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Dentistry is a Business

January 2008

It seems that a week does not pass by without a call from someone trying get into the dental business. Many of the calls come from “businessmen” who have somehow decided to get into the lucrative world of providing clinical dentistry. Some come from dentists who have retired or are on disability; and others from dentists who have recently graduated from dental school. They all seem to think that merely owning a dental office is inherently profitable.

Depending on location, ownership of professional practices is regulated by state laws. In many states, dental practices can be legally owned only by a licensed dentist. Even though they are regulated by state laws, the dental practice acts in some states are being circumvented by manipulation of ownership records. While those acts were intended to provide some semblance of accountability for patient services, the proliferation of the multiple practice entities seems to indicate that some states are less interested in that accountability than could be reasonably assumed by the laws.

Investors often dissect a profitable business to discover scalability. After all, replicating the process and increasing the capability should take advantage of efficiencies that a single operation could not exploit, such as a discount on materials and supplies. However, even with some cost savings, how much money can really be ‘saved’ by increased volume buying power? With clinical supplies costing an average of 4%-6%, and office supplies costing about 1.5% to 2%, what is really left to cut? Staff salaries don’t change with new ownership and therefore only the salary of the producing dentists and hygienists can be manipulated to create any real profit after expenses. After all expenses, the practice owner expects a ‘reasonable’ profit.

The reality is, a dentist can only be in one office at any one time and truly provide dental services to patients. It is certainly within the dentist’s ability to have multiple offices as long as that dentist is willing to split his or her time between the locations. An alternative is to hire, train and support associates. While there may be some advantage of a very few economies of scale, the financial downside is potentially disastrous. Multiple offices means hiring more staff, duplicate facility costs, and increased managerial duties. If a single doctor is splitting the time between practices, how can this be done efficiently?

Another way to scale the practice is to exploit efficiencies by increasing the size of the physical plant, creating more operatories. Associate dentists can be hired to treat patients under the umbrella of the owner’s company. It might seem like a logical extension of the solo practice that as the use of the physical plant is increased, the profitability of the new expanded office would be exponentially more profitable just by adding more associates. Hiring associates, though, adds dimensions of patient care responsibility and liability.

As the physical plant size increases, the cost of acquisition, equipping and operating the facility also increases. Staff must increase to support the additional producers. Advertising costs also increase to attract the volume of new patients for the expanded professional staff.

Most businesses sell products. More sales associates to serve more customers should increase sales and therefore profits. Dentistry though, is a service that depends on either a dentist or hygienist to provide billable services. Dentists are typically paid on a percentage basis and that is usually in the 30%-50% range, depending on experience and specialty training. Hygienists are typically paid \$25 - \$35 per hour or on commission at 28% to 33%, if not more. With total overhead expenses in most offices from 60% to 75%, paying additional producers can leave little or nothing after all expenses. Of course, if the compensation of those providers can be reduced, net income can be increased. Associates, though, did not generally go to dental school to work for someone else and they often leave after realizing that they can make more money working for someone else or themselves.

In a true evaluation of an office, there is usually only about 10% to 15% left for the owner after attempting to exploit any type of practice “efficiency”. While that may be considered to be generous, the hard numbers show \$1,000,000 of production would

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yield approximately \$100,000-\$150,000 in net income. Contrast that to \$1,000,000 in the solo office, yielding approximately \$450,000 to \$500,000 and the inefficiency comes clearer. Ultimately, unless there is a business model that can be utilized that will provide a patient flow to adequately support multiple doctors, the profitability of the expanded facility will not increase. If this happens, the "business" will obviously fail the scalability ideals and prove unprofitable for the owner.

As more dentists reach retirement age within the next decade, they will look to new graduates to transition their practices. New graduates are bringing a new dynamic to our profession though. Many are not willing to take the responsibility of full time practice. Many feel that their school debt and credit card debt will not allow them to assume new debt to acquire a practice. Many are more interested in only working part time. Whatever the reason, rural practices already feel the pressure of trying to replace practitioners and this trend has no apparent end in sight. As dentists reach retirement, they may be willing to sell their practice to anyone just to get out. The new "businessmen" may have acquired a professional workforce that is willing to work even at a reduced income just to have a job unless the prevailing state laws are more effectively enforced.

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