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# Life with an invisible dental support organization partner

Chip Fichtner

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**IN A RECENT ARTICLE** ("'Invisible' DSOs: Friend or foe?"; July 2019 *Dental Economics*), I outlined the traits of invisible dental support organizations (IDSOs) and described them as great silent partners for certain doctors. Thousands of dental practices across the country—ones of all specialties—have quietly partnered with hundreds of IDSOs. Some of these practices are probably near you. Ultimately, you will either partner with an IDSO or compete with many. Like it or not, unless you are in a remote area, IDSOs are coming to a street corner near you. You might not even know it when they arrive.

Creating strategies to compete with IDSOs is a job for the many great practice consultants. However, IDSOs have resources, knowledge, and marketing that no independent doctor can match. Regardless, once doctors of all ages and specialties understand the potential value of selling *part* of a practice to an IDSO for cash up front now, and then staying for the long term to continue growing the practice with the partner's support, they become interested in learning more about IDSOs.

In my work with IDSOs and dentists, the number one question we answer from prospective doctor clients is this: "What is life like after the transaction?" Indeed, these doctors realize that the millions of dollars up front are enticing. But if a doctor is to continue to run a practice with his or her name on the door, what is it *really* like with an IDSO partner?"

In every partner practice, the IDSO business model is built on the foundation of the doctor-owner. The reason is not only regulatory, but more importantly, doctor-owners are proven managers. As an owner, the doctor has an incentive to continue performing as in the past—or better.

When doctors remain owners in their practices, they maintain owner mentalities. They have a direct incentive to "watch the pennies." With retained ownership, typically from 10% to 40%, doctors are motivated to continue to grow their practices and operate them efficiently. Doctors are paid for their production, receive a percentage of the practice profits (paid quarterly), and/or have ownership in the IDSO group. As a bonus, they also have a guaranteed exit process when they are ready to retire—be it five, 10, or 20 years down the road. The upside in acquiring equity in an IDSO can also be extraordinary.

For IDSOs, there are multiple benefits to partnering with doctor-owners. First and foremost, it eliminates turnover. Owners don't leave. Second, doctor-owners do not have to be managed in the way employee doctors do. Doctor-owners are self-motivated to grow their practices and operate them efficiently.

IDSOs are selective, investing only in great, well-managed practices with doctors who will continue to run their practices as they have in the past. IDSO partners provide input, certainly, along with suggestions and broad resources. But in most cases, IDSOs provide all the support that doctors *ask* for, while never forcing doctors to change how they manage their successful practices.

IDSO doctors do not have production quotas. Typically, doctors can purchase whatever brands of supplies they prefer (and at less expense, thanks to their partners' sources). Doctors manage and compensate team members as they see fit. This includes making hiring and firing decisions, adding associates, purchasing equipment, determining operating hours, and deciding what payers to accept. The goal of the IDSO is to operate as a partnership, not as a dictatorship.

Major decisions on strategy, direction, and large capital expenditures are made collaboratively with IDSO partners. Typically, a multiyear growth plan is developed *prior* to a transaction. IDSOs seek to provide their partner doctors with competitive weapons and ammunition to accelerate practice growth and profitability. The last thing IDSOs desire is to ruin what they just spent millions of dollars buying.

Practices partnering with IDSOs are not "broken," and IDSOs are not trying to fix practices or make them conform to corporate models. Each IDSO practice remains different; the goal is not to homogenize them. Doctor-owners retain their local brands and proven teams.

Occasionally, prospective clients tell us horror stories of friends who sold 100% to dental support organizations (DSOs), with the new DSO owner dictating every last detail in the practice. There are even rumors of doctors who were fired when they resisted their DSOs. When asked about which DSOs this happens under and which advisors assisted, we inevitably hear that these doctors advised themselves, and that the doctors sold 100% to corporate DSOs that rebranded the practices.

Now, I am not a dentist and would not do a root canal on myself. Similarly, dentists are not investment bankers. Therefore, a doctor should only enter into a transaction with the assistance of an experienced advisor. The advisor ensures a properly structured relationship is created with the right buyer for the goals of the doctor.

If you are one of these dentists, ask who your advisor works for. Does he or she represent the buyer or the doctor? Is the advisor paid by the buyer or the seller, or both? It is tough to achieve blockbuster values when you are negotiating for both sides of a transaction.

## WHY YOUNG DOCTORS ARE JOINING INVISIBLE DSOS

Surprisingly, a number of our clients are in their early 40s and decades away from retirement. Their reasons for considering IDSO partners are different from doctors in their 50s and 60s, who may view an IDSO as a retirement strategy, which it can be. These younger doctors view the resources of IDSO partners as a powerful and risk-free way to build more successful practices. It is also a very long-term retirement strategy, as they are securing built-in buyers.

Virtually all IDSOs are eager to provide a doctor-owner partner with 100% of the capital necessary to grow his or her practice via internal initiatives, new offices, or acquisitions of complementary or competitive practices. A doctor who retains an ownership interest in a practice can use a partner IDSO's capital and support to grow far faster with zero risk and a potentially huge upside.

Growth-oriented doctors understand that their retained practice interest (up to 40%, typically) can be worth far more in five or 10 years after executing a fully funded growth plan than their 100% ownership today. While cash in the bank now is attractive, the real upside comes with having a deep-pocketed partner whose primary goal is to help doctors build practices that are bigger, faster, and less expensive—all with no personal risk to the doctor.

## WHY YOU WOULD NOT PARTNER WITH AN IDSO

Partnership is not for every doctor. Some practices are too small to achieve an attractive value, and many enjoy their practice kingdom and do not want to share. As with any partnership, be it with a doctor or an enterprise, major decisions are made collaboratively and not in a vacuum. This is a plus for some doctors and for others a minus.

Some doctors respond to our estimates of their practice value by pointing out that if they just worked another seven or so years, they could make the same amount of money. They are right . . . *maybe*. They must assume tax rates on the income are equal, whereas most of the cash in these transactions is typically taxed as long-term capital gains, not ordinary income. They will need the US economy to continue growing (no recessions allowed). The doctor cannot have any accidents or health risks, and no major political or weather events can affect the area. No new competitors can buy their referral sources, nor can competitors open new offices. There is a myriad of other risks in a rapidly consolidating and changing business that we can't even imagine.

For my money, risk mitigation is a prime consideration. Cash in the bank and a wealthy partner with very smart people to help me weather storms and grow faster is attractive—if I can find the right partner. DE

**CHIP FICHTNER** is the founder of Large Practice Sales, which specializes in invisible DSO transactions for large practices of all specialties. The company has completed more than $100 million in transactions in the last six months. Learn more at largepracticesales.com.

To schedule a no-obligation call to learn the value of your practice to an IDSO, email ReprintDEC@LargePracticeSales.com or call 855-533-4689. Visit InvisibleDSO.com to learn more.

## CHANGES WITH AN INVISIBLE DSO

Ultimately, some things will change with an IDSO partner. Each IDSO is different, but the following items are virtually certain to change:

- Your new partner will manage your banking and payroll.
- Better employee benefits will be provided by the larger IDSO group at a lower cost.
- Supply costs will decrease.
- Payer contracts will be renegotiated to increase your reimbursement rates.
- You will sleep better at night with cash in the bank and zero practice debt.