FACTORS THAT AFFECT OUR ECONOMY, DENTISTRY AND YOUR BUSINESS – PART III

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We've reached the last installment of our three-part series on the Factors That Affect Our Economy, Dentistry and Your Business.

We first looked at the State of the Market and identified the destabilizing factors of 2013. We then looked at four risks to consider in 2014 — growth, interest rate fluctuations, lease costs and demographics. This time, we are going to address the opportunities that exist for dentists in this market in the now familiar risk sections below:

1. Growth
2. Interest rate fluctuations
3. Lease costs
4. Retirement for all age groups

First, there is growth. If you're looking for opportunities that require proactive measures, skip to the next one. The short answer here is there's not much you can do about it, and it's probably going to fix itself anyway. Last time, we discussed how supply and demand affects dentistry and related that back to the Consumer Confidence index. Dentists that are unable to retire have held onto practices as new younger dentists have moved into the market to compete, thus increasing supply in the face of diminished consumer demand.

But there's a silver lining here. First, most of this consumer driven demand is cyclical and is expected to correct itself in the future. According to Jeffrey Lavers in Dental Economics, "…the rates of dental visits continue to edge upward. Roughly 60 to 70 percent of the adult American population seeks routine dental care — a rate that is believed to be holding stable. That said, actual visits remain age- and need-related. Clearly, patient demographics play an important role in future dental care. Based upon census data, the number of people ages 60 to 79 is projected to grow from 36.4 million in 2000 to more than 68 million in 2025, an increase of 87 percent. Such marked growth in this segment of the population suggests a demand for more conventional dental needs."

Also, the supply side is going to be affected as more women move into dentistry. Again, according to Lavers, "The increase in the number of female dentists may be one of the biggest forces in the supply side for the next 20 years, almost assuring a shift in efficiency, patient/provider culture, and practice organization. Figures show that women make up about 13 percent of DDS/DMD providers and about 38 percent of dental school enrollment. In addition, women account for roughly 35 to 40 percent of newly active DDS/DMD providers. Also contributing to the shifting make-up of dentistry is the fact that 85 percent of women providers are under the age of 45. It is conceivable that lifestyle and family choices, along with practice choices, will impact the norms in provider supply and capacity…"

Interest Rate Fluctuations. If you haven't reached out to your banker lately, call them this afternoon.

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Options abound to refinance practices and lines of credit. For the first time, I'm hearing bankers say that rates may go even lower. Throughout the last markets, most have indicated that they'll stagnate and then move higher, even as they fell lower. Don't wait for the bottom. Competing with a 1.5% or 2.5% rate is inconsequential to most practices. Look to lock in the longest term fixed financing that you can find and expect to pay a 40-100 basis point premium for the right to do so.

Lease Costs. This environment of low interest rates and diminished tenant demand has opened up a number of opportunities for our Clients. First, we are representing multiple practices that are using this market where Landlords are eager to fill buildings to finance improvements into their practices. Early renewals and blend and extend leases are locking in lower rates on leased real estate for the long haul. For those starting de novo offices, they are entering into and competing in markets with much reduced fixed overhead costs vs. their legacy competitors.

Second, we have been able to access markets and centers that have previously been inaccessible to dentists. Retail centers with use restrictions are hitting leasing thresholds that allow them to bring dentists aboard. Centers that just three years ago wouldn't accommodate a dentist are now calling us to make deals. The pendulum will swing back, but for now, our Clients have opportunities to access markets that were previously (and will likely become) inaccessible.

Demographics. We recently discussed how more and more dentists are holding on to their practices longer because their retirement accounts have been diminished. They're working longer and stretching their practices farther. This presents two opportunities for dentists in this market.

First, it is important to note that dental practices have a life cycle. Initially, dental practices are energized and experience significant growth. Once a practice has stabilized, it begins to cash flow producing the majority of the profits it will see. Patients that leave or move are generally replaced by organic growth and considerable time is put to systematizing the practice. These two stages last for around 30 years. But as the practice and the dentist within it begins to age, it begins to decline. With an eye on the door, the owner isn't really willing to make the infrastructure changes required to keep the practice up to date. The space begins to look tired, marketing slips and the systems start to break down. Most of the dentists that are holding on to their practices longer than they expected are operating a practice in some stage of decline. For those competing against them in markets and realizing this dynamic, we see an opportunity to keep competition at bay (competition that doesn't understand this dynamic) but also to gain market share. This is tricky to understand, but good consultants in these markets can help you determine where established practices are really in decline.

The second opportunity this brings is that if you're patient, we expect to see the number of practices coming onto the market increase substantially in the latter part of this decade. While practice multiples have slipped slightly in some markets (largely due to quality), the increased supply of practices sold should provide significant pressure on pricing. Those that can set up a good track record now with solid credit and business fundamentals should be able to wade into the feeding frenzy of practices we see beginning in 2016. The bogie in this opportunity is financing costs. If interest rates rise (and we all hope they do because this would signify a stronger economy) then reduced pricing for these practices may be offset by increased interest costs. The smart providers we have seen are still on the field now. They're looking for the avalanche that's coming from this prolonged period of stopped up demand, but they know that to pick up a spare, you've got to roll the ball.

I hope you have enjoyed this series and our thoughts. We would love to get yours and are always looking for new ideas for content. Look for a return to our specific market updates in 2014 and let us know if you have a specific market that you'd like us to profile.

If you have questions or comments about any of the above, don't hesitate to reach out to me. We're helping dentists with these issues daily and would love to talk with you about how we can fit into your practice's real estate plans—or just grab a cup of coffee to talk about some of these larger issues.

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