Associateships—Employer and Associate’s Perspectives

Enhancing Your Odds for Successful Relationships

There are many reasons new graduates seek associateships after graduation from dental school. Some are seeking a chance to enhance their clinical skills, and consider an associateship an on-the-job general practice residency with the opportunity to be mentored in a real-world practice setting. Others simply seek income without any other financial risk while learning the business side of clinical dentistry. And for some, the associateship provides a chance to “try before you buy.”

Regardless of the reason, simply hiring an associate does not guarantee that the Senior Dentist’s needs will be met or that the associateship will be a success. A successful associateship requires careful planning and analysis by both parties involved.

Associate’s Perspective

Before considering any position, detailed personal goals for the New Dentist must be established. Where do you and your spouse/significant other ultimately plan to live and establish roots? Most likely, the position will require a non-compete agreement, so its relationship to where you ultimately want to live must be carefully considered.

Does your spouse have personal, educational or vocational needs to be considered as you evaluate where your first position should be? Will you only consider an associateship with the promise of ownership—and how long until you intend to establish ownership?

Preparation for associateship positions requires ranking your priorities. What is your purpose in seeking an associateship? Is this an interim position with a probable location change when ownership is pursued? Is the primary purpose immediate income but no ownership is intended? Are you intent on gaining clinical experience prior to ownership? Or are you trying to gain management/business experience prior to ownership? Is your associateship your first step to a total practice purchase or the first step to a partnership?

Sharing your priorities with the Senior Dentist will be the first step in determining whether this is the right position for you.

Senior Dentist’s Perspective

Why is an associateship being considered by the Senior Dentist? Is the Senior Dentist planning a transition? Does the Senior Dentist have more patients than can be ideally treated? Does the Senior Dentist desire to reduce his/her patient contact hours?

For some Senior Dentists, the ability to be a mentor is the driving force behind seeking an associate. Some are trying to recruit an additional dentist for the community and/or maintain continuity of care for patients, whereas others are trying to provide on-going employment for their staff.

Less desirable reasons include considering the associate as an opportunity for additional financial gain, with money as the primary reason for offering the position. Dentists with a high overhead believe bringing in an associate to share the overhead is the answer.

For the associateship to succeed, the Senior Dentist must have a clear and acceptable purpose for offering an associateship. This purpose must be honestly shared with the prospective associate for a successful outcome.

Assessing the Practice

Can the practice support both doctors? This is a critical issue. Many Senior Dentists enter into associate relationships without analyzing whether an associate can be supported by the existing practice.

The most important number in a practice is the Active Patient Count—or the number of different individuals seen in the office during the past 18 months. This dictates: 1) the practice production potential, 2) the ability of the practice to support more than one dentist, and 3) the practice staffing requirements, including hygiene. Many Senior Dentists claim to have 2,000 active patients (these turn out to be 2,000 charts, not patients) but only have sufficient hygiene staff to see 800 patients in a six-month recall cycle.

The following represents the minimal requirements to support a full-time associate:

- Active Patients 1,500–1,800
- New Patients 15–25/Month/Dentist
- Gross Receipts $700,000+

The average New Dentist has $120,000 in school-related debt and requires $84,000 in annual income to meet this debt, daily living expenses, and taxes incurred. At a compensation rate of 33%, this means $255,000 in production/collections must be available for the associate. At an average per-patient annual expenditure of $400, this requires 638 patients who will be necessary for the associate alone to meet their personal financial needs.

What options typically do not work well? If the patient base is not there, simply expanding hours to increase available production does not work. Requiring the New Dentist to market and expand the practice through the development of their own patient base has major pitfalls, mainly that the New Dentist is in the associateship for income and needs immediate access to the existing patient base.
Interviewing the Senior Dentist

All Senior Dentists will interview new associates prior to hiring them. What is frequently overlooked is the need on the part of the New Dentist to properly interview the Senior Dentist. Granted, some New Dentists will be fearful of challenging the potential employer with a seemingly never-ending list of questions. And some Senior Dentists will in fact take offense at being interviewed. But the purpose is to help each doctor determine whether this is the right relationship with the greatest chance of success.

One method of getting the answers needed without creating potential conflict is a “Pre-Interview Letter.”

The following is a list of questions that should be asked and answered during the interview process. What is the Senior Dentist’s ideal outcome for the associateship? Will the Senior Dentist allow a Buy-In/Buy-Out? When? Has the Senior Dentist had the practice recently evaluated? How long does the Senior Dentist plan on continuing to practice?

What is the Senior Dentist’s practice philosophy? Does the practice provide welfare services? Is the practice involved in managed care? What percent of revenues come from managed care/welfare patients?

How does the Senior Dentist feel about the current fee schedule? When was it last increased? How often is it reviewed?

What is the active patient count? How often does the practice purge charts of inactive patients? How many new patients are seen per month? What is the primary source of these patients? How many are fee-for-service versus managed care versus welfare?

How does the Senior Dentist describe him/herself? There is no right or wrong answer to this question, but it is beneficial for the New Dentist to know what kind of a person he/she will be working for/with. Is the Senior Dentist more of a Clinician, Manager, or Leader?

A “Leader” guides, inspires, and motivates others. They delegate daily operations to others and monitor the results. A “Manager” is hands-on everything. They have a difficult time delegating, preferring to do everything themselves or “it won’t get done right”. Managers tend to have limited production because the time they spend managing is not spent practicing dentistry. The “Clinician” does not like management or leadership responsibilities. They are happiest doing clinical dentistry. Many of them are highly productive; they just don’t keep up with the other details of operating a business as well.

Again, there is no right or wrong answer. The key is identifying the type and then working with their strengths and complementing their weaknesses. This is what building a team is all about. The most successful dentists are those who have identified their weaknesses and surround themselves with people who can compensate for these shortcomings.

How does the Senior Dentist intend to share patients? What services does the Senior Dentist plan to allow you to do? Will you be expected to provide the majority of welfare services/managed care services? What about children? Will you be expected to do some or a significant amount of hygiene? If you are expected to do these less productive procedures and are to be compensated based on a percentage of your production, this will have a significant impact on your potential income.

Does the Senior Dentist actively pursue continuing education for himself/herself? What types of classes have they taken over the last three years? Has the Senior Dentist encouraged and allowed the staff’s participation in CE? Will the Senior Dentist encourage your ongoing development? How?

Is the Senior Dentist willing to share management duties such as staff matters, financial information, and financial duties? What is their attitude about technology advances and implementation, and what is their commitment towards acquiring this new level of technology?

Have they had one or more prior associates? How and why did those relationships end? Has a relationship recently ended with the associate establishing a nearby practice? You may be accepting employment in a practice that is going to have significantly fewer active patients over the next few months.

How long have the staff been employed with the dentist? Inability to retain staff is always a concern. The reasons for turnover are equally important. Has frequent staff turnover been related to pregnancies or staff re-location (acceptable reasons)? Or could it have been problems with the Senior Dentist (unacceptable reasons)? This is the environment the New Dentist will be entering, and whatever the issues with staff retention, they will affect the associate, too.

Does the Senior Dentist plan on using a transition consultant? While there are many right ways to accomplish the desired outcome, there are also ten times as many wrong ways to try to get there. Relationships developed with the assistance of experienced transition consultants have an exponentially higher level of success than those done without guidance by “doctor-do-it-themselves”. Even the nicest, most “well-intentioned parties” don’t have the experience to know the many potential pitfalls that might happen and are best addressed up front.

Possible Ownership Additional Questions

When was the practice last evaluated? How will the price be determined? When will the option to Buy-In/Buy-Out occur? The number one reason associateships fail to result in practice purchases is a failure to agree on the purchase price, or at least the formula for determining that price, at the start of the associateship relationship. If the dentists cannot agree on a price at that time, what makes them think they will reach an agreement two to three years later. The fact is that if they agree on a price at the start, three-out-of-four Buy-Ins/Buy-Outs occur as planned. If they do not, only one-in-ten result in ownership.

What conditions must be met prior to purchase? Will Buy-in (if partnership) be a stock purchase or a stock purchase/deferred compensation arrangement? This will determine how the Buy-In/Buy-Out will be paid for and how these payments will be
treated from an income tax perspective. If done improperly, this can double the cost of the practice.

How will existing patients be split? How will new patients be split? The majority of the purchase price will be for the prior goodwill, represented by the number of patients who will continue to seek services from the practice providers, including you as an owner. What you are primarily buying is access to the existing patient base and the new patients that this patient base, the prior dentist’s reputation, and the practice (location, staff, etc.) generates. Occasionally we come across a Senior Dentist who is charging the full value, but only intends on conveying 50% ownership of everything but “his/her” patients.

If real estate is involved, when, how, and at what cost will ownership be offered? How will the sale price be determined? What will the rent be after you buy into the practice, but prior to your becoming an owner in the real estate?

Does the doctor presently have a pension/profit sharing type investment plan? How long has he/she had it? How much does he/she fund it each year? This will help you determine what will be available for you as you make your retirement plans. If the Senior Dentist has not contributed the maximum amount, or any amount, the next question is “why”? Is this not a concern for the Senior Dentist, is the Senior Dentist an undisciplined “spender”, unable to put money away for retirement, or has the practice been unable to generate sufficient profit to do so?

When does the dentist plan on discontinuing total ownership? Will you be given an option or will you have an obligation to buy the second-half? How will the price be determined?

Finally, how long does the Senior Dentist plan on continuing to practice? This is frequently different than “When do they plan on ending ownership?” Many dentists do not want the day-to-day responsibilities of ownership but love clinical practice and want to continue practicing for a while prior to retirement (and some will never be able to give it up).

Terms of Employment

Compensation. From the associate’s perspective, the compensation must meet the associate’s needs. This typically means the associate requires more monthly income than they have the ability to produce and earn. Therefore, some type of initial guaranteed minimum monthly income that will continue for six to twelve months is required.

The compensation arrangement must also encourage productivity on the part of the New Dentist. What is normally recommended is a guaranteed minimal draw until the associate generates enough income for the Senior Dentist to re-pay the draw, which then converts to a percentage of their collections.

From the Senior Dentist’s perspective, a careful evaluation must be made relative to what the practice can afford as a guaranteed minimum. It is then the Senior Dentist’s responsibility to insure that the New Dentist is busy enough to earn their guaranteed minimum.

One of the major questions is whether the New Dentist is classified as an Independent Contractor or Employee. If the New Dentist is an employee—the employer must match the Social Security and Medicare tax paid by the employee, which is equal to 7.65% of the employee’s wages. As an independent contractor, the employee must pay that amount as an additional tax. Clearly, the New Dentist wants to be an employee.

Legally, in accordance with IRS guidelines, most New Dentists should be classified as an “Employee.” However, the Senior Dentists might try to save that 7.65% and want the associate to be classified as an “Independent Contractor.”

Discussions should also include fringe benefits: paid and unpaid time off for vacation, sick leave, and continuing education. There is no standard for these additional fringe benefits. What is typically offered is determined by the availability of candidates for a specific marketplace versus the level of motivation on the part of the employer to secure an associate and/or possible future successor to the practice.

The employment period must be specified. Any agreement must also consider non-compete and non-solicitation of the employer’s current patients and employees. It is not fair to any employer to build a practice and patient base over ten-to-twenty-plus years, only to introduce a New Dentist who subsequently walks off with half of those patients and staff.

The Agreements

Successful associateships and subsequent ownership, if part of the plan, requires everything in writing. This will involve two documents: an “Employment Agreement” and a “Letter of Intent.” The Employment Agreement details the terms and conditions of employment. It simply reduces to writing—and serves as a reminder to all parties—what the terms and conditions of employment are.

The Letter of Intent covers the agreements relative to the future ownership acquisition. It should contain sufficient detail to describe the major areas of agreement. The price, the timetable, the method of payment, and the type of legal relationship are all basics. How profits and expenses will be split after ownership must be discussed. In addition, if real estate is involved, ownership issues should be addressed.

What Determines a SUCCESSFUL ASSOCIATESHIP?

To answer whether the relationship was successful or not requires that each dentist determine a definition of a successful relationship. Then set up the terms and conditions that will allow them the greatest chance of accomplishing their goals and subsequently developing that relationship. This will require: 1) a practice capable of supporting two dentists, 2) careful analysis by both parties, 3) full disclosure of goals by both parties, 4) careful planning, 5) competent and experienced advisors, 6) if plans include a Buy-In/Buy-Out, agreement on the price at the start is necessary, and 7) an arrangement that requires EVERYTHING IN WRITING!