Five of the top 10 reasons why associateships fail

By Eugene W. Heller, DDS

The “American Dream” is still to own a home. The “Dentist’s Dream” continues to be the ownership of a practice. Thirty years ago, the dream was to graduate from dental school, buy equipment, hang out a shingle and start practicing. Today the road to ownership is a little different.

Due to extensive debt, most new graduates enter practice as associates to improve their clinical skills, increase their speed and proficiency and learn more about the business aspects of dentistry.

Most hope the newfound associateship will lead to an eventual ownership position. Instead, many find themselves building up the value of their host dentist’s practice, only to be forced to leave. This forced departure is the result of a non-compete agreement when the promised buy-in/buy-out doesn’t occur.

The following reveal the first five of the top 10 reasons many associateships fail to result in ownership or partnership.

Reason No. 1: purchase price
If the purchase price has not been determined before the commencement of employment, the parties find themselves on different ends of the spectrum as to what the practice is worth and what the buy-in price should be.

When purchase price is established before the commencement of employment, three out of four associateships lead to the intended equity position. Conversely, if the purchase price has not been determined, nine out of 10 associateships lead to termination without achieving the ownership intended or promised.

Reason No. 2: the details
The more items discussed and agreed to in writing beforehand, the better the chance of a successful equity ownership occurring as planned.

The written instruments should be two specific documents — an Employment Agreement detailing the responsibilities of each party for employment and a Letter of Intent detailing the proposed equity acquisition.

Reason No. 3: insufficient patient base
Approximately 1,000-1,200 active patients are required per dentist in a dental practice. If the senior dentist does not intend to restrict or cut back on his/her number of available clinical treatment hours, then the conversion from a one-dentist to a two-dentist practice requires an active patient base of approximately 1,600-1,800 patients and a new patient flow of 25 or more new patients per month.

Many senior dentists count their number of active patients by counting the number of patient charts on a wall. However, the best way to estimate the active number of patients involves utilizing the hygiene recall count.

Insufficient numbers of patients and/or an insufficient new patient flow signals that all expenses relating to the new dentist are coming directly out of the bottom line. The practice then begins to experience financial pressure.

Creation and maintenance of a sufficient patient base is an extremely important aspect of the business. If the senior dentist is nearing retirement with the intent that, within one to two years, the senior dentist will turn over total ownership of the practice and intends to cut back shortly after the beginning of the second dentist’s employment, this problem is not as critical.

Often the senior dentist brings in an associate dentist as the answer to increasing business. A practice with insufficient new patient flow that experiences the addition of a new practitioner may result in termination of employment for the associate.

Reason No. 4: incompatible skills
The incompatibility in clinical skills between practitioners may include the possibility of one practitioner’s skill level being below standard, but it may also include different practice philosophies. On the surface, it would appear that having different skill levels and philosophies might be desirable. In reality, the patient base available to the younger practitioner may not lend itself to various types of dentistry.

Reason No. 5: timeframe
The failure to identify when the buy-in or buy-out is to occur and when to execute it can result in failure to achieve an ownership status.

The Letter of Intent may have stated that the buy-in was to occur in one to two years, but certain behaviors and signs during the continuing employment relationship might give an indication that the senior doctor is having difficulty honoring the intended buy-out or that the associate does not feel ready to consummate the transaction within the original outlined timeframe.

Either position might result in the demise of the buy-in as involved parties lose patience over such delays.

Summary
This article has been aimed primarily at a one-dentist practice evolving to a two-dentist practice; however, the issues apply equally to larger group practices.

One-to-two-year associateships with the senior dentist retiring at the end of the associateship and a three-to-five-year partnership ending with the new dentist purchasing the remaining equity position of the senior dentist at the end of five years can also benefit from the insights provided in this article.

Unfortunately, nothing can guarantee a successful outcome will occur. However, by identifying the potential pitfalls at the beginning of the relationship, chances of success can be greatly improved.

Look for the remaining five reasons in the next edition of Dental Tribune.

About the author
Dr. Eugene W. Heller is a 1976 graduate of the Marquette University School of Dentistry. He has been involved in transition consulting since 1985 and left private practice in 1990 to pursue practice management and practice transition consulting on a full-time basis. He has lectured extensively to both state dental associations and numerous dental schools. Heller is presently the national director of Transition Services for Henry Schein Professional Practice Transitions. For further information, please call (800) 730-8885 or send an e-mail to hsfs@henschein.com