



Want a roommate?

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There are numerous advantages of practicing in a group. Who wouldn't want to be able to share equipment, overhead and comradeship?

Unfortunately, this is an area of dentistry that has not always gone smoothly. Almost everyone has heard horror stories about someone's experience in a group situation.

However, these unfortunate situations allow development of the knowledge base surrounding group practices. Assuming that you can access that accumulated wisdom, your chances of having a successful relationship are much better.

The first thing to know in this area is some terminology. Often dentists use the word "Partnership" to describe group practices generically. Partnerships are a subset of group arrangements. They were once the norm for group practices but have fallen out of favour (for good reason) over the last ten years.

The second option is sometimes called a "cost sharing arrangement". This distinction is important, because if ask your lawyer for a "partnership agreement", that is exactly what you will get. It may be that it's not what you want.

Let's look at each of these structures.

PARTNERSHIP

Partnership involves ownership of a practice being shared by a group. The partnership owns the patients, equipment and receivables. Instead of owning his or her own practice directly, each partner owns a "partnership interest".

All revenue and expenses belong to the partnership. Profits are divided according to a formula. A common formula is for dentists to receive a percentage (45% for example) of their production. Remaining profits go to partners in proportion to their ownership interest.

ADVANTAGES

- Emphasizes cooperation and teamwork
- Easy to make transfers of ownership between partners or to admit new partners
- Makes sense where one partner has contributed the majority of the capital

THE BAD NEWS

- Very important - partners have **JOINT AND SEVERAL** liability for the debts of the partnership. Someone suing for your partner's malpractice can decide to chase you instead.
- Benefit from increasing your productivity can be diffused - if you keep 45% of your collections, your billing \$1,000 benefits you by \$450 with the remaining \$550 divided amongst all partners based on ownership.

- Expenses are shared on the basis of ownership - this may provide very little benefit to individuals to control expenses
- May be biased in favour of original partner
- Profit draws are discretionary and may be influenced by financial situation of controlling partner.
- May produce unrealistic results if ownership percentages differ radically from productivity. If I own 10% of the practice but bring in 80% of the revenue, I will be unhappy.
- Partnerships tend not to be adaptable. A partnership of new graduates may work well initially, but if over time one becomes family oriented while the other is a workaholic, the structure can become strained.

COST SHARING ARRANGEMENT

Dentists operate separate practices under the same roof while sharing common services. Each is responsible for paying their own individual expenses and paying a share of common expenses.

The dissection of expenses into individual and group requires thought. For example, do we each buy supplies individually, or do we buy as a group and split the cost? If we buy as a group, do we split equally or based on productivity? There are a number of decisions to be made here.

ADVANTAGES

- Partners have strong incentive to control individual and shared expenses

- Financial interdependence is minimized
- This approach is more suitable for incorporated practices as there is no need to share the “small business deduction” (applies on the first \$200,000 of income) between practitioners

DISADVANTAGES

- Record keeping is more complicated
- Careful planning is required to develop a workable model of expense sharing to avoid inequities
- Sharing of hygiene, associate and specialty revenue must be considered
- Strong commitment of the partners is required to maintain teamwork and consistency of procedures.

WHICH ONE IS FOR ME?

If I seem negative about partnerships, it is because I have seen very few of them work successfully over an extended time period. In this respect dentistry seems to be a bit different from other professions such as law and accounting, where partnerships are the dominant form of organization. This is because the interdependence between professionals in these professions is much higher than it is in dentistry, where each practitioner more or less operates independently. This is not to say that partnership can't work, but I have seen much greater success with cost sharing arrangements.

SUMMARY

Regardless of which option you choose, proper planning is essential to structure a successful arrangement. Before starting such an arrangement, participants need to spend time exploring each other's values and practice styles. The other element that is critical is a properly written agreement. Because of the complexity of these arrangements, and the fallibility of human memory over time, it is not possible to have a verbal agreement that will be up to the task. If it is possible to find advisers who are knowledgeable about dentistry, your chances of getting a good agreement are much higher.

Also, there's absolutely no substitute for having a good rapport with other members of the group. In the long term, no matter how well the initial agreement is thought out, there will be changes and adaptations that have to be made.

While this road has been somewhat rocky for dentistry, there's no doubt in my mind that reasonable people can operate successfully in a properly structured environment. I hope this is the way goes for you.