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'Invisible' DSOs: Friend or foe?

Chip Fichtner

THE FASTEST GROWING dental support organizations (DSOs) own thousands of practices across the country and are the DSOs you haven't even heard of . . . yet. These are the "invisible" DSOs. You need to understand the strategies of these organizations and how they impact your practice today and in the future. You cannot brush them off as "corporate dentistry" bad guys, because they operate under a local doctor's brand. You need to choose either to partner with them and become a friend or compete with them as a powerful foe.

Invisible DSOs acquire interests in general and specialty practices that then retain their local brand and local doctor management. The doctors gain access to the capital and support of a large organization as silent partners. An invisible DSO may control the practice down the street from you and you would never know it. These practices can out-market you, purchase supplies at 30% less than you do, hire your best team members and offer them better benefits, leverage their relationships with payors, and offer the bright future of practice ownership to associates you may want to hire.

These companies are not amateurs or new players. Some of them own hundreds of practices and have been silently eating their competitors' lunches for 20-plus years. Their secret weapon is to use their local partner's brand and support it with professional management and tools your practice can't match. Their doctors have access to the latest research and new products before you do.

BECOME A FRIEND?

Invisible DSOs enter a market by purchasing 60% to 90% of a practice in a target area. The doctor secures his or her financial future

with cash up front and retains ownership in the practice to benefit from future growth. This is powered by the silent partner's capital and support.

Most invisible DSO partners operate in the background. Their goal is to invest in great doctors, and only the doctor and team know of the DSO's involvement. Different invisible DSOs invest in different types of practices. Their first entrance into a community is typically with a large practice and a doctor who is eager for rapid growth. These practice values can be extraordinary. Several transactions in the last six months have achieved well over three times collections.

The doctor continues to manage the practice under his or her brand and benefits as a partial owner of the practice, often with quarterly profit distributions. The doctor is paid for practicing either via salary or a percentage of production and collections.

When the doctor is ready to reduce hours or retire, the DSO has a built-in buyer for the retained interest at a high value due to the practice growth. This is typically five or more years down the road. Our company has completed transactions for doctors as young as 38 who felt their retained interest would be more valuable due to the partner's support. Every invisible DSO transaction is structured to meet the doctor's personal goals.

OR CHOOSE TO COMPETE

The challenge of competing with an invisible DSO is that these practices are not the corporate-branded chains. An invisible DSO may be the "wizard behind the curtain" of the doctor down the street. The difference is that the doctor is armed with the buying power, marketing resources, and better employee benefits offered by the chains. Most importantly, they have access to virtually unlimited capital and people who help the doctor attract more new patients, reduce costs, and execute growth plans. As a practice owner, you need to develop a plan to combat this.

THE EFFECT OF INVISIBLE DSOs ON REFERRAL PATTERNS

Imagine you are an orthodontist who receives referrals from a neighboring GP. Now, picture what could happen if the referring GP partners with an invisible DSO and starts referring patients to the orthodontist who is backed by the same invisible DSO. This occurs across all referral networks in all specialties and is a key piece of an invisible DSO strategy.

As a friend, you can benefit from new referral sources, but as a foe, you can lose new patients. We recently achieved a four-times collections value from an invisible DSO for an orthodontist. The invisible DSO had multiple pediatric practices that surrounded the orthodontist. They will now refer more than 1,000 cases per year to their new partner, referrals that were going to other doctors. This example is about a \$5 million shift in production in a small community.

CONSOLIDATION IS COMING

Depending on the statistics you read, almost

20% of US dental professionals now work for groups or DSOs, both branded and invisible. It is affecting most dentists across the nation and as the consolidation continues, it will affect your neighborhood if it has not already.

The race to consolidate is in high gear. Doctors who choose an invisible DSO partner early will achieve the highest values. You want to understand this option while you're growing and not after the invisible DSOs have come to your town. Shrinking practices are worth far less than growing ones.

Smart doctors will learn the value of their practices today and understand the landscape and future plans of DSOs of all types. This process is free and usually takes about a week. **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 over \$100 million of transactions in the last six months. Learn more at largepracticesales.com.

I had two offers directly from DSOs, then contacted LPS. They got me six bids, and miraculously, one of the first groups to approach me increased their offer by \$2,000,000!"

"LPS then handled the details of closing, and I can't imagine doing a deal without their help. They were FREE! I paid them nothing until the deal was closed."

-Dr. J.P., Southeast U.S.

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