

THE READERS' CORNER

PETER M. SINCLAIR, DDS, MSD

(Editor's Note: The Readers' Corner is a quarterly feature of JCO in which orthodontists share their experiences and opinions about treatment and practice management. Questions are mailed periodically to JCO subscribers selected at random, and the responses are summarized in this column.)

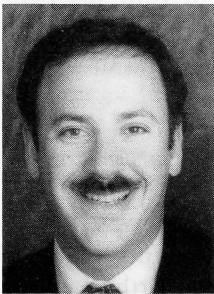
Do you have an arrangement with a management service organization?

Although 25% of the respondents said they had been approached individually by an MSO (beyond a mass mailing), only 3% had actually signed agreements with such organizations. In other words, nearly 90% of the orthodontists who were approached had rejected the offers. However, 11% of those who had rejected an arrangement said they would consider one in the future if it would facilitate their practice transition and retirement plans.

Most of the orthodontists who had signed on with MSOs had done so in late 1996, and therefore were unable to comment on how well the organizations had lived up to their agreements, or on how the MSOs had affected their treatment routines and the quality of their treatment.

What terms were you offered for the purchase of your practice?

Because of the small number of respondents with current MSO arrangements, no detailed statistics could be compiled. However,



Dr. Sinclair is an Associate Editor of the *Journal of Clinical Orthodontics* and Professor and Chairman, Department of Orthodontics, University of Southern California School of Dentistry, Los Angeles, CA 90089.

some common threads were noted from the responses of practitioners who had evaluated and rejected MSO agreements:

1. Most of the offers were for 100% of the practices. About 20% of the offers were for about half of the practice interests.
2. The sale price was usually 100-120% of the previous year's gross income.
3. Generally, 20-25% of the sale price was in cash, and 75-80% was in stock of the MSO.

What advantages were presented by the MSO?

The advantages offered, in order of importance to the respondents, were:

1. Access to skilled management that would improve practice efficiency. The orthodontist could then spend less time solving and worrying about problems.
2. Staff training and management.
3. Reduced costs for supplies.
4. Easier transition to retirement.
5. Potential for practice growth through advertising for new patients.
6. Ability to continue to earn substantial income, with the potential of future profit on the MSO stock.

Specific comments included:

- "I make the final decision with practice management and clinical decisions just as I have. My stock in their company would reap the profits from the purchases of other practices. They would provide their management services."
- "I retained 70% of the income stream, which could later be sold, and I can retire when desired."
- "I would not have to worry about the manage-

ment part of the practice, and they would give me help with purchases, getting substantial discounts."

Why did you choose not to enter into an agreement?

Overwhelmingly, the 90% who chose not to accept offers from MSOs cited concerns about "lack of autonomy" and "loss of control" of their practices. Another significant issue was a perceived focus on profits rather than on the quality of treatment and patient care.

Comments included:

- "There are no advantages to the orthodontist with this type of sale that can't be better met with other alternatives. If you want to sell your practice, you will get more cash from an outright sale. If you want your practice managed, you can do it without giving someone else a large portion of your profits *forever*. If you want to raise cash, you can get better terms with a business loan. I went to school too many years and worked too hard to give someone a percentage of my profits forever."
- "I control and manage my practice very efficiently and will not pay someone 15% to do it for me."
- "I was concerned about loss of control of the practice with respect to: 1) quality of care delivered due to overloaded schedule, 2) contentment of employees with regard to salaries, bonuses, and job gratification (i.e., overworked and underpaid employees), and 3) unpredictability of how the stock will do in the future and possible loss of equity."

If you have never been approached by an MSO, would you consider selling a percentage of your practice to such a company?

Of the respondents who had not been approached, 88% said they would not consider entering into an arrangement with an MSO. Again, the principal reasons were an anticipated loss of control and the desire to be owners rather than employees.

Some specific replies:

- "I see no advantages to this move. If I want to invest in stock, I will buy mutual funds. If I want to raise capital, I will take out a loan. If I want someone to help manage my practice, I will *hire* a management company. These companies present no advantages over superior alternatives."
- "I have considered it, but do not feel it serves me or my patients long-term. It would be OK if I got all cash or assured stock and knew that I was totally getting out of orthodontics. I would be concerned about the future care for my grandkids."
- "I would consider selling only if near retirement or if deciding to move out of town. I do not believe that these management companies can eliminate a doctor's management responsibilities; the practitioner will still run the practice by default and physical presence. There is nowhere to hide!"
- "My heart says no, my common sense says no, my sense of ethics says no, but my business sense says yes—majority rules."
- "I would consider selling if it would conceivably allow me to spend more time focusing on patient treatment, for which I am highly trained and skilled, and less time with the business end, where I have no special training or skills."
- "No! The people who promote these are looking for only one thing: *money, \$, dinero*. I do not believe that their interests are to help the practitioners do better orthodontics more efficiently. They want to make money."
- "I am unsure of their motives. I'd rather do orthodontics than big business. Most of my physician friends associated with local HMOs are tired of Big Brother, but it's impossible or difficult to get out of the arrangements."
- "I don't see the advantage. I treasure my freedom to run my practice as I see fit, and would not want to give this up for a roll of the dice on a doubtful stock gain."

What effects do you believe such organizations will have on the specialty?

The most common response was "detrimental", with the chief prediction being a "reduction in quality". Many orthodontists

voiced fears about the potential loss of the personalized doctor/patient relationship in the face of a quest for increased volume. Concerns were also expressed about the MSOs being the first step toward a specialty dominated by managed care, as the respondents saw in medicine. Some clinicians feared that new graduates might be forced to buy into MSOs to avoid incurring substantial additional debts. On the positive side, several respondents mentioned that the advertising carried out by MSOs might benefit them indirectly by raising the awareness of orthodontics in their communities.

Comments included:

- “The only possible advantage I see to these companies is if managed care ever becomes the predominant orthodontic insurer in an area. These larger companies would have more negotiating power than an individual practitioner. Multiple practitioners could negotiate with a managed-care company without violating FTC regulations. I suspect this will become these companies’ niche in the market. They will be the practices that service managed-care patients.”
- “I am sure they will play a major role in competing for the managed-care dollars. I have chosen not to accept managed care in my practice and will continue to maintain this position.”
- “I feel that these groups pose a great danger to our profession in terms of decreased quality of care due to their emphasis on high volume and the bottom-line profit margin. I see them as an initial step toward the transition into managed care, with the insurance companies buying practices and managing them in the future. Seller beware!”
- “I believe that they will ultimately weaken those practices that are taken over and allow those of us on the outside to thrive to a greater extent. Large-scale clinic operations have been largely unsuccessful in dentistry because more personal contact is needed. Their niche is then destined to be toward low fees, less quality, mass-production facilities. Unless fees are *very* low, the public perception falls quickly.”
- “I think there will be a backlash and these ‘managed’ practices will not be profitable. Eventually many orthodontists may lose a lot of money.”
- “The key to these organizations is they have made the quantum leap from yellow-page ads and seeking referrals from dentists to mass marketing through TV ads. The relationship between general dentistry and specialists will be cut or reversed. Patients will come directly to the orthodontist, who will refer *to* the general dentist.”
- “I feel that new graduates will be fearful enough about going into private practice or about assuming the debt of a practice purchase that they will be willing to work for these management organizations.”
- “I am quite certain the reason these organizations exist is to make money, large amounts of money. The problem is that in health care, patient care should be the primary focus of any such organization. I am sure these organizations are *not* being formed because they are unhappy with the orthodontic results being turned out today and want to improve them.”
- “I can see some good and some bad aspects. The bottom line should be, ‘Will it lower the standard of care for the patient?’”
- “I am not really sure. I think our specialty has evolved into big business due to the numbers we are able to generate, and therefore, we can no longer operate under a small-business mentality. But most of us were attracted to our specialty because we can control our own destinies, and the fear I have is this is taken away once you go corporate. It is the financial windfall that has gotten everyone’s attention, and I don’t think any of us can look the other way, because it is being driven by powerful outside sources (Wall Street, insurance companies, etc.).”
- “The eventual result will be the loss of autonomy of our profession. When the proper time comes, these orthodontic practices will be sold to a conglomerate that has absolutely no interest in the patients’ well-being, and the orthodontist will be told how he or she is to practice. We have the best system in the world now. Let’s not allow our profession to be taken from us.”
- “One of the reasons I feel dentistry is held in

such high regard by the public is that it is a very personal service delivered by people who have strong ties to their communities. With a management service organization running chain-type orthodontic offices, the practitioner punches a clock and may find it easier to move frequently, due to not being tied down to a given location."

- "I believe we are too independent a group and that very few of us would consider such an organization. Therefore, I don't believe they will have much of an effect on our specialty."

- "I believe that they will have an immediate, but transient, effect. People will try out these centers, interest will subside in time, and the patients will return to the private practitioners. These centers will also entice a clientele that may not have been able to afford orthodontic work otherwise, so they could benefit a clientele not currently being reached. They will help all of us by the marketing schemes they are proposing, by educating lay people in the difference between general dentists and orthodontists."

- "With the moral and ethical decay that we continue to see in this great country, it should come as no surprise that others will find ways to provide a service that patients are willing to pay for, rather than to provide a service of which they are in need. Providers must be careful not to lower their standards of care to insure the lining of their pockets. The words that Dr. H.E. Thompson shared with me 20 years ago still ring true: 'Take care of quality; the rest will take care of itself.' As for me, give me a taste for quality instead of caviar."

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