dentist--I am a Ph.D. in communication studies with additional graduate work in management. I do have over 25 years of experience as a business owner (consulting) as well as many years of leadership service on nonprofit boards.

So what are some of the "mines" that often explode as students contemplate potential career opportunities? I will highlight only three that have historically in my experience been very explosive. The first mine that frequently arises is that the owner may not have enough revenue or patients to "afford" having another dentist work in the practice. Furthermore, the owner-dentist may not realize s/he lacks sufficient revenue/active patients to support another dentist, commonly recommended to be in the $750K - $800K+ range (or more) for revenue and 1500-1800 active patients [2-5]. I recall one extreme case in which the dentist-owner was realizing a meager $235K in total practice revenue--arguably not even enough for one dentist depending on overhead. Needless to say, the student could not pursue this opportunity.

Another "mine" centers on compensation schemes which build-in arguably too much profit for the owner. "Too much profit"? Let's face it--any associate working in a dental practice is, as my friend Dr. Art Croft has observed many times, a profit-center for the owner [6]. But at what point is enough . . . well . . . enough, especially if the student hopes to purchase all or part of the practice? I have meticulously analyzed the numbers, and the "break-even" point for owners employing associates typically runs between 2 to 3 times the total compensation of the associate, and usually by a factor around 2 to 2.5 the associate's compensation. This admittedly gets VERY complicated when factoring-in "normalized" overhead, fixed versus variable costs, associate employment benefits, and so forth. Still, an associate with a compensation package of $100K a year will usually begin accumulating considerable profit for the owner somewhere between $200K to $250K in yearly associate-generated collections, depending on the sharing, if any, of dental hygiene production overseen by the associate (a controversial issues itself [7]). My opinion is that, once the associate generates $20K - $40K in profit for the owner, the associate should begin sharing in a HIGHER percentage or level of compensation, the basic premise of which is outlined by Roger Hill in an American Dental Association book on transitions [8].

A third mine that may explode and sink the deal is that there may have been little or no discussion of the practice's value before the associate begins working [2-5]. A dental practice's value will include both tangible assets (such as chairs and equipment) and intangible assets, from which most of the value originates--patient base, goodwill, and so forth. Some consulting firms surprisingly will NOT inform students how the practice will be valued when a variety of methods are available. Or, the owner may have not had the practice valued or shows no interest in getting a valuation done. Should the associate have to pay for "sweat equity" or value s/he has built into the practice? This is a controversial question, but my opinion is that the associate should, at most when contemplating a future buy-in or buy-out, pay for substantially discounted additional value she has created for the practice. Failure to determine a practice's value BEFORE the associate begins working or at least agree to the process of valuation may result in a future sale due to "sticker shock" or what the associate believes is an unfair purchase price. This explains in part why the American Dental Association's book on valuing a practice advises that: "Although there is some debate as to whether an exact purchase price should be established prior to an associate joining the practice, there is little disagreement that the two parties should at least have a reasonably good understanding of the current value of the practice when the associate first joins the practice." [9].

There are many other "mines" in contemplating an associateship opportunity leading to future ownership. Among other mines, several other critical ones are: 1) the assignment of patients, 2) "restrictive" covenants which may legally prohibit an associate from competing with the owner for a specified time and within a defined geographic region, 3) liquidated damages resulting from a violation of a restrictive covenant, and 4) the extent to which practice revenues involve discounted dental insurance. Still, the three mines discussed in more detail earlier have repeatedly presented as highly explosive situations that can result in an associateship deal "sinking" in the Bermuda Triangle.

List of abbreviations

K: Refers to dollars in $1,000 increments. Thus, $500K = $500,000.

Conflicts of interests

The author declares that he has no competing interest. He is a co-editor of the textbook cited in the first reference. Also he has editorial involvement with *Dental Hypotheses*.

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