

Developing a Plan for the New Business Owner

By John F. McDonnell

The opportunities for advancing dentists have never been better. Advancing from dental school, residency, specialty programs, the military, or associate positions can be exciting and rewarding.

Although clinical preparation and experience is foundational to new-business-owner success, the lack of business planning and support is the cause of most failures. My hope is that this article will help you avoid doing it the wrong way. Having a plan for new business ownership is the best way to ensure your success.

Examples of Doing It the Wrong Way

Associateship

This dentist had existed without a contract for 14 years as an associate. On two occasions he and the owner discussed the possibility of a buy-in but did not follow up. Currently they are not able to agree upon a fair buy-in and will likely have an unpleasant separation.

Purchase a Practice

An excellent dentist with a quiet, introverted personality purchased a large practice from an extroverted dentist with the ability to persuade patients to proceed with discretionary cosmetic services. The new purchaser did not have the aptitude or skills to lead and manage the staff as well as the former owner. Less than a year later, the

former owner had to take the practice back and the new owner exited.

Start a Practice From Scratch

A dentist in a growing community started a new practice and invested \$300,000. Within 6 months of its opening, three other new practices opened in the same area. The area can only support two new practices, and this young dentist is struggling to meet the debt service and expenses.

Three Excellent Choices

Advancing dentists can be successful when associating, purchasing, or starting a new practice when they properly prepare and plan for their journey into business. The following suggested tactics will help the new dentist avoid doing it the wrong way.

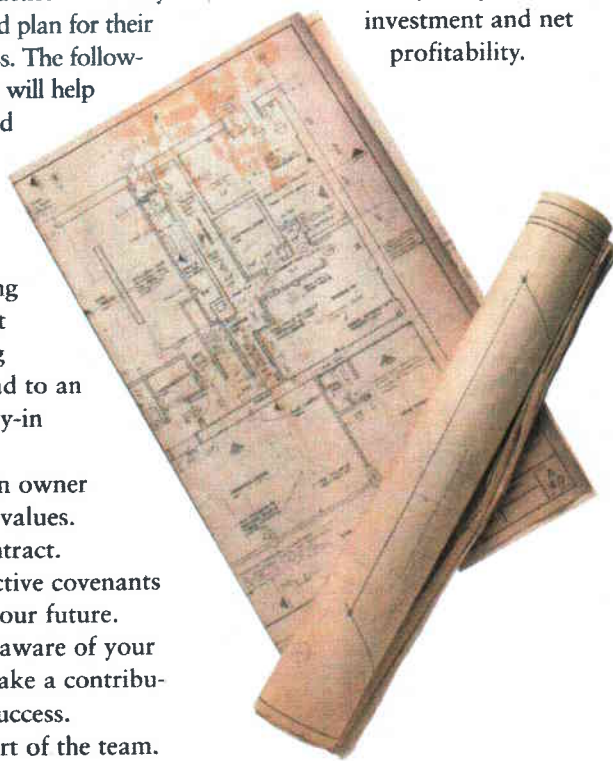
Associateships

- Choose a working environment that can be a learning experience or lead to an agreed equity buy-in opportunity.
- Seek a fit with an owner who has similar values.
- Create a fair contract.
- Beware of restrictive covenants that will affect your future.
- Make the office aware of your willingness to make a contribution to clinical success.
- Prepare to be part of the team.

- Have discussions and create a letter of understanding that includes specifics related to future equity.

Purchasing a Practice

- Decide where you and your family want to live.
- Identify the type of practice you are seeking (location, patient mix, revenue sources, etc).
- Decide the size of the practice and how many hours you want to work each week.
- Have a professional valuation of the practice performed.
- Create conservative cash-flow projections to ensure financial success; analyze return on investment and net profitability.



- Obtain funding that fully addresses your purchase and working capital needs with terms that fit the cash-flow analysis.
- Analyze the retention potential of the patients.
- Create a business, marketing, and growth plan for the practice. You will likely need professional help with this.
- Find out if the staff will remain after the purchase.
- Assess your ability to provide the procedures/services that the practice provides.

Start a Practice From Scratch

- Secure a solid demographic analysis from a reputable consulting firm.
- Identify other dentists starting practices in the area; analyze the competition.
- Identify a location that is visible and accessible.
- Choose the correct space size for current and future growth.
- Complete your business plan and cash-flow projections before committing to a lease or equipment purchase.
- Ensure lease terms and renewal provisions are acceptable to your lender.
- Choose a qualified dental dealer to “support” you.
- Choose a lender that will finance the project 100% plus provide working capital with flexible payments.

A Healthy Plan for Success

It has been my experience as we look back on successful owner-dentists that the following are common threads to their advancement:

- a written business and growth plan
- financial planning
- proactive accounting and tax planning
- a transition strategy
- a relationship with a professional

dental consulting group familiar with the local area

These five points are foundational to business success and are important at the beginning and throughout the life of the practice.

Written Business and Growth Plan

Most dentists focus on the clinical aspects of dentistry, not the business aspects. Like any small business, the practice needs a written plan containing goals and strategies by which to manage. This plan should be consistent with the practice cash-flow forecasts and budget prepared by your accountant. The development of this written plan is essential and will likely need to be prepared by a professional business consultant who is highly familiar with dentistry and practice management. This plan and the associated discussions in formulating the plan are foundational to your overall operation as a business.

This plan will include practice goals, monitoring techniques, marketing actions, sources of potential growth, third-party payer roles, etc.

Financial Planning

For a business owner, particularly for a solo practitioner, a financial plan is an essential component and should be instituted upon starting your business and monitored annually. This forms the basis for your retirement planning, transition planning, and death or disability planning. An experienced professional financial planner can be an invaluable part of ensuring you can retire when and how you want to retire. This process will typically also include funding for your children's education, insurance, tax strategies, and wealth accumulation.

Proactive Planning

Tax laws and regulations are

complex and confusing for all of us, but particularly so for the business owner. A professional accountant with specific knowledge and experience with dental practices is a critical part of your overall success plan. Tax regulations provide various incentives and options that can ensure that the practice pays only the required amount of taxes.

An experienced accountant also will be able to help you monitor your financial performance in relation to your forecast as contained in your initial cash flow projections. Additionally, assistance can be provided in setting up the proper systems to capture required information, training you and/or your staff, and monitoring your ratios in relation to the standard ratios for a dental practice. An accountant should be a part of your team of advisors.

Transition Strategy

The day your practice opens is the time to start planning your transition and exit strategy. Successful businesses plan for the future, look at options, and make choices. Your practice will likely be one of your largest assets. By starting to plan your transition early in the life of the practice, you will have greater peace of mind. Remember that a practice transition can be the result of your retirement, relocation, disability, or even death. To this end, you should establish a relationship with a professional dental-practice broker and develop a long-term and emergency plan for the transition of your practice. This will ensure the most beneficial transition under any circumstances.

Real-Life Stories

Here are actual stories of several dentists—some who did the right things, and others who didn't.

Successful Start-up

Dr. G was serving in the military in Germany while methodically planning the opening of a new dental office in the United States. Dr. G chose a quality dental dealer to design and provide the equipment, supplies, and instruments, and also did a thorough demographic search in the area to identify the precise location for the practice. By choosing a qualified accountant and financial planner, the practice was set up with the proper financial models. Years have passed and the owner has advanced financially to the upper 5% of the profession. Having to plan the office from Germany forced this dentist to be organized and precise.

Successful Buy-in

A recent, healthy buy-in occurred because of the committed and positive attitude of the parties involved and their willingness to allow experts to provide the financial models for the partnership.

The buy-in candidate worked in the office for a 2-year period before the buy-in. All parties were able to express their expectations and needs during the facilitation of models and agreements.

In the end, it was the attitude, commitment, and common values that contributed to the healthy buy-in and the parties' willingness to accept outside facilitation.

Successful Purchase

Eight years ago, after exploring the purchase of several practices, Dr. S purchased a practice with revenue of \$500,000. A consulting firm was hired to evaluate the opportunity and ensure the cash-flow potential. Dr. S then engaged an accounting firm that specialized in dental clients, which had supported the practice since its inception. With

excellent planning during the past 8 years, the practice has grown to \$1.1 million in gross revenue and 47% profit.

Dr. S merged in an additional small practice 3 years ago, which has helped the practice grow. This is a solo-owned practice with one dentist and two hygienists. Most recently, Dr. S moved into a new space that will allow the practice to grow and add an heir-apparent associate candidate in the future.

Failed Start-up

Five years ago, Dr. W started a practice without proper planning. From the beginning, Dr. W focused on clinical continuing education that was valuable but did not help the business aspect of the practice.

The proper steps were not taken to research the area before the start-up. After the start-up, Dr. W did not focus on the business plan and marketing of the practice.

The unfortunate end was a decision to sell the practice at a loss and begin working as an employee in another practice. Proper planning before the start-up and a focus on business planning and marketing would have prevented this failed start-up.

Failed Buy-in

Dr. M agreed to a contract to buy in and buy out a practice. Mistakenly, the seller was allowed to use a 2-year-old valuation that did not include the recent years of a revenue decline. Dr. M agreed, therefore, to a far higher price than was reasonable.

The buy-in was based on the excess of the 30% production compensation over and above the \$100,000 salary. The senior partner began to reduce time as a provider as soon as the new dentist started. After 5 years, the practice had

decreased in revenue, resulting in no excess dollars to contribute to the buy-in. After 5 years, no equity had been earned in the practice.

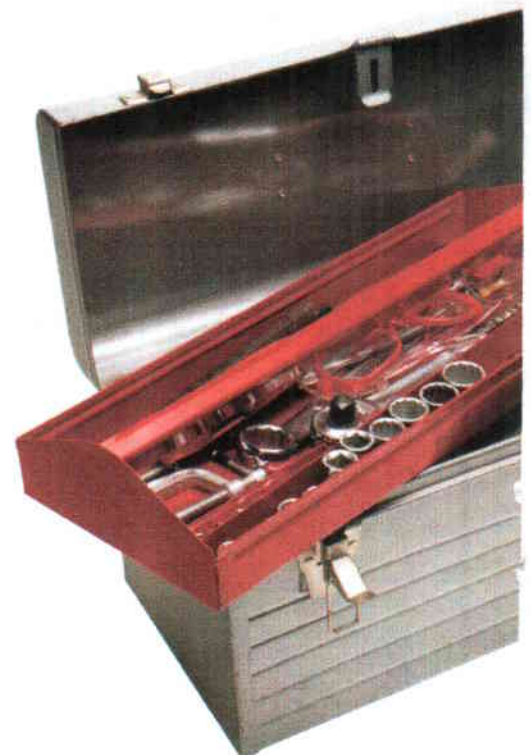
The only solution was to renegotiate this unworkable contract.

Failed or Poor Choice of Purchase

Dr. C, who had a fee-for-service practice, bought into a new-location practice in which the majority of patients were members of discounted insurance plans.

After 2 years of trying to blend these two diverse patient bases unsuccessfully, the dentist and staff decided to accept only fee-for-service patients. During the ensuing years they encountered difficulty serving their discounted-fee patients, and many patients chose to leave the practice.

By not choosing a fit for the existing practice when the newer practice was purchased, the investment was not a healthy one.



Failure to Plan Properly

Dr. H made a decision to leave a time-share with another dentist because of the limited space available to allow the practice to grow. Although the concept was a good one, the decision to rent, renovate, and purchase new space and equipment was not planned well.

The \$300,000+ investment that was required to move and expand created a monthly debt service that put the practice in the red and required additional credit card loans to pay expenses.

If Dr. H had had a quality consultant and accountant prepare cash-flow models and a realistic growth strategy, this financial disaster could have been prevented.

Hiring Professionals to Help

The most common or frequent excuses for not developing a plan are:

1. "I know what I'm doing. No one knows my practice like I do."
2. "Using professional consultants or advisors is too expensive."
3. "My relative is an accountant or attorney [or other advisor] and he'll guide me."
4. "I only have a small practice, so this planning doesn't pertain to me."
5. "If I die or become disabled, somebody will have to deal with the situation when it occurs. I don't want to discuss it now."

6. "I went to school to become a dentist and provide quality dental care, not to be the CEO of a business."

None of these responses are reflective of sound business thinking. No one can know your practice the way you do. However, dentists are frequently too close to the problems, or too emotional, or not prepared to objectively analyze the practice's performance and make sound business decisions. Yes, using professional consultants and advisors does cost money, but the best consultants and advisors pay for their services over and over through better business performance. Just as your patients who invest in a healthy smile will have benefits for a lifetime, so will you have many years of benefits from sound professional advice.

A friend or relative, perhaps even your spouse, may be an accountant, attorney, realtor, or other professional. This doesn't mean they are experienced relative to the dental practice and the associated standard practices, regulations, etc, which directly impact the practicing dentist. I encourage you to have your friend or relative help you interview potential dental practice advisors and choose the best one for your practice.

With regard to the size of your practice, it is just as important to have sound business planning for the small practice as it is for the larger practice. In some respects, the solo practitioner benefits most from business planning and faces the greatest risks from a failure to properly plan.

No one likes to face the uncertainty of life, and it is human nature to assume that death or disability only happens to others. The worst time to have to deal with a practice transition is in the wake of a

tragedy or traumatic event, and the only way to avoid this hardship is to ensure your wishes are in place and that your spouse has an understanding of them. This will enable professionals to act on your or your spouse's behalf.

And although you may not have been trained to be a business manager and may not have the interest or aptitude, you are the chief executive officer, owner, and sole decision maker of your practice. You wanted a career in dentistry, but as a practice owner, you are also a businessperson.

As a business owner, you will spend most of your waking hours in your business. Doesn't it make sense to maximize the potential of your asset through the use of sound business planning and professional consultative assistance? Even the largest and most successful corporations rely on planning and use outside experts. Practice ownership and its associated responsibilities are a challenge for every dentist. Success and peace of mind are not easy to attain. But if you follow some basic concepts relative to business planning, you will look back over your successful career with pride and satisfaction as both a clinician and a businessperson. The time to begin planning for becoming a new business owner is today. Read, take courses, and seek out professional support. Your future is now!

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