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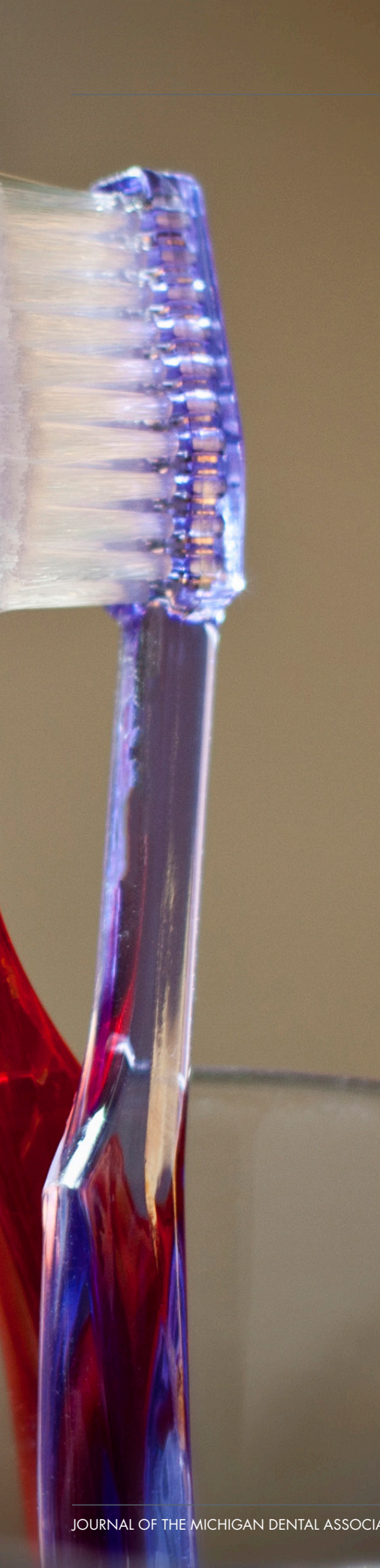
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Why We Chose to Partner in a Corporate Practice

By Michael Scialabba, DDS

How and why one very successful group practice chose to transfer ownership to a Dental Support Organization. This is a story that is repeating itself over and over again in today's dental marketplace.



Most doctors have a story about how they became a practice owner. Sometimes it's as simple as hanging a shingle, while other times, it involves buying out a partner or making an outright purchase. No matter the circumstance, each business has a birth, ramp, peak, and eventual transition that parallels the practitioner's story.

It's the natural law of evolution. Practice owners want to leave a legacy, even if that legacy lasts only a few years until a new owner instills their personality onto the practice. But today, because of new branding practices and the advancement of transition strategies, more doctors are writing a different story. New partners from dental support organizations are becoming experts in transitions, and while not for everyone, Dental Support Organizations (DSOs) offer real solutions to the ever-changing dental environment.

This is my story of how Great Hill Dental Partners, the dental group I led, joined a DSO, and the advice I'd give to others considering partnering with a DSO.

But before taking you on the Great Hill Dental Partners' DSO journey, I need to take you back to 2009 and our origins. We started primarily because of the enactment of the Affordable Care Act. Great Hill Dental Partners was initially part of Harvard Vanguard Medical Associates, a fully integrated, multi-specialty medical practice affiliated with Harvard University in Massachusetts. When the ACA passed, the leadership at Harvard Vanguard Medical Associates decided to consolidate and sell off its dental businesses to help create space for ancillary care models better supported by the new legislation.

A group of colleagues and I were convinced there was no better buyer for these dental businesses than its existing doctors. HVMA agreed and offered to sell to us with two conditions: We needed to relocate all five of our locations out of the existing space within one calendar year, and we needed to rebrand. With an agreed-upon purchase price and under these conditions, Great Hill Dental Partners was born. The initial incarnation consisted of 24 doctors and 135 employees across five locations, servicing patients at multi-specialty dental clinics. In 2010, Great Hill Dental Partners was formed, developing our version of a DSO, a Doctor-owned Dental Support Organization (DDSO).

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It didn't take long to get things moving. We hired a CFO and started raising money to build the needed five new locations within the year. The capital raise allowed us to narrow the partnership to 14 partners, while keeping all other providers as associates. We became expert in clinical operations, facility management, marketing, human resources, and compliance. We were a fully functional, doctor-owned DSO.

The growth of our newly formed Great Hill Dental Partners DSO was remarkable. This new venture created a sense of accountability, urgency, and responsibility among its stakeholders, a culture that never existed prior. Moreover, it created value, and lots of it:

- Value in patient-centered branding: Your Doctor, Your Health.

- Value marketing and practicing evidence-based dentistry focused on oral-systemic health links and risks.

- Value in terms of dollars in practice valuation.

- Value in terms of a greater sense of community as the practice became bigger than just the sole doctor's practice.

- Value in the sense of employee engagement and self-worth.

- Value in creating a culture that was bigger and more powerful than any one person.

From 2010 to 2017, more patients were achieving better oral health, and our employees were directly involved in making this a reality. We began using clinical metrics that payers used to measure predictive models of improved health outcomes. We worked with vertically integrated medical and dental insurance payers as well as organizations like the American Academy of Oral Systemic Health to focus on improving overall

health. We partnered with the Crown Council and Steve Anderson's Tops Institute to coach our employees on customer service. Great Hill Dental Partners doubled revenue and increased its new patients by expanding capacity through more chair-hours and improved availability.

It wasn't until several of our providers began thinking of decreasing their clinical workload and retiring that Great Hill Dental Partners' leadership realized we needed a transition strategy to take the organization

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through the next phase of its life cycle. We thought that this part might be easy. Great Hill Dental Partners had a strong reputation, several associates had already expressed interest in buying into the business over the years, and the phones were constantly ringing from other DSOs wanting to buy us. The momentum continued to increase as private equity came calling. However, when things seem too good to be true, they usually are. There is nothing easy in dentistry.

The wave of momentum

In 2013, I spoke at a panel at the Choate DSO Symposium in midtown

Manhattan, where I represented groups without a DSO affiliation. In my remarks, I said, "There's a wave of momentum right now. How long will it last? I don't know. But, at some point, if we learn from other industries and history, consolidation will be here, and you don't want to miss that wave or be crushed by it. So even though right now we're independent and solely doctor-owned, there may come a time when we need to partner with a DSO. Until then, I like our freedom."

Freedom was different for each of our owners. Some worried about clinical autonomy, others feared a loss of control with utilization of supplies, but the most-feared loss of freedom was of controlling one's own schedule and working when they wanted and how much they wanted. That fear, though, was a boogeyman, as we already held each other accountable for vacation hours and practice time at the chair.

Within four years, it was evident that Great Hill Dental Partners needed to develop a transition strategy. We weighed the pros and cons of remaining independent, and decided to take the plunge and sell to a competing DSO.

Were we afraid the wave would overtake us? Come crashing down? Whittle away? Sure, but it didn't. Not at that time and not today. The wave is much bigger today than it ever was, and we are better positioned for success.

Over the next four years, as Great Hill Dental Partners explored strategic options, we learned that there are no two DSOs alike (just like there are no two private practices that are the same). We learned that there is only so much you can do with your own two hands, and we knew that there is finite time in a day. I learned my partners wanted to grow the business, yet take a step back as they aged to reward themselves for their hard work over the years. It was my job as CEO to somehow make that happen.

What drives practitioners to DSOs

There are many variations of DSOs. Some are 100% doctor-owned, like Great Hill Dental Partners (the “DDSO” model). Others are backed by third-party investors, including private equity firms, family offices, local investment clubs, insurance companies, and health systems.

No matter the ownership or structure, a DSO is an organization that provides support to the doctors and practices it serves. Some do this through long-term evergreen agreements, where the entity that owns the practice pledges a contract to the DSO in exchange for services rendered, including HR, marketing, billing, education, compliance, and operations.

Many solo and small practices do not have the bandwidth to manage and grow their business and still practice clinically at high quality. HR and staffing demands continually eat up time, and increased labor and supply costs nibble away at the operating margins.

This is a reality that has amplified during the pandemic. Third-party payers squeeze benefits both in the reimbursements they pay and services they allow. And today, an owner also needs to be an expert in digital marketing, a technophile with 3D printing, imaging, and other technologies, and become expert in implementation of CDC, federal, and state guidance for providing a safe patient and work environment during pandemics! No wonder we are seeing droves of practices looking for a haven within bigger organizations that take the management burden off them.

But let’s say you are the unicorn, the owner who can do it all. How do you monetize your life-long work upon retirement? Perhaps you have a younger partner, or an associate interested in becoming an owner. Frequently, existing debt burden is an impediment, and educational debt

contributes to the current consolidation and growth of DSOs. There are not enough young providers who can afford to open a practice, purchase a practice, or buy out a partner.

Over the years, Great Hill Dental Partners had natural attrition, and in 2017 we had 11 providers who were equity holders. Despite having 16 associates interested in purchasing equity, each opportunity was hit with a snag. When we presented the buy-in opportunity, they found the cost was too high.

At the end of 2016, we had a handful of providers who wanted to exit from the organization and no way to buy them out due to the growth in valuation that became unaffordable to both associates and the existing ownership group. We had to pick our best path forward.

How to evaluate a DSO

As all practices are not equal, neither are all DSOs. It’s essential to create objective measures when looking at and evaluating strategic options. While many organizations hire a professional broker or investment banker to help assess and market their practices, these professionals charge fees (sometimes exorbitant fees) that eat into their hard-earned equity. Further, some brokers provide little value, steering sales to established relationships or providing little support in diligence, process, or negotiation.

Most transitions can be done internally by utilizing existing accountants and hiring a reasonable attorney who has dental transition experience. Most importantly, the practice just needs competent advisers whom they can trust. Due to the size and complexity of our group, with multiple owners having different goals and objectives, Great Hill Dental Partners used a broker with investment banker experience. The broker helped organize our process.

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Which criteria should be used to differentiate the DSO? While you may think the monetary “valuation” is the No. 1 driver for all decision-making processes, we found culture and fit are most important.

Valuations may seem very straightforward and mathematical, but it's more art than science. Metrics like EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) and EBITDA market multiples are measurable but easily manipulated and highly variable. EBITDA can and will be adjusted based on certain assumptions pre- and post-close. A DSO, or any purchaser during a transition, will assess EBITDA based on past accounting practices and business environment. Are there non-recurring charges? Are personal expenses being run through the practice? Will the staff stay?

Even the transaction structure can affect the adjusted EBITDA, such as how clinicians are paid and whether the DSO includes overhead, real estate, and operating costs at the prac-

tice level. Multiples, too, are highly variable and are dependent on practice size, competitive landscape, operational and organizational risks, growth prospects, leverage, and geography, to name a few. DSOs may also use proprietary metrics. Internal rates of return on invested capital, discounted cash flows, or return on investments or assets may all be DSO-specific. The seller's time horizon also can influence valuation. Waiting too long and selling on a downward trend for the practice growth can devalue the practice valuation, so selling at or before reaching the peak with a longer horizon can bring stability to any transition, as it could have you as a lead provider being a steward of change.

For Great Hill Dental Partners, it was important to ask how a potential DSO partner supports our clinical care. Here are some questions we asked:

- Does the DSO measure outcomes using evidence-based clinical metrics?
- Is there a commitment to doctor leadership, a commitment to quality, and a commitment to safety?
- What is the commitment to its patients?
- How are employees viewed and valued?

■ How long are we expected to continue seeing patients?

■ What type of transition and mentorship opportunities are available?

We evaluated Great Hill Dental Partners' wants, needs, and desires to see if they matched the DSOs we considered. To demonstrate the importance of assessing cultural compatibility, allow me to make up a hypothetical DSO called Denture Smiles by Mike that supports denture care. Likely, it doesn't support services for children or provide many orthodontic services. But if the transitioning provider likes doing Invisalign, I doubt that Denture Smiles by Mike would be the right fit as a DSO affiliation.

Additionally, it's prudent to evaluate the infrastructure of the organization. What types of resources do they have? Do they have the expertise to guide the organization and influence your practice? Ask questions about how their management protocols and the expectations they have. Find out the background of the leadership team and speak with colleagues who chose earlier to join their practices with the DSO.

There are so many options out there. Determine if the organization under consideration has the knowledge and resources to implement best practices to assure success of the practice into the future. At first blush, an underfunded and under-resourced DSO may look appealing because they allow you to continue to manage your practice without much oversight — but when you need help, is it available? There are good DSOs and poorly run DSOs. The same goes for solo practices and small groups. You may only get one chance when selling or partnering your practice with a DSO. Spend the time and energy to make the best decision.

About the Author

Michael Scialabba, DDS, is the chief clinical officer for 42 North Dental, the leading dental service organization in New England. In that role, Dr. Scialabba oversees more than 330 dentists and specialists, operating with 110 locations and 37 brands across nine states. Dr. Scialabba is chair of the state of Massachusetts Board of Registration in Dentistry, a member of the Commission of Dental Competency Assessment, and a board examiner for ADEX (American Board of Dental Examiners). He continues to practice at Great Hill Dental Partners in Peabody, Massachusetts, where he has cared for his patients for the past 15 years.

Scialabba is an active member of numerous professional organizations, including the Association of Dental Support Organizations, the American Association of Oral Systemic Health, the Academy of General Dentistry, the American Dental Association, and the Massachusetts Dental Society.



Scialabba

Change: It's inevitable

All transitions bring change. Change comes in many forms, but be wary of any DSO that says nothing

will change. Banks, payroll systems, and clinical practice management software all change, and there is no way around that. The original owner becomes an employee, which is a tremendous change in and of itself. What shouldn't change is your ability to practice dentistry with autonomy. The clinician should make all treatment decisions.

Change can also be positive. Some DSOs help provide continuing education and are committed to improving the quality of care. I remember an office affiliating with our group where the lead doctor told me that his hygiene team takes care of the patients so well that no one in his practice has periodontal disease. I challenged that notion. Based on data from the CDC, ADA, and AAP, we know approximately 47% of the population over the age of 30 has periodontal disease (see: <https://www.cdc.gov/oralhealth/conditions/periodontal-disease.html#Reference>). We did some education with his team and uncovered periodontal disease within their patient base by instituting best practices for periodontal charting and frequency of radiographs. As part of the affiliation, we helped raise the quality of care in the practice. That change was not easy, but it was a powerful commitment to improving patients' oral health.

42 North Dental — the new beginning

Through a rigorous process, a thorough evaluation of hard and soft metrics, and many months of diligence, Great Hill Dental Partners decided to affiliate with 42 North Dental. The transaction was consummated in 2017. 42 North had all the attributes we highly weighted with our advisers. First and foremost, they ensured our freedom: freedom of clinical care, freedom of choice, and freedom to maintain our current responsibilities while taking off some of the burden.

Second, they offered a highly competitive valuation, with specific growth and leadership opportunities that piqued our entrepreneurial spirit. They created paths for equity ownership for our associates while challenging our identified leaders with broader regional roles within the organization.

Finally, 42 North Dental exemplified the way we practice dentistry. Their affiliates are patient-centered, evidence-based, high-quality practices. We found that their mission, "Healthy, Confident Smiles for Life" is not just a slogan.

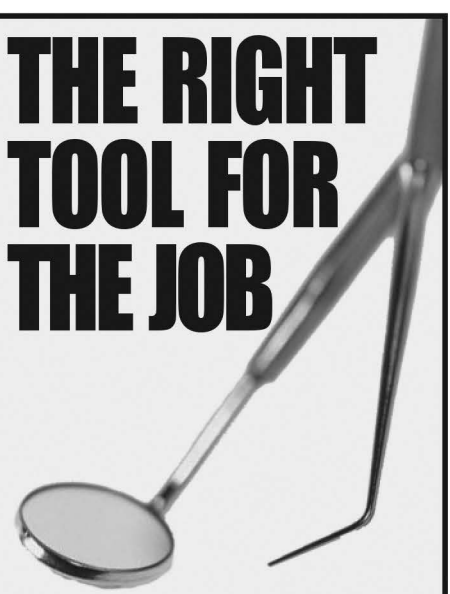
The future

So, where is the dental industry headed? When answering that question, I like to use a sports analogy provided by the ADA's chief economist, Marko Vujicic: "Hockey great Wayne Gretzky was successful because he went where the puck was going to be."

Where will we find the puck? DSOs are accelerating consolidation. So is student debt. We know that about 18% to 20% of dental practices are affiliated with DSOs, and that number is expected to swell to 40% or above in the next seven to 10 years. The rapid growth we expect to see will be fueled by shifts in doctors' expectations of being an owner and the competitive environment, which is driving the economies of scale in favor of the DSO over the sole practitioner.

Marko Vujicic has said one way to survive is to "organize into units." These groups are the future of the profession. We need only to look at consolidation occurring in medicine and pharmacy. Dentistry is very much like politics, in that it is very local. I don't think we'll get to the market penetration seen with pharmacy. However, we will absolutely see more consolidation of the consolidators as well. This will further drive trends at a time when a great number of practitioners age into transition. ●

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