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GATEWAY TO PRACTICE (Oral Surgery)
Assessing Options and Practice Models for the New Oral Surgeon

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As you consider the prospects for starting your career as an oral and maxillofacial surgeon, a variety of factors will inform your planning and decision making. Although the spectrum of career paths for you includes numerous options (including choices for academic, military or public health positions), this article is focused on entry into some type of private practice setting and the models which exist to facilitate your becoming a private practice oral surgeon.

While each doctor's situation is unique, there are fundamental aspects to every job search with which practically all surgeons are dealing as they analyze their options, career choices and practice opportunities. These include the compensation package, the practice location and setting, the overall fit and compatibility with practice owners, associates and personnel, and the prospects for eventual partnership in and increased earnings from the practice.

As you are probably aware, the traditional approaches to a starting a career in oral surgery have been around for decades and include choosing from (i) joining an established practice as an associate with a track to partnership, and (ii) purchasing an existing practice from a surgeon who is fully retiring or transitioning from full-time status to partial retirement.

More recently, other avenues tied to the evolving practice models in the dental industry have been seen with oral surgeons joining multi-specialty groups or participating in practices sponsored and supported by a "dental support organization" or "DSO."

I. WORKING IN A MULTI-SPECIALTY OR DSO SETTING

The multi-specialty or DSO models come in a variety of formats ranging from large "corporate dentistry" entities operating on a multi-state basis to smaller more localized organizations. Practicing in a multi-specialty or DSO model is basically a structure in which you sign on to become the organization's OMS specialty "division" (or a member of the OMS division if there are multiple oral surgeons on board). Both multi-specialty and DSO organizations offer the oral surgeons and other providers a collaborative practice model designed to free you from the administrative and operational duties of the "business" side of practice. Thus, a major selling point touted by such organizations is that the doctors have much more personal or family time than the other practice settings. You would be focused squarely on generating revenues without having to spend your time on such issues as employing and managing staff personnel,



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selecting equipment or a billing system, or dealing with landlords, third party payers, supply vendors, insurance agents, retirement plan administrators, etc.

Proponents of this collaborative approach suggest that the model offers specialists a captive patient referral base and that they benefit from shared teams and shared facility overhead, which helps improve efficiency and productivity. By increasing production and decreasing overhead, profitability can be increased (it is assumed). Obviously, the general practitioner dentists will benefit from keeping referrals in-house and from more collaboration with specialists on cases. For patients, they advertise as a “one-stop shop.” These practices are motivated to add specialists to their provider rosters to enhance the “one stop” concept and satisfy a broad scope of services (general, cosmetic, periodontics, endodontics, orthodontics and oral surgery).

Analyzing the Multi-Specialty and DSO Models

From the perspective of a new oral surgeon, making an intelligent decision on a position in a multi-specialty or DSO practice organization demands “due diligence” on your part in researching the strengths and weaknesses of the opportunity and comparing your findings to other pathways (joining an OMS practice as an associate leading to partnership or purchasing an OMS practice from a surgeon at or near the end of his/her career).

Perhaps the most challenging task on a new surgeon’s “due diligence” checklist is assessing the market conditions for OMS services in the town, city, county, etc. in which she or he desires to work. The current and expected demand for services is, of course, impacted by demographics (including overall population levels, population density and the economic strength or weakness of the region).

You need to learn about the “supply side” of the equation by researching the dental community. Does it consist of many independent solo or small group practices, or has it begun to consolidate into larger entities such as multi-specialty groups or DSO affiliations?

Similarly, you need to assess the existing roster of OMS providers in the community. Learn as much as you can about them, including approximate age ranges, how long they have practiced in the community and the scope of services that they offer.

Having this type of information will help you make a more informed prediction about the patient referral picture in the service area and whether one can expect it to remain stable, or to start trending downward (or upward).



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Learning about the market and the general dentistry and specialty services offered in the area can be accomplished in a variety of ways including asking questions of the doctors whom you interview with, as well as other providers or individuals you may know in the area. You can also use the internet to search practice web sites, demographic data and the like.

Also, as you move through the interviewing process with potential employers, try to obtain insight on each practice's financial condition and the earnings/profits which the practice yields to its owners. Keep in mind that many practice owners and their advisors may be reluctant to open the books for your inspections (which is understandable); however, it should be feasible for the practice to share with you at least some general figures, such as historical ranges of gross revenues, overhead percentages and owner earnings.

Key Factors to Consider and Compare

In your analysis of multi-specialty or DSO practice options, you will want to consider how the practice setting compares with the other (single specialty) options available to you in the context of the following factors:

- Compensation Package
- Scope of Services
- Clinical Autonomy and Independence
- Availability of Mentoring
- Facilities, Equipment and Support Personnel
- Marketing
- Opportunity for Ownership

Compensation Package

Obviously, the level of compensation a practice is willing to pay is critical to your decision to accept or reject the position. Compensation packages can be structured as a fixed dollar salary or as a percentage of charges or collections generated by your patient services. The compensation package can also include an incentive or bonus formula tied to individual and/or overall group production in which the percentage of production paid to the doctor increases as target levels or ranges of charges or collections are achieved.

In very general terms, the compensation structure implemented by a multi-specialty practice or DSO entity (or any practice for that matter) can be a telling sign of the organization's current and anticipated financial condition. For example, it's not difficult to understand that a multi-specialty practice which offers a starting annual base salary of \$350,000 or higher to an oral and



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maxillofacial surgeon just out of training considers the oral surgery part of the business to be vibrant and stable. In contrast, if the practice desires to base compensation strictly on an “eat what you kill” model, it is much more likely that that organizational confidence in the OMS service line is not as high. In any event, it is critical for you to gain a reliable sense of the volumes and case mixes you can anticipate in working for the practice. That means you need to see some recent production data from the practice in order to project how busy you will be.

You will also need to determine what benefits and expenses the practice will cover as part of the package, such as health or life insurance, retirement plan contributions, malpractice insurance, state licensure and hospital staff fees, board certification costs, continuing education expenses, society dues and possibly a promotional/marketing allowance. A practice may offer a salary in the lower part of salary ranges but be willing to pay all or most of the typical benefits and expenses. In contrast, the practice may pay the oral surgeon a higher than average base salary (or a high percentage of production) and shift the cost of some or all of the benefits and expenses to the employee to be paid out of her/his base compensation.

Scope of Services

Consider your goals and objectives for the types of cases you would truly love to be handling as a surgeon. You have put in the time and been trained as a specialist in the full range of OMS procedures, so it is important for you to inquire if the practice you are considering joining has a sufficient demand allowing to work in your specialty on a full-time basis (if not, you may be required to work as a generalist in order to stay busy).

Clinical Autonomy and Independence

Have a clear picture of how the DSO or multi-specialty practice may impact your clinical judgments and decision-making. Are there practice protocols or administrative expectations established within the organization which require input from non-specialists (or lay management) on how you treat the patient clinically? If so, can you work in this type of professional setting if it means that a non-specialist or even a business manager is helping to guide the process?

Availability of Mentoring

Depending on the make-up of the OMS division within a DSO or multi-specialty setting, you may or may not be practicing with other oral surgeons who have experience in the specialty over a significant number of years. You may be the lone oral surgeon in the division, or you may be one of multiple, less experienced oral surgeons on the staff. In either case, the setting presents



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an obvious drawback compared to joining an OMS group in which you practice side by side with a seasoned surgeon and enjoy the benefits of her or his oversight, input and feedback on patient treatment, surgical methods and clinical decision-making. Similarly, it should be noted that mentoring may also be available in a practice purchase/sale scenario if the selling OMS intends to continue to work in the practice for a transitional period, or as a longer-term part-time provider.

Facilities, Equipment and Support Personnel

When you visit the DSO or multi-specialty practice offices, you want to be sure and assess the physical characteristics of the office(s), as well as take note of the equipment available for use in the OMS division. Is the office properly laid out and equipped for the delivery of OMS services or is it poorly designed or lacking critical physical assets essential to your performing demanding and intricate patient procedures? What about the instruments? What about IV sedation capacity? Is there a dedicated space for patient recovery and a separate exit from the office for sedated patients not visible from the main entry to the facility?

You also need to consider the clinical support staff you will have available. Is the support staff knowledgeable and trained in the criteria of surgical procedures? Are members of the support staff credentialed for expanded functions beyond the typical support roles found in general dentistry?

Marketing

A DSO or multi-specialty practice relies on a vibrant general dentistry patient base in order to identify the needs or desires of patients for more specialized services (using the “one stop” aspect as a major attraction). You need to address whether the practice has an active and strong marketing function, including advertising on TV, radio, online and in print. Does the advertising sufficiently broadcast the specialized oral surgery procedures, including elective and non-elective treatments that you can perform for the organization?

Opportunity for Ownership and Participation in Profits

It is very difficult to generalize about the ownership potential and opportunity for profit sharing available to an oral surgeon in the multi-specialty or DSO setting due to the great variety of ownership structures and income division methods employed by such organizations. While more localized entities are more likely to make ownership and profit sharing available to their doctors, many of the larger DSO entity structures do not lend themselves to this benefit. You



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need to ask about the possibility and learn the criteria, timing and possible buy-in price for an interest.

II. JOINING AN ESTABLISHED ORAL SURGERY PRACTICE

Joining an existing oral surgery practice is certainly the “tried and tested” approach which has launched many a successful OMS careers. In the great majority of arrangements, the new doctor joins as an “employee” for tax purposes; in some cases, limited circumstances, the new doctor may be an “independent contractor” under the tax law, however this occurs in a very small percentage of contracts. It is important to remember that the initial employment agreement with a practice can be the basis for a long, productive and fulfilling relationship. Therefore it is essential that your initial employment agreement cover all the reasonable contingencies -- from your first day of employment to the time you become a “partner”, if an ownership opportunity is part of the arrangement.

While all of the factors mentioned above in the multi-specialty and DSO discussion are important in the context of joining an established OMS practice, as a practical matter the issues of clinical autonomy and availability of mentoring should *not* be of concern.

Of course, you will want to know that there will likely be compatibility between you and your co-workers (owners, associates, staff and management), as well as the environment in which you will work.

These days, in my experiences of having handled the new associate contract discussions (from both sides of the relationship), the most time spent by the parties will be in the areas of the compensation package and the opportunity for ownership in the practice

Compensation Package

Base Salary: The employment agreement should spell out the total compensation you will be paid during the entire term of your employment. This should include not only your base salary but also any incentive or other bonus arrangements the practice has offered. If possible, negotiate that future increases in compensation are written into your contract for each subsequent year of employment during the remaining term of employee status. A \$10,000-\$15,000 annual increase in base salary is not uncommon for each subsequent year of employment, assuming of course you meet the production expectations, as well as remain in full compliance with all of your employment contract duties.

Base plus Incentive: Incentive compensation provisions are quite typical in new OMS employment agreements and, when combined with your base pay, can be an important part of your total compensation arrangements. An often used incentive compensation arrangement is based on your being paid a percentage of the gross income the practice actually collects for the professional services you generate in excess of 2 to 3 times the practice's cost to employ you. For example, if your base salary is \$200,000, you might be entitled to an incentive



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compensation bonus of 25% of actual collections for your services in excess of \$500,000 (\$200,000 times 2.5).

The practice may also pay you a discretionary bonus. Such discretionary bonuses provide you the least control over your incentive bonus. They are based on the practice's subjective assessment of your overall contribution to the organization's success.

Some practices choose not to offer any incentive pay or regular bonuses. But this does not automatically make them poor opportunities for you. If the practice is an appealing long-term opportunity for you, then an appropriate salary can be sufficient inducement for you to join that practice. Once employed, your goal of building the practice in order to be promoted to co-ownership could also be sufficient motivation.

Straight Production: Instead of base salary (or base coupled with an incentive), some practices prefer to compensate associates on a percentage of your production (which can be measured in terms of charges or collections for your services); given the uncertainty of just how busy you may be, it is understandable why these percentage deals may create some angst; on the other hand, in the right practice, the deal can be quite rewarding compared to a base salary approach. Percentage deals require careful review along with an advisor who is familiar with the typical finances of oral surgery practices; you are going to need to see historical data and other reports from the practice to gain a comfort level with this type of arrangement.

Benefits and Expenses: All of the factors mentioned above in the multi-specialty and DSO discussion concerning benefits and expenses are important in the context of joining an established OMS practice as an associate employee.

Opportunity for Ownership

Whether your initial contract contains any provisions for a possible future buy-in often depends on how close the owner(s) is/are to retirement age and/or whether a buy-out plan is already in place among the current ownership group. In representing an associate joining a practice, I typically recommend that your employment agreement include an outline of the buy-in, income division and future co-ownership arrangements. Look for at least a broad outline of the process and factors the practice will use to evaluate your potential for co-ownership. Such a future co-ownership provision may even refer to the valuation of the practice for determining the purchase price. It should also include a specific date by which the practice will initiate the future co-ownership discussions, and another date by which the practice's current owner(s) will make a firm decision about offering you co-ownership.

The general co-ownership terms should include an explanation of how the price of an equity interest in the practice will be determined, the formula to be used to set the dollar value of the equity interest, and how much of an equity interest you are to purchase.



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In addition, if part of the buy-in is to be accomplished on a pre-tax or "sweat equity" basis, the future co-ownership provision should set out the rough details of how your share of practice income (profits) will be discounted during the initial period of co-ownership.

III. BUYING AN ORAL SURGERY PRACTICE

Buying a practice can be a superior alternative to joining one or starting one, if the purchase is at a fair price. Generally speaking, it is less expensive to buy a practice at or below fair market value than to start your own. When you buy a practice, you do not need to deal with the expense, headaches and challenges of a startup and a practice sale normally provides you with a foundation of referral sources upon which to build. A practice purchase also produces quicker cash-flow and lessens your marketing needs, especially in a competitive market/region

On the other hand, as for potential drawbacks, these can include inheriting antiquated systems in need of replacement, a staff that is difficult and "entrenched," and possibly a poor office facility. In addition, one challenge that you will be taking on is management responsibility for every aspect of practice operations. Remember, even if you employ extremely capable office management personnel, you will always have oversight responsibility for all phases of practice administration.

Sale Price and Goodwill

Potential buyers of an OMS practice face two major hurdles: establishing that a fair price is paid, and assuring that the practice's goodwill is actually transferred to the buyer. Arriving at the fair sales price can be a perplexing process, because practices do not routinely sell for a "standard" percentage of gross or net income. Each sale depends on so many considerations -- including practice size, the level of competition, the personalities of the doctors involved, and so on -- that given formulae and standard approaches provide only "benchmarks" for estimating the reasonableness of a proposed transaction.

Typically the price for "hard assets" -- furniture and equipment -- will be based on either an independent appraisal or the original cost less depreciation.

Goodwill, on the other hand, has no set value and can vary from zero to more than one year's worth of the seller's earnings and profits. The purchase price will usually *not* include the practice's accounts receivable. Nonetheless, it will benefit both parties if the purchaser bills and collects outstanding patient accounts for the retiring doctor. The purchasing practice gains a natural way to communicate with patients; while the retiring doctor gains a better collection rate than if she or he attempted to bill after withdrawing from active practice.

Transitioning the Goodwill

The problem of converting the purchased practice's referral sources must be addressed during the price negotiations. A practice's goodwill value depends substantially on a variety of "convertibility factors." These determine how many referral sources are likely to stay with the



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practice, and thus establish the practice's actual goodwill value to the buyer. Provision for those conversion factors is often made in the sales agreement, and thus must be considered up front. The best way to bolster conversion is for the buyer and seller to associate formally in providing care to patients for six to twelve months after the sale (even if the selling doctor is actually very part-time). During this interim period, the doctors can present themselves as "partners" so that the buyer's continuation of the practice seems a natural event. To assure maximum effect, this period should be long enough for all regular referral to be exposed to the purchasing doctor.

Structuring the Purchase

The structure of the practice purchase must be carefully planned to avoid legal pitfalls. It is essential to have good tax advice. The allocation of the purchase price among the practice's assets can have significant tax consequences, and there are many nuances.

Sellers love "stock" sales since all the gain becomes taxable to them at capital gains rates. However, stock sales are bad for buyers because stock is not a depreciable asset. Buyer gets no tax deductions for any of the purchase price. Therefore, buyers almost invariably want to buy assets rather than stock. Depending on the tax allocation of the purchase price among the assets acquired (equipment, supplies, receivables, goodwill, consulting payments); the buyer can dramatically increase the write-offs from the transaction, thereby greatly reducing the after-tax cost of the purchase.

Another thing about stock sales: they carry with them not only the assets of the OMS practice entity, but also its liabilities. This includes not only the accounts payable, but also such latent items as not-yet-filed malpractice lawsuits or government investigations into previously submitted claims. This is yet another reason why buyers prefer asset sales, in which all liabilities can be specifically excluded.

IV. SUMMARY

In closing, keep in mind that the process to choosing a practice setting and your first position as an oral and maxillofacial surgeon will be time consuming, somewhat complicated and a little frightening. Be sure that you start your search and "due diligence" as early as possible and enlist the advice and support of knowledgeable professionals, including an attorney, accountant and recruiting specialist.

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