# Consolidation: The 2016 dental buzzword

**By Chris Bentson, Partner, Bentson Clark & Copple**

In the business world, the term consolidation usually refers to mergers and acquisitions of smaller companies in a similar market to form a much larger company within that market. The motivation to consolidate similar businesses often revolves around the idea that a larger company can use resources more efficiently, brand and market to the consumer more effectively, leverage purchasing power and generally grow and become more profitable for the business owners by creating economies of scale.

For all the reasons mentioned, consolidation in dentistry is on the rise and accelerating at a very fast pace.

### Who are the consolidators?

The consolidators come in many shapes and forms. You may recognize some of the larger dental companies with names such as: Heartland Dental, Pacific Coast Dental, Aspen Dental and Smile Brands.

The combined number of locations served by these four companies grew from 1,065 in 2011 to 1,967 in 2015, an increase of 85 percent during this four-year period.

There are another 50 or so dental companies that can be identified by Internet search, with several focused solely on the specialty of orthodontics and several with a focus on the symbiotic relationships that can form between pediatric dentistry and the orthodontic specialty. Less transparent are a growing number of single doctor or smaller groups of doctors seeking to expand their footprint in a given drawing area by purchasing practices and forming multi-location enterprises.

Whatever the structure or size, the number of these dental companies is growing, and they have a common mission: to grow and expand the number of locations they serve.

### Who is working for these groups?

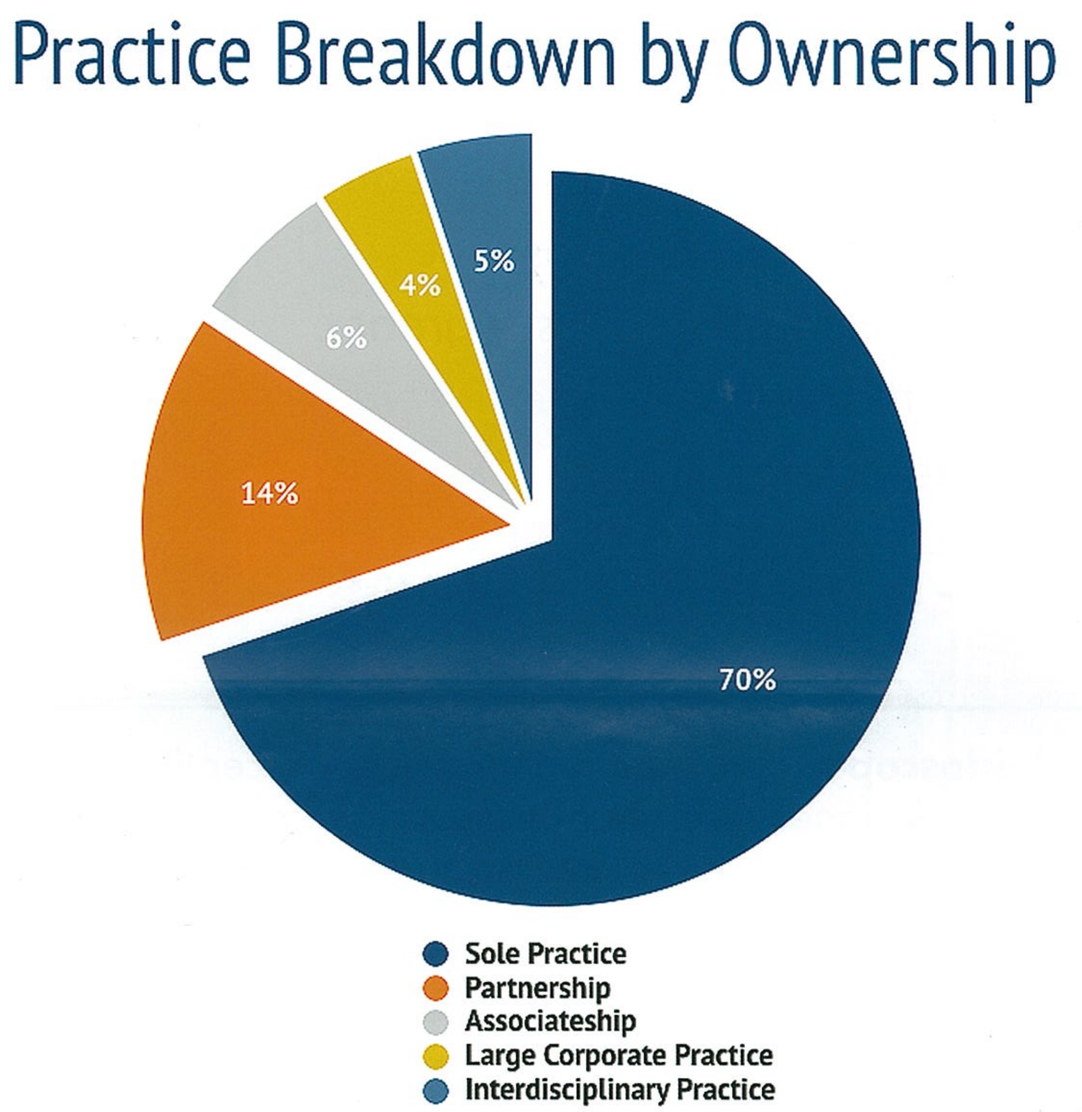
Today, approximately 363 orthodontic residents graduate from 67 orthodontic programs in the United States, about 20 percent more graduates than 20 years ago. Since the Great Recession, orthodontists have been working longer, with the AAO reporting the average retirement age at more than 70 years old.

The AAO's Practice Opportunities and Careers website, as of April 2016, listed 619 doctors seeking opportunities against 175 opportunities listed, a ratio of 3.5 seekers for each opportunity. Our observation is that there are multiple interested parties (buyers) for each opportunity available, especially in highly desirable geographic locations.

Simply stated, there is currently an excess of orthodontic labor that surpasses the number of opportunities available in the private market for associateships, partnerships or buy-outs.

Dental companies are not only attracting and soaking up this excess labor, but often offer a much higher rate of pay than their solo or small group counterparts. Young doctors with high student loan debt burdens are increasingly attracted to these opportunities. Bentson Clark & Copple's 2015 Annual Resident Survey reveals that 54 percent of the residents surveyed planned to work as an associate for either a corporate dental group or a solo or small group orthodontic practice, while only 29 percent expressed a desire to purchase a practice.

Further, dental companies can also offer older orthodontists the opportunity to sell his or her practice and then work back as an employee doctor for several, or many, years after the sale. This idea of simply diagnosing and treating cases rather than managing the operations of the practice is attractive to a subset of older orthodontist contemplating selling.




A breakdown of the 2013 AAO Economics of Orthodontics Analysis report that shows where orthodontists in the United States practice.
Illustration/Bentson Clark & Copple

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### How much penetration will dental companies make in the market?

The US Department of Labor reports there are 8,200 orthodontists practicing in the United States. According to the 2013 AAO Economics of Orthodontics Analysis, roughly 15 percent of those practitioners work as associates, either for another orthodontist, a general dentist or pediatric dentist or for a corporate dental group (See chart ).

The question of how large and how many associates end up working for larger dental corporations is unknown. However, what we do know and can safely predict is the number will increase over the next five years. Whether it slows down after that time is anyone's guess.

Dental consolidation is a fact and not fiction. It is increasing the opportunities for orthodontists who want to sell and continue working as employees. It is generally offering higher pay to younger doctors who are entering into associate positions.

The speed at which the market is consolidating and the money available to consolidators for practice acquisitions is growing too, often sourced by private equity investment firms. Opportunities are being created as a result. Not just the opportunity to join such a group but also the opportunity to differentiate one's practice and compete in the marketplace.

Keep an eye on what is happening in your drawing area as you make strategic decisions about your practice and its future.