

DENTAL PRACTICE

GET IN THE GAME

Edited by

Michael Okuji, DDS, MPH, MBA

Group Director, General Clinic

Academic Administrator, Division of Restorative Dentistry

School of Dentistry

University of California, Los Angeles

Los Angeles, California



Quintessence Publishing Co, Inc

Chicago, Berlin, Tokyo, London, Paris, Milan, Barcelona,
Istanbul, Moscow, New Delhi, Prague, São Paulo, and Warsaw

Contents

	Preface	<i>vi</i>
	Contributors	<i>viii</i>
1	Choosing a Path	1
	David Okuji	
2	Finding a Job	37
	Michael Okuji and David Okuji	
3	Purchasing a Practice	51
	David Okuji and Francis Serio	
4	Starting a New Practice	65
	Francis Serio and David Okuji	
5	Insuring Your Practice and Yourself	73
	Eric Studley	
6	Communicating Effectively in Dental Practice	93
	Richard Nathan	
7	Understanding Basic Finances	107
	Michael Okuji	
8	Complying with Dental Practice Regulations	147
	Michael Okuji	
9	Managing Managed Care	165
	Michael Okuji	
10	Designing a Business Plan	177
	Scott Stafford, Frank Licari, and Michael Okuji	
Appendix I	Valuation of Two Dental Practices	213
	David Okuji	
Appendix II	Sample Business Plan	217
	Michael Okuji	
	Index	225



Preface

The single most important step in a career in dentistry is to serve the public by establishing your first practice. It is an action that creates the possibility for professional growth and personal fulfillment. Thus, I focused on two major goals in writing this book: (1) Preparing senior dental students and recent graduates for entry into the practice of dentistry, and (2) providing relevant information in an easily accessible format.

For some time I pondered the idea of training students to become dental health practitioners in this era beset with ramifications unlike any experienced in former times. The now outdated model in which fees for services were paid directly to the dentist by the patient served practitioners well in the past and enabled them to maintain their offices as well as their families. However, this era of simplicity came to a close decades before the end of the 20th century. Events during this first decade of the 21st century have further convinced me that the business side of dental practice needs specific emphasis in the dental curriculum.

This book is meant for true beginners in the business of dentistry. It is not required that readers of this book possess previous business experience or have a family member already in the field of dentistry. Every effort has been made to emphasize the fundamental issues in the startup of a dental practice using easy-to-read, informative guidelines without ponderous fluff. I have included key points and terms in the margins to reinforce important concepts and for easy reference; in addition, online resources are presented (as indicated by the mouse icon in the margin) to allow the reader to access additional information. This is done, however, with the caveat that some links may no longer be valid at the time of reading.

The range of topics is not intended to be exhaustive or perfect, and I do not claim to have presented any “new” knowledge. However, by collaborating with colleagues who understand the rigors of making decisions in a climate of uncertainty and incomplete knowledge, I am able to offer the reader a compilation of experiences garnered over the years and con-

densed into a single source. Each contributor has personal experience in both private practice ownership and practice management education.

It is also important to point out that the book is not intended to substitute for legal, accounting, insurance, and commercial advice. Rather, it is meant to provide pertinent information that will equip students and graduates with basic tools to understand business concepts and vocabulary in order to ask appropriate questions. It is worth remembering that success and happiness are not guaranteed by the lawyer, accountant, or business advisor; they offer advice and recommendations—nothing more.

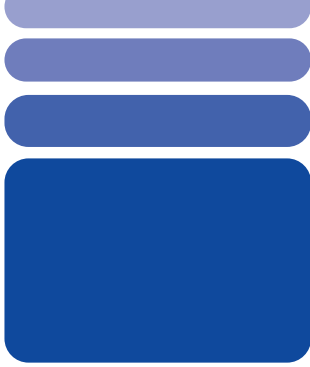
The future is yours to make. Good fortune to all.

Acknowledgments

I am indebted to the book's contributors, whose expertise illuminates pertinent aspects of the business side of dentistry. I am heartened by their willingness to give precious time to this project.

On a personal level, I am inspired to venture into the literary thicket by my mentor, Distinguished Emeritus Professor Clifton O. Dummett, DDS, MSD, MPH, of the University of Southern California. A now-retired teacher, orator, and administrator, Dr Dummett's prolific scholarly writings—scientific, historical, and commentary—represent a major contribution to the dental literature. I am grateful for my friendship with Clifton and Lois Dummett and for their encouragement.

My heartfelt appreciation to Tomoko Tsuchiya, Vice President of Quintessence Publishing Company, for her faith and confidence in my book proposal and her steady hand to guide a novice author. Gloria Vo-Truong and Rouzan Kheranian lent invaluable assistance to the tedious chore of fact checking. However, any error of fact, omission and commission, remains solely with me.



Contributors

Frank Licari, DDS, MPH, MBA
Professor and Associate Dean of Academic Affairs
College of Dental Medicine–Illinois
Midwestern University
Downers Grove, Illinois

Richard Nathan, DMD, MS
Associate Clinical Professor
Department of Orofacial Sciences
Division of Periodontics
School of Dentistry
University of California, San Francisco
San Francisco, California

David Okuji, DDS, MBA
Clinical Instructor, Pediatric Dentistry
General Practice Dental Residency
Cambridge Health Alliance
Boston, Massachusetts

Michael Okuji, DDS, MPH, MBA
Group Director, General Clinic
Academic Administrator, Division of Restorative
Dentistry
School of Dentistry
University of California, Los Angeles
Los Angeles, California

Francis Serio, DMD, MS, MBA
Associate Dean for Clinical Affairs
School of Dentistry
East Carolina University
Greenville, North Carolina

Scott Stafford, DDS, MBA
Clinical Assistant Professor and Program
Director
Practice Dynamics Division
Department of General Dentistry
Dental School
The University of Texas Health Science Center
at San Antonio
San Antonio, Texas

Eric Studley, DDS
Clinical Associate Professor
Cariology and Comprehensive Care
College of Dentistry
New York University
New York, New York

Choosing a Path

David Okuji, DDS, MBA

As a dental student or recent graduate, you're about to enter the game of your lifetime . . . the practice of dentistry. As in any game, you will have to plan your strategy. Your challenge is to create and implement a career strategy that optimizes your goals and objectives and fits your personal skill set and the external environment in which you operate. Are you entrepreneurial? Are you managerial? Are you a “people person”? Is it important to live near your family and old friends? Do you want to live in Chicago or Smallville, Beverly Hills or Green Acres? Is earning a lot of money critical to your vision? Is having a lot of free time to pursue other activities important to your lifestyle? How many dentists are in the same location where you want to practice? The answers to these questions and myriad others like them help to assess personal skill and desire along with the external constraints and hurdles to becoming a player in the game. This chapter will help you give such questions thoughtful consideration, allowing you to formulate a strategy that will fit your personal vision and lead you down a successful career path.

Also included in this chapter are brief vignettes in which the contributing authors of the book describe their first job and the ways in which it influenced their eventual career path. These stories, along with the rest of the material in this chapter, are meant to encourage you to open your mind to the many opportunities available to you and to prepare you for finding your first job. Even as the main text encourages you to create a careful game plan, the stories will keep you grounded in the reality that winning the game requires the skill and agility to adapt to the state of play at any given time.



Having an entrepreneurial spirit is a significant advantage for dentists, particularly those who plan to enter private practice.

Entrepreneurial skills

Your entrepreneurial skill level will also influence your career strategy. Dentists require some level of expertise as an entrepreneur because the majority of them will enter private practice. Successful entrepreneurs generally are:

- Self-confident
- Hard working
- Flexible
- Driven
- Committed
- Visionary
- Idealistic
- Innovative
- Multitalented
- Goal oriented
- Risk tolerant
- Creative
- Dedicated
- Passionate
- Task oriented
- Stubborn
- Self-motivated
- Stress tolerant
- Perfectionistic



There are some online assessment tests you can take to determine whether or not you have what it takes to be an entrepreneur.

Financial resources

Financial resources vary widely among graduates of dental school. Some have a huge amount of accrued educational debt that may take 8 to 14 years to repay. Others have parents who paid for much of their education, and a very small number are members of a wealthy family and have nothing to pay back. Each dentist must assess his or her current personal financial position—no matter how painful—to determine an individual career strategy.

Two essential financial tools used to assess financial position include the income statement and the net worth statement (ie, the balance sheet). Preparing these statements helps you understand your strengths and weaknesses as you plan an effective business strategy and is a required step in applying for any loan or line of credit. Be sure to prepare separate personal and business financial statements.

It is important to take an honest look at your current personal financial position as you determine your career strategy.

Preparing income and net worth statements helps you understand your strengths and weaknesses as you plan an effective business strategy and gives you a head start in applying for a loan or line of credit.



ENTREPRENEURIAL SKILLS SELF-ASSESSMENT

- Brigham Young University Marriott School Center for Entrepreneurship & Technology: marriottschool.byu.edu/cfe/startingout/test.cfm
- US Small Business Administration: web.sba.gov/sbtn/sbat/index.cfm?Tool=4

Flexibility and Freedom

Francis Serio, DMD, MS, MBA

MY FIRST JOB



One of the most important advantages I gave myself as an undergraduate in private college and as a dental student was to carefully manage my finances. The result was that I had only \$5,000 in total student loans upon finishing dental school. Many of my friends were at least \$75,000 in debt, even in 1980. I managed to keep my debt small by banking 90% of everything I earned since I was young and keeping my personal expenses to a minimum throughout school. The pit I lived in while in dental school horrified my mother, but by watching everything I spent, I managed to get by without financial aid until my last year of dental school. Of course, having supportive and generous parents helped a lot.

After my GPR, I looked at several private practice opportunities. During that search, I came across an advertisement for a job at the University of Maryland. Teaching always interested me, so I decided to apply for the position. That was the beginning of what has been a rewarding 28-year academic career. I could afford to take a job that paid only \$26,500 because my debt obligation was so minimal—just a small student loan payment and a note for my first car, a Chevrolet Chevette (check the history books). At Maryland I taught four-handed dentistry, covered the dental auxiliary utilization (DAU) clinic, and started an honors program based on concepts I learned during my residency. After 3 years of teaching and maintaining a private practice, I enrolled in a periodontic specialty program that launched me into the next phase of my career.

Although it may be necessary to incur debt to meet your goals, remember that minimizing your debt translates into maximum flexibility and freedom of choice.

Income statement

The **income statement** lists gross revenue and expenses over a period of time, usually a calendar year. The arithmetic difference between revenue and expenses directly related to operating a dental practice is **operating income**. When you subtract other factors such as interest, tax, depreciation, and amortization from operating income, you get **net income**.

Of course, *positive operating income* means the practice earns more than it spends, and the surplus is available for personal use and investment. A *negative operating income* (ie, loss) means that the practice must borrow from a line of credit to stay afloat. This situation of negative operating in-

income statement

Lists gross revenue and expenses over a period of time, usually a calendar year.

operating income

Revenue minus expenses directly related to operating the business.

net income

Operating income minus interest, tax, depreciation, amortization, and any other nonoperating business expenses.



There is no regulation of valuation analysts, although there are professional appraisal organizations. The National Association of Certified Valuation Analysts, Institute of Business Appraisers, and the American Society of Appraisers provide training, continuing education, and certification of valuation professionals. To find a valuation analyst or appraiser certified by one of these organizations, visit their websites.

Projecting Revenue and Operating Income

net revenue

Actual money collected minus refunds.

operating expense

An expense that is directly associated with producing income.

operating income

Revenue minus operating expenses.

EBITDA

Earnings before interest, taxes, depreciation, and amortization (ie, operating income).

The key to all of these valuation methods is the projection of the revenue and operating income to the buyer. **Net revenue** is the actual money collected minus refunds, and **operating income** is revenue minus operating expenses. An **operating expense** is an expense that is directly associated with producing dental income. Interest on practice loans, business taxes, depreciation of practice equipment, and the amortization of intangible assets are not operating expenses. In finance, operating income is called **EBITDA** (earnings before interest, taxes, depreciation, and amortization). Usually the federal income tax Form 1040 for a sole proprietorship Schedule C is analyzed to determine the net operating income by adding back nonoperating expenses, which are taken as deductions on the tax return. These nonoperating expenses are discretionary by the seller and are “added back” to gross revenue for the prospective buyer’s use. Some of these addbacks include:

- Discretionary expenses for the direct benefit of the owner (like compensation to officers)
- Depreciation
- Interest
- Charitable contributions
- Pension and profit-sharing plans
- Commissions
- Conferences and conventions



PROFESSIONAL APPRAISAL ORGANIZATIONS

- National Association of Certified Valuation Analysts: www.nacva.com
- Institute of Business Appraisers: www.go-iba.org
- American Society of Appraisers: www.appraisers.org

- Dues and subscriptions
- Medical insurance
- Medical expenses
- Meals and entertainment
- Pension administration

Cross-checking the income tax return entries with the office bank statement entries is an excellent check and balance for an accurate picture of the office net operating income. See chapter 7 for further details.

Acceptable Value of a Practice

There are a number of ways to determine the value of a practice. Common methods for evaluating and determining ranges of acceptable prices are the market sales approach, capitalized earnings approach, and investment yield approach.² See Appendix I for sample valuations of two practices using these approaches.

Market sales approach

The market sales approach utilizes historical sales of similar dental practices to determine the value of a practice. Dental practices are traditionally priced from 50% to 100% of their annual net revenue. This approach bundles tangible and intangible assets. The trend line of the intangible assets must be considered because the value decreases if factors such as location, practice reputation, and patient flow are decreasing over time. The market approach gives you a broad view of the seller's asking price compared with the price of most dental practices. It is based on historical sales and doesn't take into consideration the dynamics of the current market. The market sales approach places the asking price on the high end of the market.

The market sales approach is based on historical sales figures and generally places the asking price of the practice on the high end of the market.

Capitalized earnings approach

The capitalized earnings approach determines value in relation to financial risk and reward. This approach also bundles tangible and intangible assets and is based on the following equation:

The capitalized earnings approach determines value in relation to financial risk and reward.

$$\text{Fair market value} = \frac{\text{Operating income} - \text{Dentist compensation}}{\text{Capitalization rate}}$$