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Understanding and Profiting From the Dental Practice Consolidation Boom

An estimated $100 billion will be invested in dental support organizations (DSOs) in 2021 as they accelerate their partnerships with dentists in all 50 states. This is up from "only" $10 billion in 2016. Doctors can benefit from this rapidly changing dental environment by quietly partnering with an invisible DSO (IDSO). Alternatively, they may need to prepare to battle against well-armed combatants who are entering their markets by teaming up with their competitors. The doctor down the street may be part of an IDSO, and you would not know it.

In a typical transaction, an IDSO purchases from 51% to 90% of a practice for cash up front, and the doctor retains ownership of the balance either at the practice or the parent level or a combination of both. Doctors continue to lead their practice with their brand, team, and strategy for years or decades. The goal of the IDSO is for the practice to benefit from the resources of the larger partner to grow bigger, faster, and more profitably. This is not a short-term transition strategy, but rather a long-term, wealth-building partnership. In the past decade, many doctors have achieved returns on their retained ownership of two, five, and even 20 times their investment.

Doctors choose to partner with an IDSO for many different reasons. Some are interested in reducing administrative burdens, while others may want to achieve synergies with other practices within the IDSO group. Each IDSO differs with regard to the benefits it can provide to a partner practice, but some of the common support features include: fewer management burdens, greater recruiting assets, lower benefits costs for team members, higher reimbursement rates from payers, enhanced marketing, and reduced supply costs, to name just a few.

Doctors are urged to interview multiple prospective IDSO partners to fully understand their options and choose the group that best fits the doctor's goals. All IDSOs are built on the bedrock philosophy that practices led by owners will perform better than those with employee doctors. Thus, each IDSO will create a path to long-term ownership for each doctor in the practice. Ownership may be at the practice level, the parent level, or both.

The consolidation of dental practices across the United States is accelerating rapidly,1 with new DSOs being formed every week. It has been suggested that less than 20% of all US dental practices are now affiliated with a DSO or IDSO, but thousands of practices in the United States will have joined a DSO of some type in 2021. The landscape is changing briskly, and partnering with an IDSO can be an offensive move as well as a defensive play

Doctors should fully understand the potential value of their practice to an IDSO in today's exceptionally active market. Not all practices will qualify to achieve record values, but transactions are being completed regularly at 200% to more than 400% of collections values at the time of this writing. How inevitable tax increases will affect this market is as yet unknown, but doctors can contact an advisor to help them find out the value of their practice.

The Dental Trifecta

Some IDSOs focus solely on so-called "dental trifectas," a strategy aimed at increasing the values of pediatric, orthodontic, and oral and maxillofacial practices. When an IDSO purchases successful practices in these three specialties in a geographic area, increased rapid internal growth can result due to the dedicated referral relationships among practices in the same group.

Doctors benefit from a dental trifecta by achieving a higher initial practice value in a transaction and gaining captive referral sources from other practices within the regional group. Additionally, dental trifectas can achieve higher exit values due to their unique internal growth rates.

About the Author
Chip Fichtner
Founder, Large Practice Sales (largepracticesales.com), which specializes in invisible DSO transactions for large practices of all specialties