DENTAL PRACTICE

GET IN THE GAME

Edited by

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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 The now outdated model in which fees for services were paid directly to the dentist by the patient served practitioners well in the past and enabled them to maintain their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.

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

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 (i.e., 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.

ENTREPRENEURIAL SKILLS SELF-ASSESSMENT

- Brigham Young University Marriott School Center for Entrepreneurship & Technology: marriottschool.byu.edu/cfe/startingout/test.cfm
Flexibility and Freedom
Francis Serio, DMD, MS, MBA

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 periodontics 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-
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

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 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

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**PROFESSIONAL APPRAISAL ORGANIZATIONS**

- National Association of Certified Valuation Analysts: [www.nacva.com](http://www.nacva.com)
- Institute of Business Appraisers: [www.go-iba.org](http://www.go-iba.org)
- American Society of Appraisers: [www.appraisers.org](http://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. 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.

**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:

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