

Ep #11: Secrets of a Successful Dental Associateship



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Dr. David Phelps and Evan Harris

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Ep #11: Secrets of a Successful Dental Associateship

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Hello, everyone, this is David Phelps along with my great friend, Evan Harris. Evan, how are you doing today?

Evan: I am doing really well and ready to get into a topic that is full of pain, but when done right, is full of abundance.

David: Well, I'll tell you, Evan, this is a topic that I love to get into, because I had a lot of experience during the course of my years in practice, and that is, of course, talking about associates, dental associates and why so many of them seem to fail. We hear the horror stories all of the time, Evan, from our doctors, our colleagues that we talk to about this one failed, that one went bad. There are certainly success stories, but why do so many fail, and what would be the first step for a doctor considering bringing in an associate, Evan?

Evan: Sure. In my experience, the biggest reason they fail is because of expectations and lack of clear expectations from both parties. I'm going to call the doctor that owns the practice currently the senior doctor and the doctor coming in the junior doctor, and I ask senior, "Why?" Why do they want an associate? And I listen. I hear things such as they've got to care for their elderly parents, and they just don't have the time to put into the practice and do that. They need a little bit of buffer, and they don't want to sell the practice. They just need some time to be able to go and take care of the people that they love and need to take care of. I also hear that they've worked hard for 30-plus years. They don't want to do five days a week any more. They want to scale back, but they don't want to be done with dentistry all together. I hear doctors saying their back is

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killing them, and they can't do the kind of dentistry that they used to be able to do, but they don't want to sell the practice down. They'd rather just have someone else step in and maybe take 2:00 to 5:00 rather than the whole day, and being able to kind of have some balance within some of the work, especially like the hygiene and small fillings. So there's always some pain that the doctor, let's focus on the senior doctor is experiencing, and they're trying to get out of the pain, and they're trying to get in pleasure. So the doctor may want to spend more time with their family. They may want to travel. They may want to have some break, some body recovery, whether it be their back, their eyes, whatever it might be. There's usually some kind of pain and some kind of pleasure they're trying to get after, and I always write those things down, and I'll tell you why in a moment.

Then when it comes to junior, there's a motivation for them. Why don't they want to just go work for a clinic? Well, typically, they want to start their own practice someday, or they want to begin transitioning into a practice. They want to begin bringing patients there that they can hopefully someday call their own, that those patients could become theirs and have the opportunity to transition if the "dating period" goes well. Sometimes it's convenient to where they live, they want to be an associate there. Or it's the schedule that works really well. I have a lot of ladies that want to start a family, and they want to practice two days a week. They don't want to own their own practice. What are their expectations? Do they match up with senior? Those are the key things I begin with are the "whys", because as soon as something starts to unravel, we can go back to the why and make sure those whys are being taken care of.

David: Those are definitely the foundational questions, and you said that reason why is so, so important, having that meeting of the minds so that both parties know exactly what each is getting into and where each one wants to go, very, very critical. So Evan, how about the

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associate looking for a potential office in which they can go to work as an associate? Where should they start?

Evan: Sure. In that case, the best experiences I've had is when the associate is clear. They know they're looking for full time. They know they're looking for part time. If they're looking for part time, how consistent is it going to be? Meaning, is this a senior doctor that's just gotten a little bit busy and can't handle all of the days, and they think that the associate can launch forward? Or is this going to be a consistent, every week it's going to be two to three days, and the practice has been rocking like that for many, many years, and then that doctor can build their capacity to build the practice even more within the practice. Then the other question is, "Does junior know how long senior plans to be in practice, or is it just kind of a guess?" I'm amazed at how many conversations don't happen. I'll ask junior, "So do you have a plan to buy in?" Oh, I'd really like to. Well, is senior looking to sell? Oh, I have no idea. Well, how is that going to work out when they're one, two, three years down the line? How is that going to pan out? And being able to have that associate feel they have the confidence to lay out what they're looking for, and see what senior is looking for, and see if that's a match. Once this associate knows what they're looking for, then they can begin to start to look for areas. They can search and be really clear. They can either talk to people like myself, they can talk to supply reps, they can be in certain clubs whether they're – I mean, there's countless amounts of dental groups, whether they be LVIs and Pankeys and the local study clubs, and the AACD. There are so many different ways to be able to find one's niche and find likeminded dentists that they're going to find that alignment. A lot of times the doctor that's looking to transition wants to find a doctor like themselves, and if they're both passionate, let's say about occlusion or comprehensiveness or cosmetic, they can be able to be aligned on that, and then they can be able to have a better chance of long term. If they love to do implants, great, or if senior really despises doing anything other but crown and bridge, and

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junior loves to do those things, well, then that might be a match there. There may be opportunities right there within the practice that they can work on even more. But the associate needs to be clear and also have the confidence to be able to ask the questions of senior. However they find senior, they need to be ready with those questions to see if it's a possible dating relationship, or if it's just better to move on.

David: And Evan, do you typically see a situation where there's a trial period of, I'm saying maybe six to nine months to go into before the next step? What do you typically see as the dating period, I guess is my real question?

Evan: Good question. Yes, I would say that that's very common. The biggest mistake that I see people, have people experiencing is they don't value the practice before they move it forward.

David: Right.

Evan: Meaning, they say okay, in six months or one year, we'll see how things are going. Well, in the meantime, things have really ramped up. There's a whole new energy in the practice. For some reason, senior has a fire in her or him that they haven't had before. The office staff is, they're up and they're ready to rock, and the associate is bringing in new patients, and they're part of Rotary or Toastmasters or they're in a soccer club. All of a sudden, there's new life, and meanwhile that practice is becoming worth more and more, and the associate begins to resent it. One of two things happen. They either have a discussion, they work something out fair, or junior gets bitter and bails. They just say, "You know what, I want throttle back." They go, "Why would we want to pay more for this practice?" So please, in the beginning, just have an evaluation. They cost very little to just have a basic evaluation of what the practice would be worth based upon expenses, and it's easy. There's tons of companies that could provide it. Then have a

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baseline, and then have them agree to an amount of time to be able to have that date. Let's work together for three months, six months, see how the flow goes, and then we're going to base our decision to move forward from that date, and typically from that date, they will have it already aligned of it will be a period of two years, and there will be X amount of transition. A certain amount of payments will start being made to senior. There will be a balloon payment a certain amount of time. Those conversations, in my belief, are never too early to be had. They don't have to signing anything, but just knowing up front, is this doctor willing to sell, when would they be willing to sell, and let's be clear so when we get to that six-month lunch, that it's not just a quick, "Hey, things are going pretty well. Let's just continue." No. We need to have an action plan. How are the next years looking, and how is the transition going to work?

David: It's always amazing to me, Evan, to see how that initial pain that you talked about earlier, the pain typically of the senior doctor, but certainly there's motivational pain on the associate who's looking for a potentially good home, how quickly that pain can go away when things are working well, and there is synergy, and then they forget, as you said. Both parties forget what each brought to the table, and that's why that valuation is so critical to have on the outset, because then it becomes very muddied water, and who is doing what, who is bringing what value? It's very difficult to break that apart down the road. So I'm glad you brought that up. So Evan, what about what both doctors, both senior and junior know their why, their reason why. What's the next step?

Evan: The next step from what I've seen is they have either a company – a lot of times accountants can do this, a lot of times brokers can do this – but have some entity that can be able to draw up a schedule of events and how things would be optimized, and what I mean by that is senior may really have a certain deadline where they may want to travel as soon as their youngest child gets out of college, or there's a certain anniversary that they want to celebrate, and they

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want to take a European vacation for a couple of months. They may have that something. Let's get all of that on the table, because that's the fun stuff. That's the juicy stuff in my experience that are the whys. Why would this person be wanting to transition? Let's make sure that junior can fulfill those things.

Then be able to have all of that in writing so in case the day gets busy, emotions get kind of flared up, and senior doctor says, "Oh, I feel like I'm giving up my profit. I'm giving up control. Why do I do this?" And junior says, "Oh, I'm working for a slave driver, and I'm getting nothing out of it. I could be starting my own practice from scratch, and meanwhile I'm working for this old guy. What am I doing?" Just in my experience, they've just stepped away from their point of focus of why they're doing it. So when they have it in writing, emotions can be a little calm, and they can get back to the foundation of oh, that's right. I get it. It's only six more months. Equity share starts beginning. Seniors probably get nervous about what this whole retirement feeling is. I have compassion, or seniors can say all right, see junior is going to start making payments to me. Maybe financially it's a tough time. How can we make these payments easier? Maybe we make them gradual. Maybe the first couple of months, we make them lower, and they graduate as the production increases. Maybe that balloon payment, we put at a time when we know that a bank can finance, or the practice can support it. That's where I see really a necessary foundation written up by attorneys, brokers, practice, transition specialist. They typically have a flat rate, and then they can help navigate the process. Patterson Dental has practice transitions within Patterson. There's a lot of companies that can do it, and they can do it for a flat rate. They're not looking for a percentage, necessarily, of the practice transition, of the practice sale, because if the doctor has found their own associate, they don't have to pay the 10% that's customary, which in my experience is kind of a significant sum. Now, if they listed the practice, totally different. That's where a broker can get in. But if they've found their associate through

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means of their own networking, well, then my belief, they should keep that 10% and then pay a practice transition specialist to draw up the paperwork and help work the expectations together.

David: I know of a case where there was litigation, unfortunately, between a senior and a junior associate, and when the question came down to asking the senior doctor where did you get your paperwork, where did you get your agreements, your contract, his answer was, "I pulled it off the internet." And I'm thinking oh, there you go. I mean, that's like a dentist saying to your patient, "Well, here's a mirror, and I'm handing you the tools to go do your own dentistry." We would never do that, and we're talking about a practice asset, which is typically a very significant part of a doctor's retirement, and here you are leaving it, and you're pulling something off the internet, and you're going to do it yourself. It just makes no sense, and I'm not sure why there's a tendency to get cheap all of a sudden, when we're talking about things that aren't in our area of expertise, but we just think for some reason we're smart enough, we can pull it off, and it's just not a good way to go.

Evan: You're absolutely right. I have a doc that right now, had a medical emergency – back had a significant injury and unable to practice – and the way the agreement was drawn up, or lack of agreement was drawn up for the associate, the buy-in clause was not clear. So the practice can either just disintegrate right in front of everyone's eyes, or the associate really can just step in and take all of the patients, because everyone knows the associate anyway. So it's kind of this really awkward situation where the associate could really take the practice in a way, move across the street, and not have to pay anything, which the associate is not going to do, because fortunately the associate is of a really high caliber, and senior is in a place that's really vulnerable. Senior had just put things in place. Everyone signed their action plan in case of injury, and I've got docs, David, that are 70-plus years old. Stuff can happen. I mean, stuff can happen to anybody. They can be 40 years old, and things

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can happen. But just like they have insurance, life insurance, if they have something written down in case of emergency, now they've got someone that can support them. Sure, they're going to make it financeable, easy, and tax-efficient. There's a lot of ways that one can work together. For example, senior may not want just a lump sum of cash for the practice. That would be a pretty significant tax issue, but they can be able to graduate the payments in ways that senior can receive them in the best way, and junior can find the times where it's best to pay more and best to pay less, and they together can make that work totally legal and totally optimal. If senior has a bunch of write-offs, well, that might be the time to receive more payment. If junior is having a tough time with cash flow, then that might be a time that makes it a little lighter. Does that make sense?

David: Yeah, it makes perfect sense, Evan. So let's talk about just for a moment if we have a junior associate, and he or she is wanting to look for that potential associate office position. What's their best way of putting themselves out there to find the opportunities?

Evan: Good question. I was with a doc that recently had all of these applicants come through, and in my experience I haven't seen that kind of response. I asked the doctor, "How did you get so many good applicants?" The doctor turned to me and showed me the advertisement, and the advertisement was incredibly detailed. It explained everything about the practice, everything the doctor was looking for in an associate, and it was just so well phrased that anyone that would take the time to read it would either clearly know this is a practice for me or not for me. So it was almost a filter in and of itself, and then that advertisement went out from something as simple and silly as Craigslist, but there are a lot of young people that look on Craigslist, and it's not just for selling old refrigerators. It definitely can be used for everything. Put it on Craigslist, dental journals.

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They told their local peers. They even sent emails to their specialists and things and said, “Hey, by the way, I am looking for an associate, and here are the qualities I’m looking for. If you know anybody like you, which is a compliment in itself, please send them your way.” They went to the Dental Society. They told me, because I see 100 dentists in a month, and I go to the New Dentist Society. They were so clear of what they were looking for that it began to attract people that liked that certainty. They read that ad, and they thought, “You know what? This person knows what they’re about. I like that. There’s not going to be a mystery or some wishy-washiness. This doctor knows what they’re looking for, how they’re going to pay, the amount of years they want to stay in practice. They are clear.” And that’s why I think so many people beat the path to the door, and the doctor ended up getting in a great associate. He actually had the opportunity to pick from three that were pretty solid candidates. So that is what I would impress upon anybody is really be clear upon what you know, and then craft an invitation to apply.

David: I like that. All right, we’re down to the last few minutes here, Evan. So one last thing I really want to touch on with you, and that is once a senior doctor has identified a potential associate, what is their next step?

Evan: Sure. In their next step, I would say they need to really make sure that it’s going to work. We talked about the whys. Make sure they understand the associate’s whys, and do they want to stay in that town, do they imagine owning a practice there, does it align with what they want? Because we don’t want to be an associate just to practice there and then go start up their own practice nearby. If it’s going to be a long term, they need to have a non-compete, so in case something flares up, the associate can’t move next door and start their own practice. They need to really formulate something that’s clear and that they can be able to build upon. I would recommend then they connect with some type of specialist, like a

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practice transition specialist just to start the conversation, even before the dating period. Once they see that they're compatible, let's say a couple of lunches, and they see that they believe that there's a fit, and they've gone through kind of their checklist, I would definitely recommend senior asking junior to produce a checklist. Kind of the magic wand question. Junior, if you could create the practice transition of your dreams, what would it look like? Think if you wave the magic wand. What would it look like? Just make stuff up, and one can really see what is their true vision, and does that vision line up with this practice? Because we really want to meet and exceed expectations, not have to do this over and over again like most dentists do.

David: I 100% agree. I think you hit some major points today, and associateships can be marvelous adjuncts to a practice for the reasons you already described earlier. If having that focused reason why is a critical piece, that foundational part, and then utilizing good people to help take you through the process with your associate, and vice versa with the associate and the senior doctor, to put the agreements together, set that timetable, make it a blueprint that's going to work for everybody. Evan, you've hit some really important material today. Awesome stuff. Folks, you've been listening to another episode of the *Dentist Freedom Blueprint* Podcast with David Phelps and Evan Harris, the place to be to create your freedom lifestyle with more time off, security, and peace of mind. Please subscribe, download the podcast, and share it with others who want to create real freedom in their lives and practices.

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