

Dentistry and DSOs

July 29, 2019

We have been getting a lot of questions from clients who have received offers from Dental Service Organizations (DSO) to sell their practices; or they have heard from colleagues who “made a killing” and still work in their practice.

Now for the facts. Usually, when we hear about something that is too good to be true; it’s not true.

The business model for DSOs is pretty straightforward and there’s nothing evil about it; you just need to know how they make their money.

They purchase practices that are anxious to sell. Mostly from doctors who are feeling burned out and wanting to slow down...not quit. They offer extremely attractive multiples for the practice; often 80-90% of collections.

You know from my previous letters that practices are not valued in this ratio manner. This is the broker method. DSOs use the ratio as a commonly understood approach to value and they know that the doctor’s eyes will get big! They don’t care about paying a few dollars more for some practices. They buy the practice in the same way that hedge funds do and then strip out as much of the overhead as possible. This means the team goes, so do the labs and supplies that you use. They maximize profits and do this hundreds of times. It is an extremely profitable business model. It is the Walmart of dentistry; NOT Tiffany’s

The doctors are assured that they can work in the practice; sometimes there is even a little profit bonus. The problem is that the doctor has an employment agreement and it cannot be enforced against the DSO. They can be fired and there is very little they can do about it. They also can’t compete with their old practice and if they want to practice dentistry, they are moving a long way away and starting over.

This scenario may not be the end of the world, if the doctor is old enough that he/she doesn’t want to practice again.

The *tragedy* is that there are doctors in their fifties and even forties, who are getting duped into this. These same doctors could be doing a well-designed transition and, not only, maintain the value of their practice; but increase the value dramatically and reduce their clinical time.

This is why I advise clients to only consider these opportunities when they are ready to be completely done with dentistry and won’t have any seller’s remorse.

There IS a silver lining to this story. Corporate dentistry is a great place for young, recent graduates to spend some salary-paid time to learn some dentistry. These folks become wonderful candidates for your transition after they have been in corporate dentistry for a few years. They are usually sick of that kind of dentistry and they didn't go to dental school to be career associates. They want to be owners. Think of corporate dentistry as the "farm system" for private practices. Everyone in the minors dreams of getting to "the show"

Just don't view these organizations as a panacea for your lucrative retirement. I have heard too many sad stories of doctors who were lured into this model.