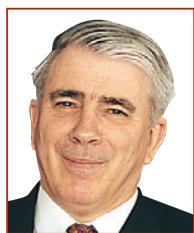


Australian Dentistry's “Vietnam War moments”

By Graham Middleton, BA, MBA



*“Have a clearly
thought out aim...
Do not let a
government
scheme dominate
your practice...
Do not let a health
fund assume
control of your
practice...”*

It is now long accepted wisdom that the United States lost the Vietnam War because it became deeply engaged without a clear understanding of what its aim was. A cardinal principle of military strategy is that selection and maintenance of the aim is vital; so too with business and institutions. In the case of the Vietnam War, neither the American public nor the soldiers in the field had an understanding of what the war was all about. Was it simply to protect the South Vietnamese from the invasion of the North? Or was it to check the global ambitions of the USSR? Or did it stem from a belief in the domino principle, whereby if South Vietnam fell then in turn a series of countries throughout South East Asia would be at risk of Communist domination? From the time of President Kennedy, through President Johnson's presidency and into the Nixon era, it was unclear to the American public and to the soldiers in the field what it was they were fighting for. As opposition to the war grew on the campuses and in the streets of America, the North Vietnamese hardened their attitude towards peace overtures and the Paris peace

talks became a drawn-out exercise as the North Vietnamese government deliberately stalled negotiations knowing that the Americans were losing the war in the hearts and minds of its citizens.

In fact, when the Americans finally got the North Vietnamese to sit down at the negotiating table in Paris, they immediately said they didn't accept the shape of the table. They then proceeded to debate the shape of the table and other irrelevancies, until the US Congress ceased funding the war and the US forces were withdrawn.

Lobbying for increases in dental numbers

It's historically established that over a decade ago, the ADA lobbied to have more Australian dental schools opened plus dental immigration without adequate knowledge of the dental numbers. The result for the profession has been disastrous. One of the problems appeared to be a reliance on unreliable data. In turn, that data largely related to studies of dental graduates and registrations, i.e. the supply

side. The demand side of the equation was overlooked as too hard, i.e. to obtain reliable data from all dental practices as to their perceived shortage of dental staff, for example a practice which is short a dentist for two days per week and evidence of the shortage by the length of the queue in the patient book. Having a well-booked practice for a week or two would have been considered normal, but having a full book weeks beyond that would have been evidence of a demand which needed to be filled. There was also reliance on unreliable OECD statistics, which don't factor in local conditions such as the proportion of a population having fluoridated water supply. The result was that the studies overestimated the need for dentists. The outcome has been disastrous for dentists, with too many dental schools opened and large numbers of dentists entering Australia as the occupation of dentistry was classified as being a profession which was short and needed more dentists to fill the places available.

It's not clear what the ADA's aim was. Was it to serve the best needs of its members who pay its annual fees, or was its aim to provide more dentists? And for what purpose?

The dental immigration program has now been modified, as dentists are no longer listed as being in short supply in Australia. However, they are still getting in to Australia under family reunion or other immigration loopholes. There are a large number now resident who are as yet to complete Australian Dental Council qualification requirements and these will swell the supply.

Engagement with health funds

A somewhat similar story has occurred and there's now a situation in some major cities where a dominant health fund is using its position to bully preferred provider dentists into accepting Draconian conditions, including restrictive treatment options. What exactly was the ADA's aim all those years ago in cultivating its relationship with health funds? Did it not anticipate that eventually a handful of larger funds would come to dominate health insurance and that in turn, they would give them far too much power over dentists and that they would use that

power against both dentists and dental patients? This is currently being demonstrated in at least two of Australia's cities. After all, as many farmers would attest, that's exactly the position of the Wesfarmers-owned Coles and Woolworths in respect of supermarkets buying farm produce. Similarly, Australia has only four major banks and in most capital cities, two or three of those banks dominate. If a tiny number of large health funds become too dominant and the ADA is unable to forcefully represent its dental members, it will lose members and become irrelevant.

The example of the Pharmacy Guild

A professional group which has been well led over many years and which has a clear aim of protecting its members' interests is the Pharmacy Guild. It has successfully persuaded a succession of governments to maintain restrictions on the number of pharmacies in the form of limiting the number of pharmacies per suburb and limiting the distance over which an existing pharmacy can be relocated. It has prevailed against the long-term wishes of both Coles and Woolworths to install pharmacies within supermarkets, which can be linked up nationally so that somebody on holiday in a distant part of Australia could go to the pharmacy in a supermarket which would have online access to their pharmaceutical records. The Pharmacy Guild has succeeded in blocking the wishes of the large supermarket chains over many years. In doing so, it has not been averse to explaining to politicians of whichever party is in power the impact of pharmacies Australia-wide conducting an in-store campaign against politicians advocating a removal of their nest protected status. Since pharmacists are widely respected and most voters regularly enter pharmacies, the mere thought of such a campaign has a sobering impact on federal politicians; particularly those politicians holding marginal seats.

At present, the ADA is sending mixed messages concerning its relationship to the health funds, with some state branches directly concerned and active on the issue and others asleep and unaware of the dangers. In this matter, not having a

clear nationwide understanding of the danger, and not having a clear aim as to how to combat the multiple threats to both dental practices' autonomy and the threat to patient treatment options will, if this division continues, lead to disastrous long-term outcomes for dental practices and dental patients. The health funds will pick off dentists city by city and state by state.

While it may be true that the public has a view that dentists overall may be greedy, the same people will extol the virtues of their personal dentist. As a profession, dentists have more group influence than they realise but they have been hard to organise and use that power. The pharmacists are a gentle bunch of people but are willing to exert influence.

Corporate Vietnam examples

Currently, Woolworths is experiencing a "Vietnam War experience" in respect of its ill-conceived Masters hardware venture. Ever since being present at an early briefing given by then Woolworths CEO Michael Luscombe at the beginning of the Masters venture, questions have arisen as to what Woolworths' aim actually was. It appears from commentary that Woolworths' aim was to damage Wesfarmers, which owns the rival supermarket chain Coles and which had a hardware arm in Bunnings. By virtually declaring war on Bunnings, it energised its rival and Wesfarmers, the owner of Bunnings, has a reputation for having sound company management over many years, with senior management appointing very capable managers in each of their operating divisions. If Masters' aim was to damage Wesfarmers via Bunnings, it achieved the opposite because virtually from the day the first Masters hardware store opened, all it swallowed was a cloud of Bunnings' dust, as Bunnings increased its tempo of opening new stores, staffing them, running great advertising and generating reliable profits. Suppliers of leading brands were happy to sign exclusive distribution contracts with Bunnings because of its much greater sales, strong advertising and sound management. Following a string of losses by Masters, Woolworths has bowed to demands of investors to shut it down; but shutting down Masters won't be easy or cheap.

Some problems are:

1. Woolworths is contractually obliged to buy out its US-based joint venture partner, Lowes, once Lowes activated its put option as per their contractual agreement. There are differences in price which will be arbitrated in some way;
2. In immediately stopping the development of new Masters hardware stores, Woolworths has had to pay compensation to a builder developer by court order. One adverse court decision, apart from costing it dearly, may lead to other situations being arbitrated behind the scenes;
3. There are very long leases in place for Masters stores, reportedly 15-20 years. Unless other tenants can be found at the same rent and duration, with the same credit quality, which is extremely doubtful in some cases, the vacating of each site by Masters will lead to costly payments to the landlords to compensate for the cessation of the leases. That is, unless a new gilt-edged tenant can be found to pay the same rent on a long-term lease, which is unlikely in some cases;
4. There will be huge write-downs and write-offs of stock value;
5. There will be redundancy payments to staff; and
6. There may be breach of contract payments to suppliers of goods which accepted an exclusive arrangement to supply to Masters, thereby ceasing dealings with other hardware stores which now stock rival goods.

The reality is that closing Masters down will prove to be hugely expensive for Woolworths and at this stage, many of the costs are yet to be fully understood. Whereas Wesfarmers typically traded at about \$5.00 above the price of Woolworths shares, the gap has since widened to over \$20.

There are other corporate Vietnam experiences, including those of BHP Billiton, particularly BHP's merger with the South African company Billiton, where BHP's management was significantly outplayed by the South Africans; Rio Tinto's massively overpriced purchase of the Canadian aluminium business Alcan and NAB's disastrous investment in Home-side in the USA and, more recently, Clyde Bank in the UK.

Examples of well managed companies with clearly understood strategies

At the big end of town, Wesfarmers and CSL carry the characteristics of businesses who understand very clearly what their aim is.

A smaller listed company with excellent management which has a very clearly defined strategy is ARB Corporation Ltd; possibly the best managed listed company in Australia, albeit that it is relatively small compared to major businesses. It hasn't deviated from its core business of profitably making and distributing quality accessories for four wheel drive vehicles.

What is the ADA's aim?

At present there remains a huge question mark as to whether the Australian Dental Association can formulate a unified aim with respect to how it is going to deal with the unsavoury aspects of health insurers' activity.

What about individual dental practices?

Ipossibly view the financials of more dental practices in Australia than any other person. There is a stunning difference between tightly-staffed, well-conducted dental practices, invariably with the owner having the most productive surgery and not being a preferred provider on the one hand... On the other hand, there are practices with too many dentists and with a mixture of full-time and part-time dentists, hygienists and therapists, again with too many part-time nurses and often a practice manager to cope with the additional problems caused by size and staffing arrangements. Some of these practices are also preferred providers.

When comparing the two types of practices, the well-conducted practices with a maximum of three chairs, one owner and tightly controlled staff numbers produce a lot more profit than larger practices with too many providers and too many assisting staff. The small tightly-run practices have very clear aims as to the profit they seek to obtain and how to get it. The larger practices with many part-timers tend to muddle along without a clear aim.

Multiple owners

Even worse is a situation where there are multiple owners in such a practice, because the owners themselves tend to have multiple aims and their problems then become insoluble because the status quo usually has majority support.

Do you have a clear aim in your practice?

Practices with bad aims exposed by cessation of CDDS

Prior to September 2012, a rash of new practices opened with what appeared to be the aim of exploiting the Medicare Chronic Disease Dental Scheme. There was little doubt that some medical general practitioners were prepared to complete many referrals because they were paid to fill in the forms and they felt good suggesting to patients that they could get them up to \$4,250 worth of free dental care. There were referral patterns from particular doctors to particular dentists and there is little doubt that the taxpayers, who were the ultimate funders of the scheme, were being rorted. When in September 2011, the government finally got agreement in the Senate to shut the scheme down, they gave dentists until 30 November 2012 to complete all work started under the scheme and bill Medicare. It hit these practices like a shockwave. Some had so few other patients that they no longer had a viable practice. We heard of practices with brand-new fit-out and equipment which had closed. That begged the question as to why those practices were started, because there had been a lot of bad publicity about the scheme in dental circles. Schemes which depend on a lot of government funding can find that the funding has been removed at the stroke of a pen. Aiming to build a practice on such a flimsy basis was fraught with danger and those practice owners suffered a "Vietnam War experience". Even though they tried to re-book patients who required further work, they found that people who had received extensive treatment for free were not prepared to pay for further treatment. Their attitude was "We'll wait for the government to fund another scheme".

Other longer existing practices had jumped into the scheme and for several years grew their fees without considering their long-term aim. In an adaptation of Gresham's Law, that bad money drives

out good, these practices found that by prioritising their Medicare CDDS patients, for which the government was prepared to pay up to \$4,250 per patient, their existing loyal patients were having to wait longer in the queue. Many of those loyal patients then found their way to other practices and once there, aren't coming back. When the scheme ceased, these dentists similarly found that those who had received free treatment weren't prepared to pay for additional treatment. Some practice owners hastily tried to sell their practices based on the previous year's financials, i.e. the financials for the year ended 30 June 2012. When valuing on behalf of buyers and asking for evidence of monthly bankings in the 2013 financial year, we found that fee income plummeted in these types of practices in the months following 30 November 2012.

Lessons to dentists

One lesson is to have a clearly thought out aim which you maintain.

A second lesson is not to let a government scheme dominate your practice.

A third lesson is not to let a health fund assume control of your practice.

About the author

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 27 years, the last 20 as a founding partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer, and later Director Human Resources Manager, Attorney General's Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. He is the author of Synstrat Dental Stories, the Synstrat Guide to Practice Management, 50 Rules for Success as a Dentist and Buying & Selling General & Specialist Dental Practices. He is a long-term contributor to the Australasian Dental Practice magazine. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed financial services company. Both Synstrat companies are owned by the same directors who work within the Synstrat Group. For more info, call (03) 9843-7777, Fax: (03) 9843-7799, email dental@synstrat.com.au or see www.synstrat.com.au.

Obtaining Synstrat Publications

If you would like to obtain copies of Synstrat's publications, Synstrat Dental Stories: Strategic Thought & Business Tactics for Dentists, Buying and Selling General & Specialist Dental Practices or 50 Rules for Success as a Dentist, we ask that you make a charitable donation to the Delany Foundation. See Synstrat website or email annie@synstrat.com.au for details on how to do this.