



# Essential Steps to Starting Up Your Dental Practice



Starting a dental practice is an exciting endeavor for any dentist, but trials and tribulations are a normal part of the process and should be expected along the journey. Opening the doors of your own dental practice can be quite a challenge; therefore, it is important to have the right professionals on your side to ensure the process moves as smoothly as possible. In our experience, we have found that following these best practices will set the foundation for a successful start-up.

## 1. Conduct Thorough Market Research

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Before diving into the venture, conduct thorough market research to understand the demand for dental services in your area. Identify the demographics of your potential

clients, the existing competition, and any gaps in service that your practice could fill. This step is crucial for tailoring your services to meet the specific needs of your community.

## 2. Develop an Airtight Business Plan

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Creating a business plan is a crucial first step in establishing your dental practice. A business plan is your road map to success, and the framework for opening your practice. The more meticulously you plan your business, the easier it will be to create a practice that can realistically operate and meet your intended goals.

A good business plan will contain the following:

- A timeline that includes important milestones and a proposed deadline for each. For example, on what date would you like to open your practice to the public? By when will you need to obtain necessary insurance coverage?
- Key steps broken up into tasks. For example, what actions must be taken to determine if a location is suitable

for your practice? What needs to be accomplished before you can sign off on a lease agreement, including drafting the letter of intent, reviewing the proposed lease, and negotiating favorable terms?

- Detailed information concerning the type of practice you seek to run and the range of services you want to offer. Your business plan should ideally include information regarding the practice's structure, staffing requirements, and funding needs and sources.
- Financial forecasts and business projections based on market research. Forecasting will help you judge your practice's potential and the range of revenue you should expect to earn as the practice launches.

## 3. Obtain Financing

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The overall debt that a dentist will incur when starting a practice is significant. That said, you should ensure that your personal credit is in good standing before applying for a loan. A lender is more likely to approve a loan if you can demonstrate good credit, and a strong business plan and growth strategy. If you have good credit and a solid team of advisors, a dental lending specialist

(as opposed to a regular commercial bank) may finance the entire start-up cost of your new practice. A dental specialty lender may even provide additional working capital.

Most lenders will require a personal guarantee of the loan. This means that if your practice defaults on its obligations to the lender, you will be

personally responsible for the unpaid balance of the loan. The lender may also offer favorable payment options. Interest rates for these types of loans may be higher than from a regular commercial bank; however, specialty lenders will lend money for a start-up

when other banks will not. Ask your lender about graduated payments, where a smaller monthly payment is due in the early years of the loan, with small increases over time as you develop your practice.

## 4. Choose a Business Entity and Register for Taxes

Before starting the practice, you must create a legal business entity, such as a corporation or a limited liability company. Choosing the right entity will help you avoid personal liability for business-related claims by vendors, creditors, employees, and others, or even personal injury claims, such as a slip and fall accident. The formation of any business entity and any subsequent tax elections (such as an s-corp election) will present different legal and tax consequences, depending upon the type of entity selected, or tax election made.

Each business entity and tax election has different advantages and disadvantages.

Although dental practices today are generally organized as either a professional service corporation or a professional limited liability company, you should consult with an attorney and tax advisor to decide which entity type is best for you. Furthermore, you will also need to register the business for a variety of state and federal taxes and receive a tax ID called an Employer Identification Number (“EIN”) before you can begin operations.

## 5. Find a Location

The location in which your practice operates is a pivotal component of practice success. One effective way to find a suitable location is by affiliating yourself with an experienced commercial real estate broker with expertise in dental practices. When searching for your broker, be sure to ask how much work they do in placing dental practices, how many potential dental locations they have as a listing agent, and their familiarity with local zoning requirements. This is

important because one of the first legal issues you may confront is whether the local building and zoning ordinances permit the use that you are intending. Therefore, you will want to identify the “zone” where the site is located and review the zoning requirements and prohibitions that apply. Even if a particular use is permitted in the zone, there could be issues, such as parking requirements that must be satisfied, or may require you to seek a variance from the municipality.

## 6. Begin Contractual Negotiations with a Letter of Intent

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Whether you are buying or leasing real estate for your practice, business transactions can be complicated and time-consuming. Rather than incurring the expense of negotiating and drafting a contract for a proposed lease or purchase, consider starting by entering into a letter of intent (“LOI”) with the other party. A LOI is a document (it can even be a letter from one party to the other, signed, or initialed by the receiving party) outlining the preliminary agreements and understandings between the parties to a transaction. The LOI is not, nor should it be, a legally binding contract except for an exclusivity

provision which restricts the owner/landlord from negotiating with any other party for a short period of time while a formal contract is negotiated with the buyer/tenant. The LOI should describe the essential business terms of the deal, including timing, monetary terms, financing, deal contingencies, risk allocation, and which party will prepare the required documentation. The LOI allows the parties involved to avoid investing greater time, energy, and money in negotiating a deal and preparing contracts if the parties cannot even agree on the most basic terms.

## 7. Negotiate and Enter into a Lease

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With financing lined up, a location selected, and an LOI drafted which covers the salient terms to lease your space, you are ready to negotiate the lease agreement. The commercial lease for your practice may be the largest financial obligation you will undertake. Before determining the provisions that you need, you should work with an attorney to first understand the different types of lease agreements that are available, including a gross lease and a net lease.

A Gross Lease is a lease with a set rental obligation each month. The landlord is responsible for paying all expenses for the operation of the building, including but not limited to, taxes, insurance, upkeep, repairs, replacements, cleaning, and landscaping. In exchange for the useful enjoyment of the premises, the tenant pays a set amount of rent each month.

A Net Lease is a lease with a set base rent per month, plus an additional rent to cover specific costs for the operation of the premises. You may have heard the terms “single net,” “double net,” or “triple net” to describe these types of leases. A single net lease is where the tenant pays a monthly base rent, as well as its share of the taxes for the premises. A double net lease is where the tenant pays a monthly base rent, as well as its share of the premises taxes and insurance. With a triple net lease, the tenant pays a monthly base rent, its share of the premises taxes and insurance, as well as the operating and/or maintenance costs of the premises. In this type of lease, maintenance costs such as snow removal, cleaning, and HVAC repairs are paid by the tenant.

It is important to remember that as a commercial tenant, you do not have the same statutory rights as

you might have in connection with a residential property. This means that the lease agreement only contains the rights that a tenant has contractually

negotiated with the landlord. Thus, if the lease does not specifically contain a provision in writing, then it is not so under the lease.

## 8. Build Out Your Practice

With a favorable commercial lease in place, your next step will be to retain an architect and/or designer and create your new practice design. You will want to retain an architect experienced in designing and building out dental practices. Your architect should work closely with the equipment supplier in creating the design. Many suppliers will have professionals on staff who can create the layout and design of the facility.

Once you have created your design and selected your equipment you will need to retain a contractor to complete the construction and build out the facility. It is critical that the contractor have experience in building dental practices and you should seek multiple references. In many cases, the equipment supplier can also make recommendations. You should seek multiple bids to confirm the price and the timing of the construction schedule.

Remember, stick to what you do best, and do not try to be your own contractor. Instead, get a stipulated

price agreement based on the architect's plans and specifications. In addition to getting references, you should visit practices previously built out by the contractor and confirm they are fully insured for both liability and workers' compensation.

Once you select your contractor, your contract should be for a set price and include all necessary aspects of the project from receipt of permits, through issuance of a certificate of occupancy, and total completion. Payment under the contract should be linked to completion of various phases of the project and not based on time. Avoid a contract where the fees associated with milestones are too front-loaded; there should always be a large enough amount of money held until completion to incentivize the contractor to complete the work. You may want to consider penalties to the contractor or discounts if they run significantly behind their construction schedule. Lastly, you should consult with an attorney before signing any contracts.

## Conclusion

Starting a dental practice requires a combination of passion, business acumen, and dedication. By following these essential steps with the

guidance of your experienced team of professionals, you can lay a solid foundation for a successful and sustainable dental practice.

# Assemble your team

It takes an entire team of dental industry professionals to ensure the success and growth of a dental practice no matter where you are in your professional journey. Each advisor serves a unique role in providing proper guidance to dental professionals as they navigate the successes and challenges of practice ownership.

There are six essential roles every dentist and dental specialist should consider when building an advisory team:

- **Accountant** – Understands dental practice economics and ensures accurate financials, tax planning, and practice valuations.
- **Practice Consultant** – Offers operational insight to reduce costs, improve efficiency and growth, and strengthen overall business operations.
- **Attorney** – Protects your interests by providing advocacy and legal guidance on contracts, compliance, risk management, and transition planning.
- **Financial Advisor** – Helps structure personal and practice finances for long-term stability by offering guidance on investments, retirement planning, taxes, etc.
- **Specialty Lender** – Evaluates practice cash flow and growth potential and can often offer one hundred percent financing and working capital in a dental acquisition.
- **Broker** - Assists in valuing and marketing a practice, finding opportunities to acquire and grow, and serves as a resource in helping parties reach a fair deal.

It is crucial that each of these professionals have experience working specifically with dental and dental specialty practices. Often, one trusted advisor will recommend other qualified professionals to help you complete your team.

**Taking the time to build this team will provide you with the advice and perspective needed to make informed decisions throughout your career.**

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