My Dental CPA

Associate Checklist

By far, one of the most common questions I get after a general dentist practice begins to mature is:

"When can I bring on an associate?"

This document is intended to help with that decision and is focused on those looking to bring on an associate to continue to grow the practice and/or to provide for someone to be there when the owner is taking time off. Again, these are items that I, as a CPA, would be involved with. You should certainly consult a dental attorney before making an offer to a future associate.

Determine Why You Want an Associate

To begin, first understand why you would want an associate:

- To allow the practice to continue growing and increasing profits.
- To allow the owner to work less.
  - *Remember you will not make as much off a procedure done by an associate as you do if you do it yourself.*
- Practice transition as you near retirement.
  - *This is not the purpose of this document.*

Key Considerations

Revenue

In my mind, revenue and space are the main considerations. Unless you are looking for a possible transition to the associate, I rarely would ever recommend bringing on an associate in a practice with less than $1.2M in revenue and at least $350k in profit. I typically like to see revenue of around $1.4M for a general dentist before we begin looking for an associate.

It is important to remember that the norm is for an associate to, on some level, cannibalize the owner's schedule by taking procedures from the owner in the first year(s) of the associateship. So, while you may be producing something more in terms of revenue, you are typically paying part of the associate's pay out of your income, thus reducing your take-home pay.

In addition to having to pay the associate, it is possible for costs to increase in other ways, as well. Most of the time, the associate will need an assistant and possibly two as their revenue increases (this is a good problem). I also recommend that, to drive new patient volume into the practice, you may need to increase your marketing from what you were doing in the past.

Space/Chair Op Availability

Most owner-only dental practices are very comfortable working with five operatories. This typically would include:

- Two ops for hygiene
- Two ops for scheduled procedures
- One op for emergencies

This is a very good configuration if there is only one dentist.

It is not uncommon for someone to suggest they can make the same configuration work when they add an associate. In my experience, that is really tough. You can try alternating days or some other arrangement, but that is difficult to make work over a longer period of time.

In my perfect world (which we do not live in), I would like for a practice to have a minimum of seven or eight operatories with a productive associate. Seven would allow each doctor to have two ops for scheduling (two columns) and still allow a shared op for emergencies. Eight is even better, with each doctor having three ops or the same arrangement under seven ops but an additional hygienist in the additional op. Nine or ten ops is the ideal number if everything is up and running well.

PATIENT VOLUME/SCHEDULING

If you have holes in your schedule or in the hygiene schedule (and I am not talking no shows), then you probably are not ready for an associate, regardless of the revenue or space. Ideally, you are scheduled at least one month out (or preferably more) before bringing in an associate.

Remember we said before that in the first year, the associate will probably be cannibalizing your schedule. If you are booked far enough out, then you can share the procedures you have scheduled and still have a full schedule.

Associate Considerations

If you have decided you need an associate based on the key considerations, here's what should we be thinking about now:

Compensation

We will divide this between compensation structure and employment status. All of this should be clearly laid out in the employment agreement.

COMPENSATION STRUCTURE

- Percentage of Collections (this is the most common)
  - *Typically, we see varying percentages from 30% to 35% of collections. I am a much bigger fan of tying compensation to collections than production. Most of the time, for some period, a day rate is paid while the collections are being built.*
- Percentage of Production
  - *More common in fee-for-service practices where production and collections are very close. Not as common in insurance-based practices.*
- Day Rate or Base With a Bonus
  - *While almost all associates start with a day rate, most associates in general dentist practices switch to one of the two methods above. It is not completely uncommon to see a compensation structure with a day rate guarantee than a bonus based on a percentage of*

collections/production on top of the day rate. It is more common in some specialties (like orthodontics) to see a day rate.

- Employment Status
  - **W-2 employee**: *This is the most common way to pay an associate. Their compensation will run through payroll just like any other employee. They will also receive benefits from the company that are provided to other employees. Most packages will include paid vacation, some sort of CE reimbursement, retirement benefits, and, if available, health insurance. The associate may accept a smaller percentage of collections/production since you will have additional cost.*
  - **Independent Contractor**: *Many associates like to be structured as independent contractors so they can deduct expenses they have related to service in your office. Most of the time, they will receive payment through an entity that they set up to be taxed as an S-corporation. Please consult your CPA about the tax implications of this type of arrangement. Some CPAs are more comfortable than others with the independent contractor arrangement.*

Cultural/Clinical Fit

This absolutely cannot be overlooked.

MANAGEMENT STYLES

When you bring an associate into a practice, they will, on some level, be managing people, even if it's just their own assistant. They need to be a "good fit" with not only the owner but also the employees they will be working with. Assuming your practice has a healthy culture, you do not need to break that up with an associate that is a bad fit.

- **Practice Philosophy**: Simply put, do both doctors share similar treatment planning standards, patient care, ethics, and communication style? Again, you need to spend time understanding your new associate before bringing them in so as not to disrupt the office.
- **Long-Term Goals**: One of the biggest conflicts that I run into with associates and practice owners is that the long-term goals of each party were not communicated up front. Normally, I tell business owners that if you bring in an associate with no opportunity for future ownership, the most they will typically stay is 3 years. You need to clearly communicate the opportunity for future ownership. If so, work with your CPA and attorney to determine what that would look like.
- **Mentorship**: It is helpful to discuss in advance how much you are willing to mentor the associate and how autonomous they should be.

Other Considerations

These are some other items that will need to be considered, many of which are mentioned above.

- **Staffing Needs**: Additional staff to support an additional provider, if needed.
- **Schedule Systems**: Software updates, block scheduling templates, and workflows.
- **Marketing**: Promoting the associate and the business.
- **Onboarding**
- **Exit Planning**: Just in case it does not work as planned.