# The business of private practice orthodontics in the United States

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_Private practice orthodontic ownership in America is and will continue to be one of the best income producing vocations in all of dentistry and medicine. However, running a successful practice is increasingly complex and the path leading to financial success seems steeper than past years.

The winds of change and challenge vary in direction and intensity, but are relentless as they push practice owners to learn, adapt and implement the ideas, strategies and products necessary to stay competitive and clinically relevant.

This article will look at the current orthodontic market in the United States from the perspective of the practice owner. We'll glance back at past norms, look at where we are now and discuss a few of the trends we're seeing in the profession looking forward. Put your seat belt on, this can be a bumpy ride.

## _Doctor demographics

The U.S. Census Bureau reports there are about 312 million people living in the United States. To serve the dental needs of this population, the U.S. Department of Labor's Occupational Outlook Handbook reports there are currently about 136,000 general dentists working in the United States. Orthodontists are the largest dental specialty group with a force of about 9,500.

Of the 65 orthodontic residency programs in the United States, the total resident enrollment at any given time is about 975, with about 360 residents graduating each year. Program length varies between 24 and 36 months.

Currently, 17 programs offer 24 months, 15 programs offer 30 months and 33 programs are in the 36-month range (each of these are ranges as some programs are 26 months or 33 months, as an example).

Growth in the number of programs, and therefore residents, has substantially increased in the last decade. Primarily, programs at Jacksonville, Denver and Las Vegas each started with an original class size of about 14 residents, though the University of Nevada has recently dropped back down to four residents per class.

In addition to these three large programs, the University of Southern Nevada in Henderson began in late 2008 and offers an MBA along with an orthodontic certificate, accepting 10 residents per year. Seton Hill University, in Greensburg, Pa., began a new orthodontic program in July 2010 and will graduate its first class of six in December.

Collectively, these new programs produce about 54 new orthodontists per year, an 18 percent increase in the number of orthodontists coming out per year compared with a decade ago.

This increase in the number of new orthodontists is currently intersecting with a larger number of pediatric dental offices bringing orthodontics in-house and an increasing number of dental clinics and corporate-managed dental offices adding orthodontics into their business model. In addition, recent economic times have caused many orthodontists to extend their careers, giving investment portfolios and retirement funds time to rebound, resulting in fewer practice owners retiring.

These factors have resulted in an aging orthodontic profession. According to the 2011 Journal of Clinical Orthodontics 2011 Practice Study, the current mean age of an orthodontist is 54, and he/she has been practicing for 23 years. Both of these statistics are 30-year highs.

As the profession ages, opportunities for practice purchases have remained scarce. One measurement of supply and demand is the AAO Practice Opportunities Services (POS), which reported 143 opportunities

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for purchase or employment and 464 doctors seeking opportunities for purchase or employment at the end of last year. This roughly 3:1 ratio of buyers to sellers has moved down from a ratio of 5:1 in 2009 and 4:1 in the last half of 2010, as reported by the AAO POS.

Young orthodontists are necessarily seeking work where they can find it, often as an associate/employee of a general dental clinic or pediatric dental practice.

We expect the supply and demand of buyers and sellers to continue to move toward levels that are more equal over the next several years, thus improving the prospect for buyers to find orthodontic practices for sale.

## _The economy and census data

The recession that started in December 2007 and, according to economists, ended in May 2009, has been over for almost three years. However, the crawl out has been slow at best. Gross domestic product (GDP) posted an anemic 2.8 percent growth in 2010 and was backed up by another tepid performance of just under 3 percent in 2011.

While we have been technically out of a recession since mid 2009 and have thus far avoided a double-dip, consumers are more conservative, saving more and looking for a bargain, especially the middle class.

The Wall Street Journal, in an article describing current consumer sentiment in January of this year stated:

*"Retailers and consumer-goods companies alike grappled with a disappearing middle class in 2011. After years of caution following the stock market's financial crisis swoon, the wealthy returned to luxury brands, benefiting retailers such as Saks, Inc. and Nordstrom Inc.*

*At the lower end, dollar stores and discount chains profited as prolonged unemployment and economic uncertainty spurred the middle class to trade down.*

*That created a barbell effect, as companies that traditionally cater to middle-class consumers suffered. Gap Inc.'s profit declined 27 percent....and department store chain J.C. Penny Co. flipped to a $65 million loss for the first nine months of the year (2011)."*[1]

The recent 2011 JCO Practice Study seems to agree with the analysis above, as mean net collections for orthodontic practice owners reported a $10,000 drop from the 2009 study; from $960,000 to $950,000. Median case starts also decreased from 220 in 2009 to 200 in the 2011 study. Both of these drops were the first decreases in these measurements since the studies began in 1983.

These drops in means reflect the middle class struggle to get back on their feet. We have seen value-positioned practices grow and high-end boutique practices do well in the most recent year ended, furthering the idea that the current economic pain for the orthodontist is hitting the middle market practitioner.

Current U.S. Census Bureau data does reveal an expected increase in the population, which may provide some solace to orthodontic practice owners. Particularly of interest to orthodontists are the 4,058,000 children born in 2000, the highest number of births since 1992.

These millennial babies are turning 12 this year, prime candidates for full phase adolescent treatment. Total U.S. population growth is predicted at 8.7 percent through 2020 and 8.3 percent from 2020–2030 with significantly high percentages of this growth concentrated in the Hispanic, Asian Pacific Islander and African American ethnic groups.

## _Financial lending

Even with little organic orthodontic practice growth and the increasing educational debt of residents, money is available for practice purchases or start-ups for young doctors. Local banks that are primarily asset lenders often have trouble underwriting orthodontic practice purchases.

But an array of cash-flow lenders that focus on dental transaction lending for both start-ups and acquisitions have teams that are aggressively seeking out and lending to young orthodontists.

Why? Because the performance of these loan portfolios is superior to most other types of loans these institutions underwrite. Orthodontics does and will continue to provide doctor/owners with an exceptional return on investments, and certain lenders understand and want to participate in this return in today's market.

Money for practice purchases for young doctors typically requires no down payment, repayment over seven to 10 years, with some programs being longer and often with a fixed interest rate.

Larger practice loans often require the seller to carry some of the purchase price in a note with many lenders agreeable to refinancing the seller portion after a year or two of timely payments and monitored practice performance of the new owner, thus allowing the seller to be fully cashed out within several years of the change of ownership.

## _Trends in orthodontics

*Decrease in GP and dental specialty referrals*

Several trends currently in process divert from the norms seen over the last 30 years. Chief among them is a decrease in the number of referrals from general dentists or other dental specialties.

According to data published by the JCO on practice studies completed from 1983 to 2011, general dental referrals accounted for 50 percent or greater of the total referrals for orthodontic practice owners for the years 1983–1999.

Since that time, this referring source has steadily declined, representing 41 percent of total referrals in the 2009 practice study and 40 percent in the recently published 2011 study. Referrals from other dental specialists also declined from 2 percent over the years from 1983–2009 to 1 percent of total referrals in the latest 2011 study.

This is believed to primarily be a result of the increase of pediatric dentists bringing orthodontic treatment into their practices.

*Increase in internal marketing programs*

As a result of a decrease in referrals form other dental professionals, practices have aggressively employed ideas and strategies to generate internal referrals. Patient referrals increased from 30 percent in the 2007 JCO Practice Study to 35 percent in both the 2009 and 2011 studies.

Our observation is that generating a program to increase internal referrals is a learned skill and demands a system or process that includes the entire orthodontic team to be most effective.

This is most easily accomplished by employing a consultant to help the practice learn how to generate referrals and implement a systematic approach to seek referrals from patients.

*Increase in use of website and social media*

A derivative of the drive to generate patient referrals is a push to increase the effectiveness of the practice website and communication with patients and prospective patients by using social media and networking tools.

Not so many years ago, having a website was the goal; today, practices that have learned to leverage their websites and other social media tools tend to show higher new-patient flow than those that do not and often higher numbers of case starts.

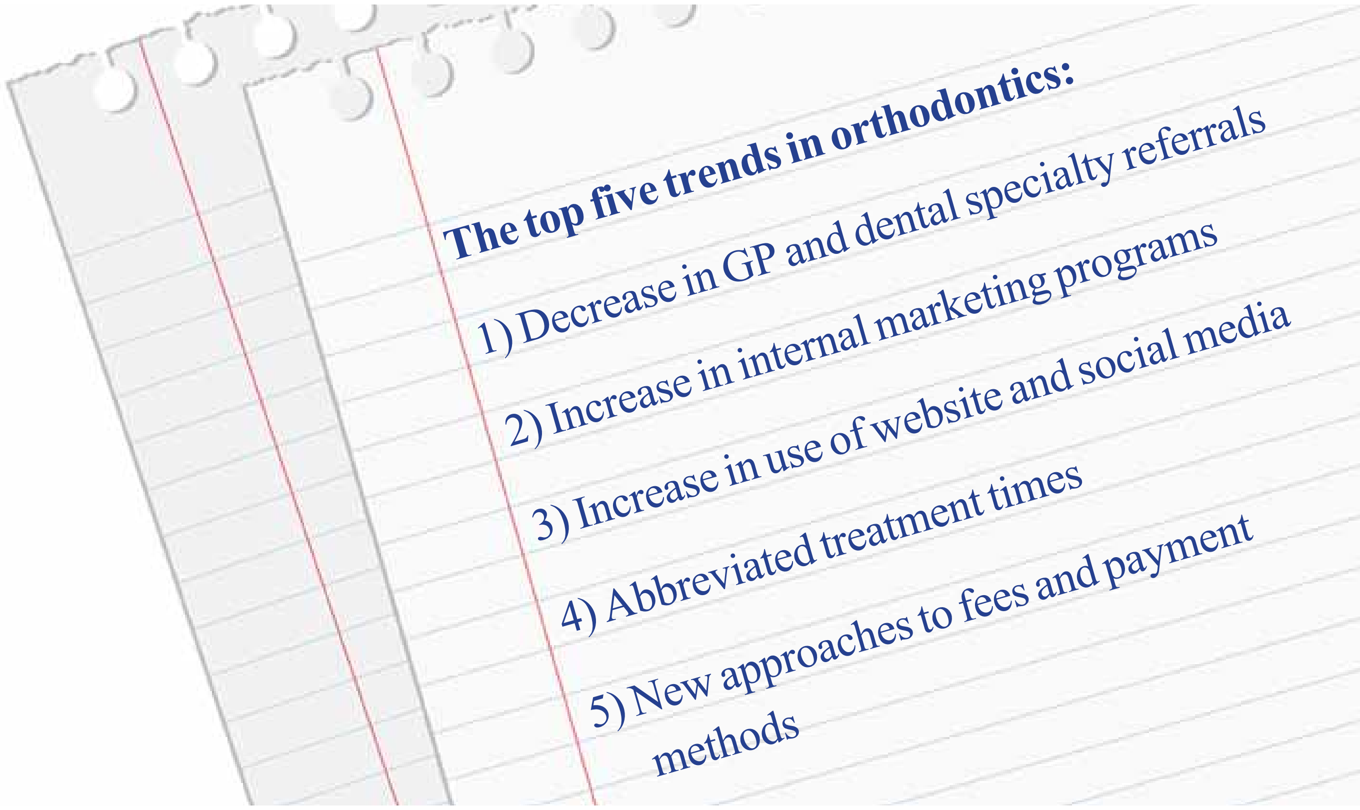
*Abbreviated treatment times*

For years, the average treatment time for full-phase orthodontic treatment stayed very close to 24 months. This length coincided well with payments that fit nicely within the family budget. In recent years, adoption of certain treatment modalities has resulted in a decrease in the average number of months in treatment for patients.

The 2009 JCO Practice Study reported average treatment times of 22 months, down from the traditional 24 months for the first time. Many practices report treatment times in the 15–18 month average range with the use of certain newer treatment modalities.

*New approaches to fees and payment methods*

With some practices experiencing shorter treatment times and some treatment modalities associated with per-case lab fees or higher cost of goods, treatment fees posted an increase of only three percent between 2009 and 2011, according to the




(Graphic/*www.sxc.hu*)

JCO practice studies, which is the smallest increase in 30 years.

Additionally, the current economic environment is making it difficult to increase fees while asking the consumer to pay for the fee in an abbreviated amount of time. The use of automatic monthly payment services has greatly increased over the last five years, and some practices are choosing to allow patient contract lengths to extend beyond estimated treatment lengths if certain requirements are met (often either a credit check and/or the insistence of automatic payment method).

There are certainly a number of other trends currently occurring in orthodontics. As the landscape evolves, practice owners are well served to stay ahead of the curve wherever they can.

Our observations are that consultants are a great help to practice owners. Consultants see dozens and sometimes hundreds of practices per year and can bring transferrable concepts that owners can implement as they address a changing consumer and market.

It is also more important than before for practice owners to monitor key operational and financial metrics with more scrutiny than perhaps they have in the past. This effort will help identify areas in the practice that need attention and allow practice owners to make better and earlier decisions as they operate in the current environment.

As stated at the beginning of this article, "Private practice orthodontic ownership in America is and will continue to be one of the best income producing vocations in all of dentistry and medicine."

Stay focused, be aware of the trends and changes and keep your seat belt on. The ups and downs of practice ownership are not for the lazy or faint of heart, but the results are enormously rewarding._

**Reference**
1. Lublin, S. Year of the Oops: Firms Spent 2011 in Reverse. Wall Street Journal. January 2012.

## _about the author

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**Chris Bentson** has been working with orthodontists regarding the business aspects of their practices for more than 23 years.

He is currently the president of Bentson Clark & Copple based in Greensboro, N.C. Bentson also serves as editor in chief of the Bentson Clark reSource, a quarterly newsletter focused on the business aspects of running a successful orthodontic practice.

He is a frequent guest lecturer, most recently presenting at the invitation of the AAO at the 2011 AAO Transition Seminar in Chicago. He has personally visited more than 1,000 orthodontic practices in the United States, Canada and Australia. He may be reached at (800) 621-4664 or via e-mail at *chris@bentsonclark.com.*