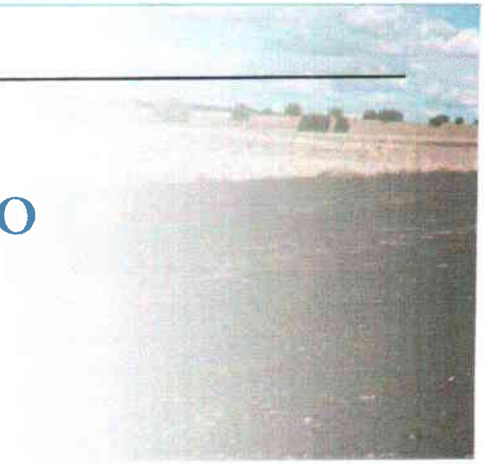

# Associateships Leading to Equity or Ownership

**By John F. McDonnell**

An overwhelming majority of new business owners start their private practice path with an associateship. For new dentists with school debt and personal financial responsibilities, an associateship is an important aspect of their path to ownership.

In my 40 years of serving dentists, I have heard too many stories about unhealthy or dead-end associateships. The mission of our dental consulting firm is to help our clients choose their associateship carefully so that it is part of their future plan to be a business owner.

As we respond to requests by phone, e-mail, and letters from dentists seeking associateships, our first question to them is, "How do you want the associateship to fit your plan to be a business owner?"

## The Three Categories of Associateships

Associateships can be categorized as: (1) employment without a path to equity ownership; (2) employment with a path to fractional or full partnership; and (3) employment with a path to full ownership (deferred sale).

### *Employment Without a Path to Equity Ownership*

Many opportunities are available to be an associate in a practice without any future opportunity for ownership. When expectations are clearly stated up front by the hiring practice and a fair job description and compensation are agreed on, a job can be a good way to start in private practice.

It is important to meet the staff and interview previous associates to get a good idea of what the position requirements are. These employment positions are stepping-stones for the future business owner. A great deal can be learned from experience as an employee.

*Benefits of the Employee-Only Path*

- learning experience
- exposure to managing a practice
- opportunity to improve clinical skills
- steady and predictable income
- job description and benefits
- limited involvement in management and staff issues
- education and exposure related to staff and patient communication.

*Drawbacks of Employee-Only Path*

- possible exposure to unprofessional clinical and business practices
- time lost if ownership is a goal
- job-hopping if expectations are unfulfilled
- restrictive covenant restrictions in the contract
- below-standard equipment and dental materials.

We are contacted frequently by employee associates who are unhappy in their current positions and looking for a change. Many of these dentists have had multiple dead-end employee associateships. It is at this point that they are motivated to seek out a position leading to equity or ownership.

### *Employment With a Path to Fractional or Full Partnership*

More than 75% of dentists are solo-practice owners and most are without a plan for transition. Many of these solo owners have had numerous associates who have worked for a period in their offices and then moved on to become business owners.

Because there are fewer dentists than ever ready to be business owners, the solo-practice owners are realizing that they must have a plan for transition.

The path to fractional or full partnership is an increasingly popular method of transitioning. A fractional sale is a minority interest in the practice, and a full partnership is each owner holding 50% interest in the practice.

More often, well-intentioned dentists promise to talk about an equity buy-in, but our observation is that they make no plan for future equity and fail 90% of the time because of lack of planning.

However, when all expectations and agreements are contractually agreed upon in the beginning, these transitions are very successful.

*Benefits of Fractional or Full Partnership*

- peace of mind
- clear timetable to equity
- opportunity and time to receive management, financial, and leadership mentoring
- time as an associate is an investment in the future
- participation in team planning and implementation
- improvement of clinical skills
- the patient base will be yours when equity buy-in starts.

*Things to Remember About a Fractional or Full Partnership*

- valuation of the practice must be established in the beginning
- methodology for future value needs to be decided up front
- purchase price and percentage of ownership must be decided
- trigger point for the buy-in needs to be agreed upon
- price and terms of the buy-out need to be determined
- all agreements need to occur at the beginning.

*Real-Life Examples of an Unsuccessful Path to Fractional or Full Partnerships*

1. A talented recent graduate took an associate position with a successful 55-year-old dentist. The host owner said that the associate could buy the practice in 5 years. There was no conversation about price, terms, or details of the transaction. After 5 years of no discussion, the associate asked the owner when she could start to buy the practice. The owner then said that he checked with his accountant and told the employee that nothing could be done for 1 more year. The same conversation occurred the following year. No progress had been made and 7 years had past. We met the associate at that point and helped her purchase another practice and she has been very successful.
2. A dentist leaving the military took an associateship position with a promise by the 58-year-old owner that he would sell the practice to him in the future. After 4 years of working in the practice, the associate was informed that the owner's son was about to enter dental school and no sale would be offered to the associate dentist.

*Real-Life Examples of a Successful Path to Fractional or Full Partnerships*

1. A senior dental student was informed by his advisors in dental school that he was prepared for private practice and could forgo a formal internship. He contacted the dentists in his hometown and found an owner who created an equity path for him and established current and future value methodology to buy into this growing practice. Both associate and owner are successfully moving forward to a healthy partnership.
2. A dentist recently separated from the military identified an opportunity to buy into a growing dental practice. In this case, the plan established included a 10-year plan to buy the practice. By the time he is 40, the practice will be his and there will be 3 dentists working for him. All agreements, purchase price, and terms were agreed upon.
3. A highly qualified prosthodontist had worked in a number of jobs and was seeking an associateship leading to partnership. A large group practice was identified and a plan was developed to become a full partner within a year. A growth and marketing plan was implemented for the new associate and a successful partnership has been completed.

### *Employment With a Path to Full Ownership (Deferred Sale)*

When an owner is prepared to retire within 3 to 5 years, we recommend that he or she hire an associate and create a plan for a purchase at a specified date. The associate position is for a specific time and is no longer than 5 years to purchase the practice outright. The owner is still able to control the practice during this 3- to 5-year period, but has agreed to the sale at the end of the associateship agreement. This strategy allows the associate to build production to an acceptable level and have time to learn how to manage and lead the office. The owner is able to take more vacations as the associate takes on more responsibility. The associate will treat more young families and create a larger new-patient flow. Many procedures that were referred out, such as endodontics, can be provided by the associate. The foundational value is set before the associate starts, as well as a fair methodology to determine the value at the future settlement. All agreements, purchase price, and terms are in place in the beginning of the relationship.

***Benefits of a Path to Full Ownership***

- full ownership occurs faster (3 to 5 years)
- owner exits and retires sooner
- adequate time to transition patients to the associate
- time to improve technical and management skills.

***Things to Remember About a Path to Full Ownership***

- agreements, purchase price, and terms must be agreed to in the beginning
- retiring owner must have a restrictive covenant
- associate needs to prepare for a 100% loan at settlement
- associate likely needs a replacement for the owner upon retirement.

***A Real-Life Example of an Unsuccessful Path to Full Ownership***

A graduate worked for 2 years as an associate with an understanding from the owner that after 5 years he could purchase the practice. Two years into that understanding which had no written agreement, the owner hired a consultant who advised a partnership that would extend the buy-out an additional 7 years. The associate has since moved on and purchased a practice in another state.

***Real-Life Examples of a Successful Path to Full Ownership***

1. A successful 57-year-old dentist was located in a home office with 3 treatment rooms. He wanted to work 4 more years and then retire. The owner moved to a new, 2,000-square-foot office with 6 treatment rooms and created a position for an associate with a deferred buy-out after 4 years. A 30-year-old qualified dentist was identified to take the position. The practice was valued and purchase price, terms, and compensation were agreed upon. Two years have successfully passed and they are on track for the buy-out in 2 years.
2. A 55-year-old solo-practice owner hired a former patient whom he had encouraged to attend dental school when she graduated. To avoid any future misunderstandings, they committed to a process that covered all the details of an agreement that will allow her to purchase the practice in 5 years.

**When Beginning the Process**

1. Choose an area that you want to live in and become a part of the community.
2. Choose an opportunity that includes a plan for future equity or purchase.
3. Clarify all expectations and details in the beginning.
4. Seek out professional support to act on your behalf.
5. Choose the office that will support your mission and vision in dentistry.
6. Recognize that creating a plan is difficult and will require time, effort, and money.

A major commitment will be required to achieve any of the positive associateship results described in the three categories above. If it seems easy, it probably isn't your best option. I encourage you to be part of the 5% of new dentist-owners that will create a plan for a successful future.

John F. McDonnell is the founder of the McNor Group, a dental brokerage, appraisal, accounting, and practice-management firm. He is a member of and serves on the executive board of American Dental Sales. He welcomes questions or comments at 888-273-1014, mcnor@mcnor.com, or by writing to 1301 York Road, Suite 800, Lutherville, MD 21093.