Second Edition

Business Basics for Dentists

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WILEY Blackwell

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Preface

Surveys of new dental practitioners consistently rate practice management as the area where they were least prepared and found the most problems in practice. Dental schools do an excellent job of preparing graduates to handle dentistry's technical and patient treatment aspects. However, they do a less than excellent job preparing graduates to run a dental practice.

This problem comes from several sources. Most students do not enter dental school with a business background. They have taken scientific-based courses to prepare them for the rigorous dental curriculum and have not taken a business class in their predental curriculum. Many students have never had a dental-related job in the private sector. They depend on the professional mentoring of the faculty to prepare them for the world of dental practice.

Students are concerned with the immediate needs of learning dentistry, completing clinical requirements, and passing licensing exams – and that is where their efforts should go to their most immediate and pressing needs. They cannot run a successful dental practice until they graduate from dental school and earn a dental license.

National boards have tested students on fundamental scientific and clinical knowledge for years, not on how to operate a successful practice. Because many dental schools teach, in part, to prepare their students to pass these boards, curriculum time and faculty efforts are heavily weighted toward preparing students for this important milestone.

The economic environment of dental practice is changing rapidly, and educators have not kept up. In years past, if the new graduate knew dental techniques and treated their patients well, practice success was virtually assured. Today, new practitioners face a bewildering array of insurance plans, consumerism, corporate practices, large student debt payments, and regulatory requirements. In the face of this uncertain future, graduates want additional information to help them compete effectively in the new reality.

This book is primarily for dental students about to graduate, new graduates (in both private practice and other clinical settings), and recent graduates who have been out of school for five years or less. It is not written for well-established dentists who have practiced for 20 years, although they may find pearls to apply in their practices. Instead, the essential business information that new practitioners can apply in their practice situation to compete effectively is presented. It is not intended to be specific management advice for every management problem – readers should consult with accountants, management consultants, or mentors about specific problems – but if the issues can be understood, then the dentist will communicate more effectively with advisors and will understand and implement solutions and advice more effectively.

A dental practice is a small business that responds to business concepts and rules like any other small business. The only difference is that dentists sell dental services, not hardware, clothing, electronics, or automobiles. So it is essential to understand a business principle and then apply it to dental practices. In this way, a practitioner in New York City or Mayfield, Kentucky, can use the same business principle in different-looking practices.

The numbers given as examples or illustrations represent the United States as a whole. Some areas, especially large urban areas, have higher costs and fees than other small towns and rural areas. For example, typical wage rates for hygienists in large urban areas are currently $60 per hour; in many small to mid-sized towns, rates for hygienists are $35 per hour. Likewise, the fees charged are also generally higher in those urban areas. Therefore, the numbers shown may not represent a practice situation exactly, but the business concept behind the example is valid regardless of the practice area.

This book surveys the topics of operating a dental practice. As such, it is only an introduction to each of the topics. For example, although several pages are devoted to the methods of valuing a dental practice, experts have written entire manuals and even entire books on this subject alone. Other excellent texts, websites, and how-to manuals cover this book's topics. For example, the American Dental Association produces an excellent series of books that cover practice transitions, regulatory compliance, and many other management topics in a level of detail that cannot be put into one book. This book is only a starting place for studying management in the office.

This second edition has added more information about career planning. We have found that fewer graduates are directly entering private dental practice. As the practice world moves to more network practices, new graduates find more professional opportunities in those networks. Many use them as a stepping stone to an eventual private situation; others use them as a lifelong career option. Either way, the graduate still needs the information presented here to be a more effective employee.

We intend this book to be a text and a reference book. If the reader is a student, they may be required to read specific chapters to pass a test or course. A practitioner who has a problem with staff interactions in the office may pick up the book and read the chapter on how to motivate employees. Either way, the intention is to understand how business people think about problems and develop specific solutions to management problems. We hope that you find the information helpful in that regard.

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SECTION 1
Career Planning

Career development is becoming more critical for dental graduates in today's economic climate. Many students leave dental school with hundreds of thousands of dollars of student debt. Not only does the graduate need immediate income to make student loan payments, but the significant debt levels may also hinder their ability to secure loans at favorable rates. The increase in corporate and franchise practices provides immediate employment opportunities and increases competition in the local marketplace for start-up practices. Solo practitioners, who face increased competition as well, are often reluctant to take on an associate in the traditional role of owner and mentor. The complex dental insurance world makes practices less profitable than in the past, leading to further cash-flow problems for young practitioners.

Because of these economic constraints, graduates need to plan their career development. In the past, the simple answer was to “set up my practice.” The plan may involve working in a corporate practice for several years to increase clinical and management skills or working in a public health setting to gain some student loan relief and build clinical skills. Most graduates still aim to practice ownership (solo or group), but now they must take an often-winding road to reach their goal. This section provides a way to plan a career in clinical dentistry. (In this book, we do not look at opportunities in industry or academia, only the various clinical practice opportunities.)

There are two general categories of income generation for new dentists. First, they can work for someone else (get a job). This option allows immediate income generation, but does not always provide long-term professional security. They can find employment with a private practicing owner-dentist as an associate dentist, with a Dental Management Service Organization (DMSO) as an employee dentist, or with the government through the public health or military systems. The second option is to own all or part of a practice. This option provides long-term security, but is often expensive and risky to establish. Here the graduate can buy an existing practice (buy-out), start a practice from scratch (cold start), or buy into an existing practice (buy-in) in a partnership arrangement. This section of the book examines each of these possibilities.

CONCERNS OF THE CAREER DEVELOPMENT PROCESS

The career planning process is concerned with three major concerns:

- **Establishing short- and long-term career goals**

  Everyone has a personal long-term career goal, and each of us takes a different path to reach those goals. Our short-term goals contribute to achieving our long-term career goals, and personal wants, needs, desires, and circumstances affect our career goals.

- **Understanding the difference between employment and ownership positions**

  Employment and practice ownership are two different concerns, and each has advantages and disadvantages that become decisive factors in career planning.

- **Planning for career transitions**

  As professionals move through their careers, they must be sure that the transitions from one phase to the next are well planned. Otherwise, they may have made early decisions that either support or decrease the likelihood of making the next step in the plan a success.

OBJECTIVES OF THE CAREER DEVELOPMENT PROCESS

Given these three main concerns, we group the career development process's objectives into this section's major chapters. The issues that dentists should examine in their career planning process include the following:

- **Chapter 1: Career Planning**

  Everyone needs to examine their personal wants, needs, desires, and abilities when developing a comprehensive career plan. They also must make a realistic appraisal of opportunities and roadblocks that affect the process.

- **Chapter 2: Employment Opportunities**

  Many new graduates will enter directly into employment situations, whether in private practice (associateship), corporate, or government situations. To be successful, they must understand the nature of employment and the advantages of each type of employment position. They may use these situations as stepping stones to fulfillment of their long-term goal.

- **Chapter 3: Practice Ownership**

  An ownership position (either solo or in a group) has an entirely different purpose from an employment position. The owner is trying not only to make an income from the practice, but also to build personal wealth by increasing the value of the practice. These are generally “destination”-type opportunities, and most owners plan to be in their practice for their careers.

- **Chapter 4: Practice Transitions**

  Practice transitions involve changing employment or ownership positions, which may include starting a new practice, buying out an existing practice, or buying into an existing one. How a person goes about the process has important implications for financing and planning.

- **Chapter 5: Valuing Practices**

  If someone purchases all or part of a practice, they need to set a value so that they can borrow money to pay for the practice without placing a significant burden on the practice's cash flow. Therefore, the buyer needs to achieve a value that is consistent with business norms and will enable them to pay off the practice acquisition loan promptly.

- **Chapter 6: Securing Financing**

  When someone locates a practice to purchase and has a reasonable value associated with it, they need to find a lender who will lend them the money required for the purchase. Terms may differ for different lenders, and understanding these differences can help borrowers decide and negotiate an advantageous financing package.

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