

Dental industry expansion might be on back burner

By: Drew Bracken

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Applications to dental schools are on the rise. Technology is transforming the industry. And dental practices are considered a profitable business venture and one of the most appealing practices to enter in the medical services industry.

But the dental market is in the midst of a shift. Not only is the cost of education soaring – loading down dental graduates with debt that could hinder them from starting practices – but rapid advancements in technology are making it overly expensive to outfit a dental office. Factor in economic pressures that have clients avoiding higher-priced, cosmetic procedures – at least temporarily – and the potential exists for a slowdown in the growth and formation of dental offices.

Still, the industry's failure rate is low. And there's profit to be had.

Topping the ranking of the nation's most profitable industries in a 2008 study by Sageworks Inc. were private dental clinics. Dental offices enjoyed an average yearly profit margin of 17 percent, according to Sageworks' study of 1,600 industry sectors based on data compiled from accounting firms.

In 2008, Forbes ranked dental services as the third most profitable business to start – behind accounting and legal services firms – with an average pretax margin of 21 percent. It noted that while equipment was expensive, dentists could treat multiple patients at once and employees such as hygienists weren't expensive to employ.

Dental offices also aren't as bogged down by insurers as much as other medical services firms because many patients pay for treatment out of pocket.

Because of the recession, new dentists aren't starting practices from scratch, said Dr. Mark Alexandrunas, 31, who owns Granville Dental Inc.



Alexandrinas bought a practice in Granville and, after renovating the space, opened in 2007. He was able to pay off all his debt in two years.

Dr. John Findley, president of the American Dental Association, said in February that although many dentists won't want to take business risks at this time, others may be in the position to take advantage of very low interest rates for large equipment loans, relocating or buying a new building.

The association's fourth quarter 2009 Survey of Economic Confidence found that a smaller share of dentists reported they were confident that economic conditions would improve in 2010 (50 percent), which is smaller than reported in the third quarter (57 percent). However, fewer dentists reported lower net income for the fourth quarter (57 percent) than had for the third quarter (62 percent).

Counting costs

Industry consultants talk about a ratio of one dentist to an active population of 1,800 to 2,000. Alexandrinas became the sixth dentist in Granville, a village with a population of less than 4,000.

Still, he overcame the odds by what he called his motto: "Hi-tech, high touch."

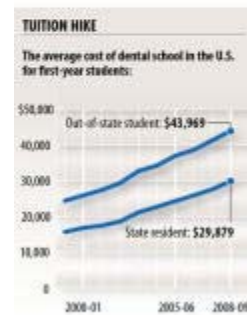
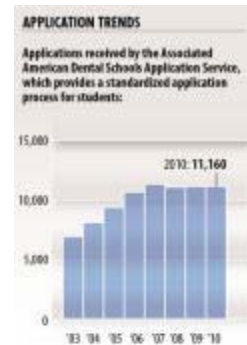
It's the hi-tech part that can spell economic trouble for so many dentists. The new digital X-ray machine in his office, for instance, costs about \$250,000, plus another \$25,000 for the software.

Alexandrinas also purchased a milling machine so he can do same-day crowns. Even the dental chairs in his office cost \$16,000 apiece. They're all tools of the current-day trade but also useful marketing tools as well.

Outfitting an average three-chair office in today's market can easily cost \$500,000.

Industry reports say CAD/CAM (computer-aided design/computer-aided manufacturing) has reduced designing time for dental crowns and bridges, and 3D imaging techniques have improved patient diagnosis.

But for some dentists, the cost is too much to bear so they join larger dental offices established by someone else.



Source: American Dental Association

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U.S. DENTISTS	
Number of active practitioners (dentists who are engaged in the private practice of dentistry):	
2006	164,864
2010	167,540*
2020	174,073*

*Projected
Source: American Dental Association

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Dr. Wesley Shankland, owner of the TMJ and Facial Pain Center in Westerville since 1978, said for many it's not cost effective to start a practice.

"If you go in with an older doctor, yes. If you go into an established practice, yes," he said. "But just to get out of school and start a practice, it's very difficult. The amount of debt (the average dentist graduates with) and the enormous cost to open a practice all, to me, would not make dentistry really high as a good profession to pursue."

According to the dental association's fourth quarter survey, "2009 was a very difficult year for dentists. We estimate that overall net incomes of dentists declined by more than 5 percent in 2009."