The Top 10 Pitfalls to Avoid When Building a Dental Practice

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Opening up a new dental practice can be challenging and overwhelming, particularly if it is the first time you're doing so. Most dental lenders will state that dentists fail less than 1% of the time, which is accurate, but many more suffer. So, how you get started within your dental startup is crucial to your success. Below are some top pitfalls you'll want to avoid when building your dental practice.

Not Having a Business Plan

As a dentist, you know how important specific, thorough treatment plans are for your patients. You'll require a similar plan for opening and operating your new dental practice. Actually, a solid business plan is crucial for the success of your practice so much, so in fact that many lenders require it before you apply. You can check out the ADA Resource Center, your state dental association, or a lender specializing in working with dental offices to get a business plan template.

Not Building a Trusted Adviser and Specialist Network

Beginning on the day you made the decision to start your practice, you'll meet a lot of individuals. As you're filtering through the different relationships you'll establish and the advice you'll get, it's essential you get together with industry-specific advisers who can help you with all the critical decisions you'll have to make.

Some types of advisers you should team up with include:

- **A specialized CPA:** General dentists can perform root canals, however, endodontists are highly suggested for more difficult procedures. In a similar way, CPAs (certified public accountants) are suggested for your dental practice. You'll find many general CPAs available, but it's suggested you speak with a CPA who has experience working with dental clients.

- **Dental-specific building contractors:** Don't attempt to save money by hiring a general contractor with no experience building dental practices. This could lead to frustration and overruns. It's easy to find dental-specific contractors. Check with your equipment specialist who could put you in contact with dental-specific contractors they've worked with. You could also seek out contractors at your state annual session. Maybe even speak with colleagues who might be able to provide you with valuable feedback on the performance of contractors.

- **A dental-specific lender:** A lot of financial companies like national, regional, and local banks, loan brokers and SBA lenders are interested in providing financing to dental practices. Many even have experience in the dental industry while others are general small business lenders who often lend against collateral and don't always think about soft costs like tenant improvement, build-out, and working capital. Lenders that are dental-specific know the real cost of a start-up practice, which could run over $450,000. It's vital to work with lenders who realize the project breakdown.

- **A dental equipment specialist:** A strong dental equipment specialist will always keep your best interest in mind but ensuring that you purchase the appropriate amount of equipment for your startup and help you purchase additional equipment as your practice grows. We highly recommend you purchase all of your equipment from one vendor so that they can do the entire install and resolve any issues that arise.

- **A dental-specific lawyer:** A dental lawyer can assist with you with a few matters related to your startup. These include your letter of intent (LOI) to lease if you are leasing space, lease negotiation, real estate transactions, corporate formation, and trademark registration.

With the growth of your practice, you're likely to come across other dental industry advisers who could assist you in making important business decisions.

Things to consider are:

- You should establish a team that you believe will fight for you.

- It's important you obtain staff that knows one another well and have already worked together previously.

- Your architect, construction manager, and the contractor should be dental-specific. Plus, this could be one individual that performs all three jobs or three separate people.

- Your chosen equipment is just as essential. You'll need to locate an equipment salesperson you'll feel comfortable working with. If there's a certain manufacturer you would prefer, ensure you ask your salesperson if their business has that particular brand. Not every company will carry all the various manufacturers' products.

- Your banker is equally, if not more, essential. It's always a good idea to have a great relationship with the lender. It's costly to build an office, therefore, the right bank working on your behalf is essential.

Finding the best team doesn't need to stress you out. You can use a referral system. After you've found an individual with whom you'd like to work with, have them help you find other team members. For example, your contractor can help suggest a good IT person or equipment salesperson. The banker will typically be able to suggest most of your team, if not all.

Not Maintaining a High Level of Credit Worthiness

This isn't a secret tip. Hopefully, you will already be aware of how your credit score is so important, both personally and professionally. A low credit score or negative credit score can have a substantial effect on you qualifying for a loan. How much you might qualify for as well as the interest rate you'll get might depend on your credit score. If you aren't positive what your credit score is and what your credit history looks like and you'd like to receive this information, you can visit myfico.com or get a free copy of your credit report by visiting the website www.annualcreditreport.com.

Making the decision to start your own dental practice is a huge one, and the way you start out could have a big bearing on your immediate and future success. You'll want to ensure you avoid these pitfalls and try to make the process of building your new dental practice as smooth as possible.

Not Securing Financing

Where there isn't any shortage of banks looking to lend money to dentists, you might find banks aren't familiar with the funding allocation and costs for a start-up practice. However, a lot of major lenders will be familiar with your requirements and could give you the required funds. You'll also want to make sure not to base your decision on the interest rate alone. While the rate is essential to keep your payments lower, it's only one factor in the process of decision-making. Here are some things to take into consideration with your loan decision:

- **Prepayment:** Each lender will vary with their prepayment options. Loan prepayment terms aren't as imperative in the past years of you opening and building your practice, however, prepaying your loan might turn out to be a choice after your practice isn't thought of as a start-up anymore and as lenders see it as an established practice. This will occur once you've demonstrated adequate cash flow, proven practice collections, and the new loan you're thinking about is more appealing than your current loan or is in your best interest.

- **Loan term:** Like your house mortgage, you should think about the longest term available (i.e. 10 to 15 years). This will mean you'll enjoy lower payments as you're starting to grow your stream of income. If your dental practice does better than you expected, you could always pay your loan down the same way you would pay your mortgage loan down. Loans can often be prepaid without a penalty after three to five years.

- **Interest rate:** Interest rates can be adjusted with prime as well as other rate indexes or fixed for the term. While payments might be lower if you have an adjustable-rate, the rates will rise eventually, therefore locking into a competitive fixed rate for the following 7 to 15 years would be your ideal strategy.

- **Lender service levels:** Being a dental start-up, you'll have instant banking needs like direct deposit accounts, merchant (credit card) processing, business credit cards, and more. During new practice construction, better lenders that are dental-specific will put in place internal processes for paying the equipment company, building contractors, and other vendors who might require incremental payments and deposits. They'll also ensure all planned disbursements are made so you can stay on course.

Not Considering the Location Carefully

You should consider:

- How many dentists are already existing in your desired neighborhood?
- Are you going to take walk-ins? If so, you'll require a high-profile location like a storefront that has a first-floor location?
- A first-floor location that has an open basement since it's going to be the most cost-efficient in terms of construction?
- A high-rise building location with occupied space on the below floor is typically the most expensive in terms of construction fees, but usually is less per square feet in your lease costs?
- Are you a specialist that is referral-based? If so, could you look for a less expensive space on an upper floor? Your practice could also be located in a building with less exposure or off a main road.
- Will there be enough parking for your patients and team members?
- Will your patients require public transportation access?
- Signage, visibility and marketing go "hand-in-hand."

- For more information on signage, visibility, and oversaturation, you can refer to this blog.

- By not researching properly and choosing a location that's oversaturated with dentists.

- By not performing demographics research of the locations (more information on our blog on selecting your location and our blog on demographics).

Not Quantifying Before Qualifying

The process of assessing the quantity of space required for supporting the efficient function of a dental office is challenging. Often, do-it-yourselfers minimize or forego the practical process of quantifying the cumulative requirements for each function and area of the practice.

Some common oversights and judgments that can lead to space insufficiency include:

- **Overlooking or shortchanging accommodation for dental practice growth.** For instance, many decide to limit the number of operatories to save costs but few think about the fact that limiting the number of operatories will limit your revenue potential.

- **Misinterpreting the two very common barometers, professional colleague feedback, and industry statistics, used for establishing square footage requirements.** While both merit consideration, they're frequently misleading. With the former, you might hear the proposition that waiting area seating should be based on the number of hygiene rooms and treatment. To declare that undeniably implies an assumption that general dentists with family practices would have the same requirements as generalists concentrating on cosmetic care. And, because no two practices are staffed, equipped, and managed identically, the latter could be equally confusing when establishing the requirement for space.

- **Overlooking certain suite spaces, such as passageways and storage.** Aside from the fact that a very common complaint from dental team members is there's not enough storage space, it's a commonly overlooked spatial accommodation. The wall passageway space consumption and wall thicknesses are visually more subtle. Still, they often have an even greater effect when ignored.

- **Failing to take into account less isn't always more.** Often practitioners base their choice of space on the cost per square feet instead of the potential earned revenue because they believe they're throwing the rent money away. However, there's a perception that by decreasing overhead, it will increase the net revenue, but, this is an illusion that's slanted by groundless statistics. This couldn't be further from the truth. Like any other business, dentistry will thrive on its improved ability to generate revenue.

Not Negotiating with Landlords

You can negotiate your dental practice lease. Landlords are typically very motivated to rent out these spaces.

If you go about it in the right way, the landlord might even pay you in terms of a build-out allowance and initial abated rent if you agree to sign a mid- to a long-term lease. Don't be scared to simply walk away if your negotiating doesn't come up with a figure that fits your budget. The goal here is to get yourself into a dental practice building you can succeed financially in.

Not Determining Actual Costs

The way to avoid this is to start getting realistic about the actual costs of building your dental practice during the start of the design phase. You'll want to have a number that aligns with the expectations of your practice and that's realistic. Prior to signing for loan approval or speaking with a contractor, it's important you talk with an experienced dental practice design expert. They can help you get clarity about your goals and show you projects they've completed in the past that are close to the same design you're looking for as well as the costs they come in at. They'll likely ask you several questions about your vision, like:

- What's your time frame?

- Do you want a dental equipment supplier or custom cabinetry to provide the cabinets in your sterilization area, operatory area, and lab area?

- What types of interior finish materials are you considering?

- What types of architectural features do you find ideal?

With these and other questions, they'll be able to come up with an estimated cost, provide an estimate for things that could sometimes be afterthoughts but would still add a substantial expense to your projects, like equipment, furniture, signage, and window treatments and cover unexpected costs.

After you are presented with and agree on the figure, you can then go ahead with bank funding and work on getting your construction and design drawings together. It's only at this point after you have your drawings, you should receive the contractor's construction costs. This way, the contractor won't be guessing, as they will know exactly what you're looking for and they will give you some real numbers to work with. You can then make the decision of whether or not to proceed with construction or start cutting costs with the designer who could tell you the areas you can cut and maintain the design's integrity prior to construction starting. By doing this prior to engaging in a construction contract, you can avoid unexpected costs and change orders down the road.

Not Setting Up a Budget nor Staying on Budget

Things to consider are:

- Is the equipment high-quality? Do you require this certain piece of equipment?

- Is the equipment comfortable for the staff members and patients?

- Will the equipment help attract new patients?

Dental start-ups can range between $350,000 to $500,000. This will include things like:

- Your construction costs
- Your landlord allowance
- Dental and office supplies
- Office software and hardware
- Equipment needs
- Working capital (usually around $75,000 for supporting costs while you're seeing new patients and waiting on insurance reimbursements)

Once you're approved by the lender and you begin the project, it's important you finish the project inside your budget. You might want to apply for more than what you're estimating which can help with any unforeseen overruns that could occur during the build-up stage. Lenders might allow for a small overage, but a 10% or higher overrun of the original amount could cause the lender concern, so you'll want to do your best to stay on track.

Not Factoring in HIPAA and ADA Compliance and Zoning Laws When Building

This can occur when you:

- Don't perform a soil and hazardous substance test on the property.
- Don't negotiate a tenant improvement allowance when renting.

- Don't factor in enough parking, since healthcare buildings must provide more parking areas than traditional businesses.

- Don't understand zoning requirements which could cause setbacks that could affect your curb appeal.

- Don't do an accurate soil test since the site could have been used previously for dumping hazardous waste or could have a high water table.

- Don't look into laws on zoning and how it may affect your signage or advertising space.

- Don't factor in accessibility and visibility when considering your marketing approach and location.

- While there are a few means on how you can achieve HIPAA compliance, a lot of practitioners overlook these crucial measures when they plan private communication areas. Among the methods are: division of "public" areas from "private" areas which space (extended distance between public and private areas); division of "public" areas from "private" areas by barrier (door, partition, glazing); masking or distortion of communications ("white noise" introduction, i.e. music, moving water, sound machine); maximization of acoustical surfaces (ceiling tiles, wall coverings, carpet). HIPAA regulations might not be enforced proactively. But, there could be a complaint likely in financial penalties, along with intimidating accommodations after the fact.

- Don't make ADA improvements, such as handicapped parking, installing an elevator or ramps, and widening halls and doorways.

Contact Dental & Medical Counsel Today

Building or updating a dental practice can be a complex but rewarding endeavor. Therefore, we advise you to work with a dental-specific attorney who has experience in working with dentists on their startups.

Our dental attorneys specialize in dental startups and have the right background and experience to help you navigate the process and avoid any potential pitfalls that may occur. To learn more about how we can help you, call Dental & Medical Counsel at 925-999-8200, or contact us via our contact form to receive more information.

Do you have questions regarding your startup?

Dental & Medical Counsel was built with doctors in mind. We understand that you already have a busy professional life full of stress, heavy workload, and constant liability. Let us help you reduce your stress levels, improve your work/life balance, and reduce your worries and concerns with legal matters.

Additionally, our comprehensive and unique approach enables the most entrepreneurial dentists, veterinarians, optometrists, and physicians to achieve their personal and business goals as they create massive wealth through smart strategies with the peace of mind of knowing that their practices are compliant with all federal and state laws.

Regards,

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