

# Dental Practice Life Cycle: Purchase and Growth Stage

BY ELLIOTT TRACY, CPA

Regardless if you purchased a practice from a retiring dentist or started your patient list from scratch, the first five years of your practice are going to be marked by high debt, tight cashflow, and rapid growth. These are exciting years, but can be very stressful as you will be constantly distracted from your dentistry by the realities of running the practice and being a business owner. Your primary goals for this time should be to implement good systems and create a plan that lets you harness your practice and allow you to reach your goals. Of all the issues you need to address, cashflow, practice administration, and planning growth are the most important.

**Cashflow**, and the lack of it, can be a huge problem for many dentists starting out in their new practices. Often times, the biggest strain on cashflow is the dentist's compensation. While an established dentist in a healthy practice can expect 30% of gross collections as compensation, a dentist just starting a practice should consider maintaining their associate salary until the

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practice is through its first year. This allows you to build up a cash reserve, get a feel for the monthly cashflow requirements, and determine how much you want to take as compensation, and how much you want to invest back into the practice to increase your patient experience,

standard of care, and, overall, your enjoyment. Sacrificing an increase in salary for yourself in the first couple years and investing in the practice can lead you to a happier and more profitable future.

A good rule of thumb is to keep at least two months-worth of your required payments (loan payments, payroll expenses, rents, etc.) as a cash reserve so that you rarely have to wonder if you can make payroll next week or need to pull another two thousand in production this week to make rent. Similarly, you should reserve at least 30% of any money you take out of the practice for taxes. If your practice is a corporation, your withholdings from your paycheck should also be around 30% of your gross pay.

**Practice administration** is the managing of your new employees, your patients, your accounts receivable, your recordkeeping, and all the hundreds of little decisions you need to make every week. You should strongly consider hiring a practice administrator and retaining the services of an accountant. The practice administrator will help you manage the practice by maintaining the daily recordkeeping, making collection calls, helping you address staffing issues, and generally help you handle anything that distracts you from your most important task—dentistry. An accountant, ideally a dental CPA, will review your bookkeeping regularly, help you develop a plan for taxes and your financial future, and help you monitor the health of your practice.

Many times you will be working with an unfamiliar team when you first start out. Some of your team will adapt to your style and will thrive in the new culture, but some will not be a good culture-fit. This is a normal part of business, and while it can be unpleasant and difficult to deal with, it is better that those employees having a hard time adapting, move on to other opportunities. If someone is having trouble with performance, address it with them early and often. Encourage good team members with performance bonuses and public recognition. Surrounding yourself with a team that you can trust and rely upon is a great start to your practice.

**Planning growth** for your practice is very important in your first few years. You will be establishing your reputation with the community and your new patient base during this time. Regardless if you've purchased a new

**In your first three years, your road map to an established practice could look like this.** After three years, you can be considered an established practice. You've laid the foundation for all your future success and have started to look like the practice you want to be. Your next stage is to continue to refine your practice, pay-off all your debts, and start funding retirement in earnest.

### Year 1:

- Purchase your practice at the beginning of the year for maximum tax advantages and retain the services of the retiring dentist for up to two years.
- Hire an accountant.
- Hire a payroll company.
- Hire a fee consultant to adjust the fee schedules of the practice.
- Keep your salary (or withdrawals from the practice) as close to your associate salary as possible while putting away 30% for taxes.
- Purchase equipment needing replacement within the first six months and place it in service (plug it into the wall) before year end.
- After six months, do a comprehensive review of your staff and operations.
- After nine months, meet with your accountant for tax and financial planning. Identify how much free cash flow you have available in the practice and purchase the items that will most improve your quality of care and capacity.

### Year 2:

- Continue to keep your salary low until you have built up a cash reserve of at least two months' worth of expenses.
- Every quarter meet with your accountant to evaluate your cash situation and identify your surplus, which can be used to give yourself a bonus and to pay down student and practice debt.
- Continue to purchase equipment that raises your quality of care and patient experience. Make sure you are not financing equipment for more than two years.
- After six months, start planning the departure of the retiring dentist. Finish their transition out before the end of the year.
- Make sure to give your team feedback at least twice yearly. If cash flows allow, set aside 5% of their gross salaries as a bonus budget and reward the team for meeting goals. Make sure you or your practice administrator are taking time to observe your team's processes and identify improvements in work habits and interactions with patients.

### Year 3:

- Focus on maintaining and growing your patients list and start budgeting 2% of your gross receipts for marketing.
- Start setting recall and case acceptance goals as well as daily production goals.
- If you have achieved your initial goals for practice equipment, start looking at getting continuing education that allows you to perform more complex and valuable dentistry.
- Look into starting a SIMPLE retirement plan for your practice before October.
- Re-evaluate the salary you have set yourself and increase it if you have the funds. Your compensation, benefits, and withdrawals should be around 20% of gross receipts while you are still growing.
- Continue to encourage the good performers on your team by offering raises and bonuses. If your whole team is doing well, consider offering group health insurance, vacation policies, and sick-leave.

practice or are building your own, you can communicate a lot to your patients by deciding what level of care you want to provide and establishing a comfortable environment for your patients. Often times you will need to invest a lot initially to get the practice equipment, facilities, and décor up to your standards.

Once you've get your practice's identity established, you can work on bringing in new patients, plan for expansion, and plan your continuing education so that you can start performing more comprehensive and high value dentistry. Short term growth planning can be as simple as setting daily production goals and rewarding your staff after you have a good day. Near term goals should be focused on increasing recall and patient referrals as well as evaluating active marketing options like mailers for general dentists and building relationships with other practices for specialists. Long term goals should look at making sure your equipment and operatories are sufficient for your needs and evaluating fee schedules and PPO participation.

Starting a practice of your own is difficult, but with some foreknowledge and planning, you can greatly reduce your stress and increase your long term rewards from the practice. Take advantage of industry and financial professionals and remember that you don't have to run your business alone. Hiring someone to assist with the business portion of your practice frees you to focus on providing excellent dentistry and taking time away from the practice to rest and recharge.



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